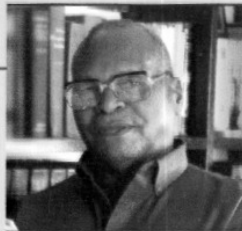
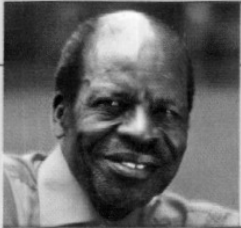


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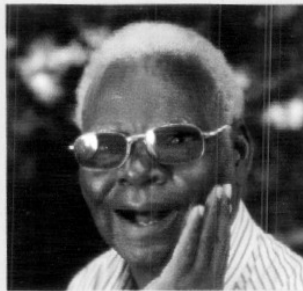
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Annual Report & Financial Statement



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 **CO-OPERATIVE**
BANK OF KENYA
We are you



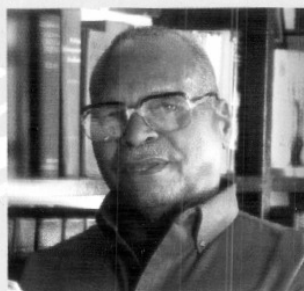
**Bernard Kathanga, MBS
FIBA,
Founder Chairman
Co-operative Bank of Kenya.**

“Ours was a vision to start an institution that would be run by Kenyans to serve Kenyans from all over, an institution that would make the people of this country proud. I am told that in August 2004, the Board of Directors went further and declared Co-operative Bank the Kingdom Bank that God will use to bless the people of Kenya. This is truly inspired.”

“In 1968 we used to move from Co-operative Society to Co-operative Society urging the members to support the idea of a co-operative bank and buy shares in the bank. When foreign banks looked at us they laughed in scorn for we were not bankers nor had we any experience in running a bank. But we believed in our God and the people of Kenya. Today I am proud that the dream we dreamt is a reality that is serving Kenya with distinction.”



**John Musundi
Founder Director
Co-operative Bank of Kenya**



**Charles Rubia, EBS, EGH
Founder Director
Co-operative Bank of Kenya.**

“I am proud to have been the Chairman of the Finance Committee that put up the magnificent Co-operative House building that has withstood the various tests of time including the terrorist bomb blast in 1998. Its impressive presence represents for us the robustness of the Co-operative Movement and the resilience of our Kenyan people.”

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1. Cooperative bank of Kenya -- periodicals
2. Banks and banking -- periodicals

bank information

Board Of Directors

S. C. Muchiri, EBS

Chairman

J. Riungu

Vice Chairman

G. M. Muriuki, OGW

Managing Director

J. Sitienei

P. K. Githendu

G. Mburia

R. L. Kimanthi

E.K. Mbogo

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

M. Malonza

Appointed

19-8-2005

S. Odhiambo

Appointed

19-8-2005

Dr. J. Kahunyo

Appointed

19-8-2005

C. Kabira

Appointed

19-8-2005

C. Ogot

Appointed

19-8-2005 (Retired 7-10-2005)

M. Owuor

Retired

19-8-2005

D. Kiura

Retired

19-8-2005

S. Ogamba

Retired

19-8-2005

J. B. Nthuku

Retired

19-8-2005

A. Khangati

Retired

19-8-2005

PS, Ministry of Finance

(K. Mwangi representing the PS)

Commissioner of

Co-operative

Development

F. Odhiambo

R. M. Githaiga (Mrs)

Company Secretary

2007/1435

bank information

REGISTERED OFFICE AND HEAD OFFICE

Co-operative House,
Haile Selassie Avenue,
P O Box 48231-00100
Tel: 020 3276000
NAIROBI

SUBSIDIARIES

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

Co-operative Consultancy Services Ltd
P O Box 48231-00100
Tel: 020 3276000
NAIROBI

BRANCHES

Co-operative House Branch
P O Box 67881-00200
Tel. 020 3276000
NAIROBI

Cannon House Branch
P O Box 67881-00200
Tel. 020 228974/5
NAIROBI

Kisumu Branch
Oginga Odinga Road
P O Box 1511-40100
Tel.057 2020753/2021763
KISUMU

Co-op Card Centre
P O Box 21831-00400
Tel 020 3276000
NAIROBI

Mombasa Branch
Nkrumah Road
P O Box 87771-80100
Tel. 041 2315375/6/7
MOMBASA

CMA-LIBRARY

Meru Branch
Tom Mboya Street
P O Box 1328-60200
Tel.064 20461/2
MERU

Nakuru Branch
Geoffrey Kamau Road
P O Box 2982-20100
Tel.051- 2211574/5
NAKURU

Industrial Area Branch
Nanyuki Road
P O Box 18119-00500
Tel.020 651875
NAIROBI

Kisii Branch
P O Box 2469-40200
Tel. 058 31510/30697
KISII

Machakos Branch
Syo Kimau Road
P O Box 1250-90100
Tel.044 20215/6
MACHAKOS

Nyeri Branch
P O Box 12253-10100
Tel.061 2030751/2030815
NYERI

Kerugoya Branch
P O Box 635-10300
Tel.060 21586/7
KERUGOYA

Ukulima Branch
Haile Selassie Avenue
P O Box 74956-00200
Tel. 020-221273
NAIROBI

Nyahururu Branch
P O Box 307-20300
Tel.065 22330/1/32152
NYAHURURU

bank information

Kiambu Branch
P O Box 1064-00900
Tel.066 22720/50592/22352
KIAMBU

Eldoret Branch
P O Box 2948-30100
Tel.053 2061167/2062717
ELDORET

Homa Bay Branch
P O Box 406-40300
Tel.059 22329/32
HOMA BAY

Bungoma Branch
P O Box 1964-50200
Tel.055 30459/60
BUNGOMA

Embu Branch
P O Box 1337-60100
Tel.068 30363/4
EMBU

Kericho Branch
P O Box 1742-20200
Tel.052 30417/6
KERICHO

Murang'a Branch
P O Box 954-10200
Tel.060-31174, 30503/4
MURANG'A

Karatina Branch
P O Box 931-10101
Tel. 061 72855/6/7
NYERI

University Way Branch
P O Box 60800-00200
Tel. 020 225400/11/21818
NAIROBI

Chuka Branch
P O Box 101-60400
Tel. 064 630461/2/3
CHUKA

Mumias Branch
P O Box 905-50102
Tel.056 641463/641259
MUMIAS

Athi River Branch
P O Box 321-00204
Tel. 045 22880/22875/6
ATHI RIVER

Stima Plaza Branch
P O Box 38764-00600
Tel.020 3740090/3755393/318878
NAIROBI

Thika Branch
P.O. Box 815-00100
Tel. 067 21658/21815/8
THIKA

NACICO Branch
P O Box 866-00300
Tel.020 228659/230474
NAIROBI

Kimathi Street Branch
P.O Box 7512-00200
Tel. 020 315435/6/7/8
NAIROBI

Kitale Branch
P.O Box 3058-30200
Tel. 054 31611/31602/31603
KITALE

Kariobangi Branch
P O Box 252-00615
Tel.020 781258
NAIROBI

Kawangware Branch
P O Box 46904-00100
Tel. 020 576587/3876587
NAIROBI

Maua Branch
P O Box 1328-60200
Tel.064-21548
MERU

bank information

City Hall Branch
P O Box 44805-00100
Tel. 020 252126/33/49
NAIROBI

Githurai Branch
P O Box 41420-00100
Tel. 020 814112/3/4
NAIROBI

Staff Training Centre
P O Box 15355-00502
Tel. 020 891187/890132/891101
LANGATA, NAIROBI

AGENCIES

Magwagwa Agency
c/o Kisii Branch
P O Box 2469-40200
KISII

Muhoroni Agency
c/o Kisumu Branch
P O Box 1511-40100
KISUMU

Makutano Agency
c/o Meru Branch
P O Box 1328-60200
Tel. 064 20421
MERU

BANKERS

Central Bank of Kenya
P O Box 60000 -00100
Tel 020 2860000/2861000/2863000
NAIROBI

LAWYERS

Various
A list is available at the Bank

AUDITORS

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

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 APRIL 26, 2006 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 April 29, 2005 and the Special General Meeting held on August 19, 2005.
5. Consideration and adoption of the Annual Report and Financial Statements for the year ended December 31, 2005 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.

(Signed)
Gideon Muriuki, OGW
Managing Director

March 29, 2006

chairman's statement



I am delighted to once again present to you our Bank's annual report and financial statements for the year ended December 31, 2005. These results reflect a solid performance with significant growth in net income and the highest profit our Bank has made in its history.

Performance is my top priority. This year's results are evidence of the strength and focus of the Board of Directors, our management team and the performance culture that has developed throughout the Bank.

It is notable that your Bank delivered a 101 percent increase in Profit before Tax in 2005, one of the highest in the Banking industry.

THE BANKING INDUSTRY

Kenya's banking industry continues to experience intensifying competition in growth markets and advances in deregulation from common markets like the East African Community. Besides the implementation of Basel II, which we laud, the advances in deregulation are expected to lower business barriers, creating business opportunities but at the same time lowering obstacles for newcomers and intensifying competition.

The Bank, in 2005, broadened the Risk Analysis functionality within Risk Management Division in advance of the implementation of the New Basel Capital Accord (Basel II) by the Central Bank of Kenya to improve the effectiveness of operational risk management, achieve an optimal credit portfolio for the Bank and establish a framework for managing assets with various risk profiles. Basel II is a more risk sensitive framework for setting regulatory capital requirements that is being implemented in phases by the Central Bank of Kenya throughout the industry starting 2006.

The launch of Kenya's Real Time Gross Settlement (RTGS) System in September 2005 was, also, a milestone in our National Payments System as it significantly reduces systemic risk for banks and makes trading in the cash market quicker.

We laud and thank the Central Bank of Kenya for the lead role in efforts towards the development of a comprehensive Anti Money Laundering regulatory regime in Kenya. It is widely acknowledged that money laundering is an issue of global concern. The Proceeds of Crime and Money Laundering (Prevention) Bill awaits tabling in Parliament.

2005 RESULTS: SOLID IMPROVEMENTS

The group's operating profit was up by over 58% from KShs 1.2 Billion in 2004 to KShs 1.9 Billion in the year under review, reflecting stable income growth and reduced total expenses that led to a sharply improved operating profit.

Other financial highlights were:

- The profit before tax improved by a remarkable 101% to KShs 714 Million in year 2005.
- Interest income rose from KShs 2.8 billion to KShs 4.2 billion, reflecting a 50% increase
- Total shareholder funds stood at KShs 4.1 billion as at December 31, 2005 compared to KShs 3.4 billion as at December 31, 2004;

chairman's statement

- The Bank's share capital has gradually increased from KShs 1.2 billion in 2003 to KShs 2.6 billion by the end of 2005, with KShs 1.1 billion raised in 2004 and KShs 334 million raised in 2005;
- Total assets increased by 13% from KShs 46 billion to KShs 52 billion;
- Customer deposits rose by 23% from KShs 35 billion to KShs 43 billion;
- Net loans and advances increased by KShs 2.2 billion to stand at KShs 29 billion at the close of the year;
- Non-funded income went up by nearly 30% from KShs 2.0 billion to KShs 2.6 billion;
- Liquidity on the reporting date was 35.7% against a minimum statutory requirement of 20%.

Co-operatives

Co-operatives remain the heart of the Bank and your Bank in the year under review focused on establishing a single point of contact where Co-operative customers can gain access to all of the Bank's services. We aimed to continuously extend highest quality solutions to our Co-operatives and particularly the Saccos with increased competition in the Banking Industry.

With the establishment of the new Ultra Modern Co-operatives Centre at Co-operative House Building, we shall quickly reinforce existing relationships with each customer while creating greater value and more innovation. In 2006, we will continue to focus on non-funded income and restructure our lending business, the most fundamental element of our banking operations.

In order to serve our customers better, especially those in the Co-operative Movement, the Bank is implementing a massive payments system through smart cards, the **Co-opswitch Project**. This Information Technology system will equip the Bank with a reliable and secure platform that will take the Bank to a position where it will be able to offer exceptional next generation services. The system will, notably, offer our customers enhanced card services, internet banking and mobile banking and SACCO members an access to their funds through the Bank's ATM network, and put the Bank well ahead of competition in Information Technology.

Going forward, we shall aim at consistent and continuous creation of value for our member customers. To realise this goal, we shall continue to skilfully deploy appropriate Information Technology.

Retail Banking

Retail banking remained a key contributor to our financial results with increased opportunities to diversify and pursue new business models afforded by advances in information technology. At the same time competition has intensified as a result of entrants from other sectors. With a branch value focused on enhancing our focus on individualised customer attention, we began retraining customer service representatives and appointed dedicated customer service managers for all our key branches.

We have been strategically transforming the Bank's branches from operational processing centres to marketing and sales bases by reviewing the branch network from the perspective of market location, nature and scale to determine the most suitable functions and configurations. The Bank currently, also, has 77 ATMs and 30 more are planned before year end. This number of ATMs has facilitated convenient customer service outside the banking halls.

We shall continue to draw from latest advances in Information Technology to increase customer convenience in day-to-day banking transactions and enhance our customer service to set the Bank apart from the competition.

chairman's statement

Treasury Banking

The Bank continued to operate in the domestic and international money, foreign exchange and securities markets to serve the dealing and hedging needs of our customers and take advantage of arbitrage opportunities, while controlling market and liquidity risk at appropriate levels. Our Treasury's two basic goals remained (1) to capture the No. 1 share of the market based products by supplying customers with service of the highest quality in the industry, and (2) to generate a steady flow of high-level earnings from trading activities by dynamically managing our market positions.

Risk Management

The other key factor in our success has been our ability to effectively manage risk. All companies must be skilled at managing business risks that could undermine their activities but which are an inevitable part of a growth strategy. Banks are especially vulnerable to the fallout from often unforeseeable events. A single unfortunate incident can sometimes wipe out a large portion of a year's profits. Credit losses are a prime example, but I am, also, thinking of information technology risks, which of late have taken on a whole new dimension for the financial services industry.

At Co-operative Bank of Kenya, we strive for excellence in risk management. This does not mean to say we are impervious to all eventualities, but we do our utmost to ensure that our corporate culture and management systems enable us to carefully measure, tightly control, and rigorously manage any aspects that could adversely affect our operations and results.

2006 STRATEGY

We forecast that revenue growth shall be the primary driver of shareholder value for your Bank. For us, that revenue growth shall result from a clear strategy on two main levers:

- **Process innovation** – This shall focus on the way work is done, making it better, faster and cheaper. Examples include value chain re-engineering, performance based incentives and relationship and sales force effectiveness.
- **Service innovation** – This shall focus on the customer experience, getting the Bank closer to its customers and using that intimacy to deliver better service. We shall, for example, conduct even more mystery shopping tests on all our branches and outlets and set up a 24 hour customer/call service centre to ensure customers are getting solutions to their issues within a short time.

We believe these twin innovations shall make it easier for the Bank to achieve differentiation and an unassailable competitive advantage over our competitors. We have an efficient infrastructure for delivering good customer service, a good corporate culture that attracts the best human resources, promotes initiative and drives performance and business practices that inspire trust. Our ultimate objective is to continuously improve our results and efficiency, enhance the quality of the services we offer and give customers the range of financial products that they have every right to expect.

Indeed, as we start 2006, our top priorities are to address delivery of promises to customers, improved cost control, capital efficiency and maintenance of an appropriate credit portfolio quality. Strict cost control through tighter project management and stricter discipline on general expenditure will remain high on the agenda, and we have raised the cost ambition for 2006.

CORPORATE SOCIAL RESPONSIBILITY

The Co-operative Bank of Kenya continues its commitment of improving the communities in which it operates. Our staff are personally committed to contributing their time and resources to various

chairman's statement

charities and appeals focusing on education, the environment, child welfare and health.

In the year under review, the Bank re-launched its HIV policy through which it accepts its responsibility to manage the HIV/AIDS threat to its staff and business and undertakes to:

- Support efforts to prevent the further spread of HIV/AIDS among employees
- Reduce fears and dispel myths about the disease
- Respect the rights of employees with HIV/AIDS
- Assist employees access appropriate healthcare and
- Work with employees in informing and supporting efforts to arrest the disease.



Staff members make a donation at The New Life Home in Nairobi

professional and motivated the entire staff of the Bank continues to be in the face of a very competitive banking industry. The Co-operative Bank's continuing success is underpinned by the significant contribution made by its entire staff and the Bank's people strategy will continue to be shaped around harnessing this superb commitment, creating a workplace where staff understand their roles and contribution, and continue to feel proud to work for the Bank. I know the management and staff remain as committed as ever to the future development of the Bank and delivery of value to its shareholders.

DIRECTORS

I would like to welcome to your Board of The Co-operative Bank of Kenya Messrs J Kahunyo, M Malonza, C Kabira, F Odhiambo and Mrs S Odhiambo who joined as of August 19, 2005. Messrs JB Nthuku, D Kiura, A Khangati, S Ogamba and Mrs M Owuor retired in the year and we thank them for their many years of dedicated service to the Co-operative movement and the Bank and wish them every best of luck in their future endeavours.

FUTURE OUTLOOK

Your Bank's future is bright and at the end of another successful financial year, our thoughts turn to the future for which, working from our past successes, we have a very clear plan. The Board is confident that the fortunes of your Bank will continue to improve in the years ahead.

We believe the Kenyan economy shall grow despite uncertainties in the world and local economies. Your Bank has emerged from the challenges of 2005 with a stronger and more focused business. We shall continue to develop products with an aim of meeting the needs of our customers. We have a strong vision to succeed. At the same time we shall seriously continue to develop our staff to ensure that the trend of growth for the Bank continues in the future.

As you read our 2005 annual report, you, a valued partner of The Co-operative Bank of Kenya, will discover much more than a simple rendering of accounts and annual report. You will find a portrait of an institution fully deserving of your trust whose development rests solidly on four pillars: client

chairman's statement

satisfaction, employee engagement, market recognition and commitment to the community. We are dedicated to earning your trust each and every day. In 2005, we achieved record results. We are determined to deliver again in 2006.

SPECIAL APPRECIATION

In conclusion, I would like to thank the Managing Director and all our employees for another year of outstanding work. I would, also, like to underscore the invaluable contribution of all members of the Board of Directors for their unity of purpose and direction. Through their judicious advice, they ensure the sustainability of the Bank and defend the interests of shareholders. I would, also, like to thank our Bank delegates and the shareholders, who share our vision and honour us with their trust.

Finally, I would like to register my deep appreciation to our Minister for Co-operative Development and Marketing, Hon. Peter N. Ndwigwa, EGH, MP and the President of the Republic of Kenya, His Excellency Hon. Mwai Kibaki, CGH, MP for their immense support to the Co-operative Movement in Kenya.

Long live the Co-operative Movement.

Long live The Co-operative Bank of Kenya.

(signed)
S C Muchiri, EBS
Chairman

March 22, 2006

taarifa ya mwenyekiti

Nina furaha kwa mara nyingine kuwatolea ripoti ya Benki yetu ya mwaka na taarifa ya hesabu katika kipindi cha mwaka uliomalizika Disemba 31, 2005. Matokeo haya yanaonyesha utendaji madhubuti ulioleta ukuaji wa maana wa jumla ya mapato na faida kubwa zaidi ambayo haijawahi kupatikana katika historia ya Benki yetu.

Utenda kazi bora ndilo jambo ninalolipa kipaumbele. Matokeo ya mwaka huu yanadhihirisha uwezo na malengo ya Almashuri ya Wakurugenzi, timu ya wasimamizi na desturi ya utenda kazi bora unaokuzwa kote katika Benki.

Inatambulika kuwa Benki yenu imepata faida inayozidi asilimia 101 kabla ya kulipa ushuru katika mwaka wa 2005, ambayo ni kati ya moja kubwa zaidi kwenye biashara za benki.

HALI YA BIASHARA ZA BENKI

Biashara za benki nchini Kenya bado zinaendelea kukumbwa na ushindani mkubwa kutokana na ukuaji wa masoko na maendeleo yanayopelekea kuondoa masharti kwenye masoko ya pamoja kama vile Jumuiya ya Afrika Mashariki. Licha ya hayo utekelezaji wa kifungu cha Basel II, ambao tunaupongeza, juhudi za uondoaji masharti zinatarajiwa kupunguza vizuizi katika biashara, kuleta nafasi zaidi ya ukuaji, lakini wakati huo huo kuwahafifishia waekezaji wapya na hivyo basi kuzidisha ushindani wa kibiashara.

Katika mwaka wa 2005, Benki ilipanua shughuli za Utafiti wa Dhima katika kitengo cha Usimamizi wa Dhima kimbele kabla ya kutekelezwa kwa kifungu cha Basel II (New Basel Capital Accord) na Benki Kuu ya Kenya ambacho dhamira yake ni kuboresha usimamizi wa kushughulikia Dhima, kufikia kiwango maalum cha orodha ya fedha zilizowekwa na Benki kwa faida na kuasisi mfumo wa kusimamia rasilimali na dhima. Basel II inagusia zaidi mfumo wa kuanzisha viwango maalum vya mtaji ambao unatekelezwa kwa awamu na Benki Kuu ya Kenya katika biashara za benki zote kuanzia mwaka wa 2006.

Kuanzishwa kwa mfumo wa RTGS wa Kenya (Kenya's Real Time Gross Settlement System) katika mwezi wa Septemba 2005 vile vile kulikuwa tukio muhimu katika mfumo wetu wa kitaifa wa kulipa pesa (National Payments System) kwa vile ilipunguza pakubwa uwezekano wa kutokuwa dhima kwa benki na vile vile kurahisisha bisahara ya sarafu katika soko.

Tunaipongeza Benki Kuu ya Kenya kwa kuwa katika mstari wa mbele katika juhudi zinazopelekea kustawishwa kwa kanuni maalumu dhidi ya Usafishaji wa Pesa Zilizopatikana kwa njia haramu hapa nchini Kenya. Inakubalika na wote kuwa usafishaji wa pesa zilizopatikana kwa njia haramu ni tatizo la ulimwengu mzima. Mswada wa sheria ya kuzuia mapato kwa njia hii isiyo halali unatarajiwa kujadiliwa bungeni hatimaye mwaka huu.

MATOKEO YA 2005: USTAWI THABITI

Faida inayotumika ya kundi iliongezeka kwa zaidi ya asilimia 58 kutoka shilingi bilioni 1.2 hadi shilingi bilioni 1.9 mwakani, ikidhihirisha ukuaji wa faida thabiti na kupungua kwa jumla ya matumizi iliyopelekea ubora huu wa kufurahisha wa faida inayotumika.

taarifa ya mwenyekiti

Mengine ya kifedha yanayovutia ni:

- Faida kabla ya kulipa ushuru iliongezeka kwa kiwango cha kusifika cha asilimia 101 hadi shilingi milioni 714 mwaka wa 2005
- Faida kutokana na riba iliongezeka kutoka shilingi bilioni 2.8 hadi shilingi bilioni 4.2, ikiwa ni ongezeko la asilimia 50
- Jumla ya akiba ya wenyehisa ilikuwa shilingi bilioni 4.1 hapo Disemba 31, 2005 ikilinganishwa na shilingi bilioni 3.4 katika Disemba 31, 2004
- Rasilimali ya hisa za Benki imeongezeka pole pole kutoka shilingi bilioni 1.2 katika mwaka wa 2003 hadi shilingi bilioni 2.6 mwishoni mwa 2005, kukiweko shilingi bilioni 1.1 zilizopatikana 2004 na shilingi milioni 334 zilizopatikana 2005
- Jumla ya rasilimali iliongezeka kwa asilimia 13 kutoka shilingi bilioni 46 hadi shilingi bilioni 52
- Jumla ya pesa zilizowekwa benki iliongezeka kwa asilimia 23 kutoka shilingi bilioni 35 hadi shilingi bilioni 43
- Idadi halisi ya mikopo iliongezeka kwa shilingi bilioni 2.2 na kufikia shilingi bilioni 29 mwaka uliomalizika
- Mapato yasiyogharamiwa yaliongezeka kwa karibu asilimia 30 kutoka shilingi bilioni 2.0 hadi shilingi bilioni 2.6
- Uwezo wa kuwa na pesa taslimu katika mwaka tunaoripotia ulikuwa asilimia 35.7 ilhali kiwango cha chini zaidi kisheria ni asilimia 20.

Ushirika

Bado mapenzi na hisia za Benki ziko katika Ushirika na Benki yako katika kipindi tunachozungumzia iliweka jitihada katika kubuni kituo kimoja cha mawasiliano ambapo wateja wa Ushirika watapewa huduma zote za Benki. Tulilenga kuendelea kutoa huduma na suluhisho bora zaidi kwa vyama vya ushirika na hasa Saccos ambazo zinakabiliwa zaidi na ushindani mkali katika biashara za benki.

Kutokana na kuanzishwa kwa kituo cha kisasa kabisa, *Co-operatives Centre*, katika jumba la *Co-operative*, tutaweza kutekeleza kwa haraka na kutilia nguvu uhusiano ulioko na kila mteja hivyo kuunda thamani na njia mpya. Katika 2006, tutaendelea kutilia mkazo mapato yasiyogharamiwa na kuunda upya biashara ya kutoa mikopo, msingi asili wa shughuli za Benki yetu.

Ili kutoa huduma bora kwa wateja wetu, hasa wale walio katika mfumo wa vyama vya ushirika, Benki inatekeleza mpango mkubwa wa kulipa kupitia kadi za kompyuta (*smart cards*) kwenye mradi wa *Co-opswitch*. Mpango huu wa teknolojia ya kompyuta utaitayarisha Benki kuwa na programu iliyo salama na ya kutegemewa itakayoifikisha katika kiwango cha kutoa huduma za kipekee za kisasa. Programu hii itawapa wateja wetu fursa ya kutumia huduma zilizoboreshwa za kadi. Huduma za benki kupitia wavuti (*internet banking*) na kupitia simu za mkono na kwa wanachama wa Sacco kupata pesa zao kupitia mtandao wa Benki wa mashini za ATM, yote haya yatafanya Benki yetu kuwa mbele zaidi ya washindani wake katika teknolojia ya kompyuta.

Tukiendelea mbele, tunalenga kusisitiza na kuendelea kubuni huduma zenye thamani kwa wateja wetu. Ili kufikia lengo hili, tutaendelea kusambaza kwa ustadi zaidi huduma kupitia teknolojia ya kompyuta.

taarifa ya mwenyekiti

Uchuuzi katika Benki

Uchuuzi wa reja reja katika benki bado unaendelea kutoa mchango muhimu katika matokeo ya kifedha na kuongeza fursa ya kupanua biashara mpya itokanayo na teknolojia ya kompyuta. Wakati huo huo ushindani umezidi mno kutokana na wahusika wapya wanaoingia katika biashara hii kutoka sekta nyingine. Katika kutilia mkazo kuboresha huduma katika matawi tuliweza kulisitiza zaidi huduma kwa kila mteja binafsi, tulianza kwa kuwapa mafunzo mapya wahudumu wa wateja na kuajiri maneja hususa kwa huduma hii katika matawi yetu muhimu.

Tumekuwa tukibadili kimkakati matawi ya Benki yetu kutoka vituo vya uendeshaji shughuli za kawaida pekee na kuwa vituo vya mauzo vyenye malengo kulingana na tawi lilipo. Hivi sasa Benki iko na mashini 77 za ATM, na 30 zaidi ziko katika mpango kabla ya mwisho wa mwaka. Idadi hii ya ATM imewezesha kurahisisha huduma bora kwa wateja nje ya kumbi za benki zetu.

Tutaendelea kutafuta maendeleo ya kisasa ya teknolojia ya kompyuta yahusiyo mambo ya kifedha ili kurahisisha zaidi huduma tunazotoa kila siku kwa wateja na kuboresha huduma ili Benki yetu iwaache mbali kabisa washindani wake.

Biashara ya Hazina kuu ya Benki

Benki iliendelea na shughuli zake katika soko la fedha nchini na katika mataifa ya kigeni, ubadilishanaji wa pesa za kigeni na soko la rehani yote kuwapa fursa wateja wetu katika ufanyaji biashara na ununuzi wa rasilimali, pamoja na kuhimili soko la sarafu kuwa katika viwango vinavyotarajiwa.

Malengo ya biashara ya hazina kuu yetu yanategemezwa kwa mambo mawili muhimu (1) Kushikilia Namba 1 kwenye soko linalotegemea bidhaa na huduma bora zaidi kwa wateja, na (2) Kuleta mkondo imara kuzalisha faida ya juu kutokana na biashara kwa kusimamia vyema nafasi yetu katika soko.

Usimamizi wa Dhima

Jambo lingine muhimu katika ufanisi wetu ni uwezo wetu kutekeleza vyema usimamizi wa dhima. Kampuni zote sharti ziwe na ujuzi wa kusimamia dhima ya biashara ambayo japo itaathiri shughuli zake, lakini muhimu katika mikakati ya ukuaji. Benki hasa ndizo zilizo rahisi kuathiriwa na mgawanyiko wowote utokanao na matukio yasiyotarajiwa. Tukio moja tu la bahati mbaya wakati mwingine laweza kufutilia mbali fungu kubwa la faida ya mwaka. Japo mfano mkubwa ni hasara itokanayo na mikopo, vile vile, nafikiria mashaka yaletwayo na teknolojia ya kompyuta, ambayo karibuni yamechukua nafasi kubwa katika biashara hizi za benki.

Katika Benki ya Co-operative Bank of Kenya, tunapania njia bora zaidi za usimamizi wa dhima. Hii haina maana ya kwamba hatuguswi kabisa na matukio yeyote, lakini tunajaribu kwa uwezo wetu wote kuhakikisha kuwa desturi ya shirika letu na mfumo wa usimamizi unatuwezesha kuwa na uangalifu, kusimamia kwa ukakamavu, vipengee vyote vinavyoweza kuathiri vibaya juhudi ya kufikia matokeo mazuri.

taarifa ya mwenyekiti

MKAKATI WA 2006

Tunatabiria ukuaji wa faida utakuwa ndiyo shughuli kubwa kwa Benki yako ili kuwapa wenyehisa thamani ya hisa zao. Kwetu faida hiyo italetwa na mkakati ulio wazi kabisa ukitegemezwa kwa wenzu mbili muhimu:

Uvumbuzi wa mifumo – Hii itatilia maanani jinsi ya kazi inavyoendeshwa ili kuifanya kwa njia bora, haraka na bila gharama kubwa. Kwa mfano kuweko kwa muundo wa thamani mara mbili, utoaji marupurupu kutegemea utendaji kazi na uhusiano mwema utokanao na wafanyikazi wetu wa mauzo.

Ubunifu wa huduma – Hii itatokana na uzoefu wa wateja, kuileta Benki karibu zaidi na wateja wake na kupitia maelewano hayo kutoa huduma vyema zaidi. Kwa mfano, tutafanya uchunguzi wa kisiri juu ya ununuzi katika matawi yetu yote na kuanzisha huduma ya kituo cha masaa 24 cha wateja kuwasiliana nasi ili kuhakikisha wanapata masuluhisho ya matatizo yoyote kwa haraka.

Vumbuzi hizi mbili zitafanya kuwa rahisi juhudi ya Benki ya kufikia upeo tofauti wa manufaa na usioweza kutenguliwa na washindani wake. Tuko na muundo msingi madhubuti wa kutoa huduma bora kwa wateja, desturi nzuri ya shirika ambayo inavutia rasilimali bora, inakuza ari ya kunazisha na kuhimiza utekelezaji mazoezi ya kibiashara yanayovutia uaminifu. Matarajio yetu ya msingi ni kukuza faida yetu na kuboresha utenda kazi, kuzidisha ubora wa huduma tunazotoa na kuwapa wateja wetu huduma tofauti tofauti za kifedha ambazo wanastahili.

Kwa hakika, tunapoingia mwaka wa 2006, jambo tunalolipa kipaumbele ni kutimiza ahadi zetu kwa wateja, usimamizi mzuri wa matumizi na ufanisi wa rasilimali kudumisha orodha bora ya wateja wenye mkopo. Shuruti ya kuthibiti gharama ya matumizi inatokana na mikakati thabiti ya usimamizi na nidhamu kali juu ya matumizi yataendelea kupewa uzito katika ajenda yetu, na tumeinua kiwango cha lengo letu la matumizi katika 2006.

JUKUMU LA SHIRIKA KATIKA JUMUIYA

Benki ya Co-operative Bank of Kenya inaendelea kujitolea katika kuboresha hali ya jumuiya tunakoendesha shughuli za biashara yetu. Wafanyakazi wetu binafsi wamejitolea kuchangia muda wao na mali yao kusaikia wenye shida na mwiko mkubwa ukiwa juu ya elimu, mazingira, ustawi wa watoto na afya.

Katika kipindi cha mwaka tunaouripotia, Benki ilianzisha upya sera yake ya HIV ambapo kupitia kwayo inachukua jukumu la kusimamia tisho la HIV/AIDS kwa wafanyakazi na biashara yake na inaahidi:

- Kuunga mkono juhudi za kuzuia kuenea zaidi kwa HIV/AIDS miongoni mwa wafanyakazi wake
- Kupunguza hofu na kumaliza uwongo juu ya ugonjwa huu
- Kuheshimu haki za wafanyakazi wenye HIV/AIDS
- Kusaidia wafanyakazi kupata dawa na matibabu yafaayo na
- Kushirikiana na wafanyakazi katika kuwajua juu ya juhudi za kuthibiti ugonjwa huu.

taarifa ya mwenyekiti

Jukumu la Shirika letu katika Jumuiya limechangia pakubwa kufungamanisha wafanyakazi wetu na mkakati wetu wa biashara na kuongeza sifa bora kwa wateja wetu.

Watu Wetu



Staff members make a donation at Christ's Children Home in Kasarani

kuundwa kwenye kujitolea kukubwa, kuweko kwa mahala pa kazi ambapo wafanyakazi wanaelewa barabara majukumu yao, na wanaendelea kujivunia kufanya kazi katika Benki. Natambua kuwa wasimamizi na wafanyakazi wataendelea kujitolea vilivyo katika maendeleo ya siku za usoni ya Benki na kufikisha matokeo yenye thamani kwa wenyekisi.

Wafanyakazi wetu ndio rasilimali yetu yenye thamani zaidi.

Katika ushirikiano wangu na wafanyakazi kote katika Benki, siachi kushangazwa na jinsi walivyo stadi na wenye motisha. Wafanyakazi wetu wote wanaendelea kuonyesha sura nzuri katika biashara hii iliyojaa ushindani ya benki. Ufanisi unaoendelea kila kukicha wa Benki ya Co-operative umetegemezwa kwa mchango mkubwa wa wafanyakazi wote na mpango wa Benki unaotilia mkazo watu utaendelea

WAKURUGENZI

Ningependa kuwakaribisha kwenye Almashauri ya Co-operative Bank of Kenya wafuatao: Mabwana J Kahunyo, M Malonza, C Kabira, F Odhiambo na Bi. S Odhiambo ambao wamejiunga kuanzia Agosti 19, 2005. Mabwana JB Nthuku, D Kiura, A Khangati, S Ogamba na Bi. M Owuor walistaafu mwakani na twawashukuru kwa kujitolea na huduma yao ya miaka mingi katika mfumo wa Ushirika na kwa Benki na tunawatakiya mafanikio katika jitihada zao za siku zijazo.

MATARAJIO YA SIKU ZIJAZO

Mustakabala wa Benki yako unaonyesha kung'aa mwishoni mwa mwaka mwingine uliokuwa na mafanikio ya kifedha. Fikira zetu sasa zinaangalia siku za usoni ambazo, kwa kutazama fanaka ya siku zilizopita, tuna mpango ulio dhahiri kabisa. Almashauri ina matumaini kuwa mafanikio ya Benki yenu yataendelea kuimarika katika miaka ijayo.

Tunaamini kuwa uchumi wa Kenya utaimarika licha ya kuweko kwa hali isiyoaminika katika uchumi wa ulimwengu na wa hapa nchini: Benki yenu imeibuka kutoka katika changamoto za mwaka wa 2005 ikiwa na biashara imara na yenye mwelekeo thabiti. Tutaendelea kubuni bidhaa ambazo zalenga kukidhi haja za wateja wetu. Tuna maono ya dhati ya kufanikiwa. Wakati huo huo tutaendelea kuchukulia kwa uzito swala la kukuza wafanyakazi wetu ili kuhakikisha mwenendo wa ukuaji wa Benki unaendelea hata katika siku zijazo.

Unapoendelea kusoma ripoti hii ya hesabu za mwaka 2005, wewe, mshirika wetu wa thamani wa Benki ya Co-operative Bank of Kenya, utagundua kuwa ina mengi zaidi ya kuonyesha tu hesabu na ripoti ya mwaka. Utapata kuwa ni taswira ya shirika unalostahili kuliadini kabisa.

taarifa ya mwenyekiti

ambalo maendeleo yake yanategemea nguzo nne imara: kutosheleza wateja, kushughulisha wafanyakazi, kuelewa hali ya soko na kujitolea kusaidia jumuiya. Tunajitolea kwa dhati ili tustahili kuaminiwa na wewe kila siku.

Katika mwaka wa 2005, tulipata faida ya kuvunja rekodi. Tunadhamiria kutekeleza tena katika mwaka wa 2006.

SHUKRANI MAALUM

Kwa kumalizia, ningependa kumshukuru Mkurugenzi Mkuu na wafanyakazi wetu wote kwa mwaka mwingine wa kazi nzuri iliyojipambanua. Ningependa, vile vile, kusisitiza mchango wenye thamani kubwa kutokana na kazi ya Almashauri ya Wakurugenzi, nawashukuru pia kwa umoja wa makusudio na mwelekeo. Kupitia ushauri wa busara, wanahakikisha maendeleo ya Benki na kulinda maslahi ya wenyehisa. Vile vile ningependa kuwashukuru wawakilishi wa Benki na wenyehisa, ambao wana maono sawa nasi na kutuheshimu kwa kutuamini.

Mwisho, ningependa kutoa shukrani zangu za dhati kwa Waziri wetu wa Maendeleo ya Vyama vya Ushirika na Mauzo, Mheshimiwa Peter N. Ndwiga, EGH, MP pamoja na Rais wa Jamhuri ya Kenya, Mtukufu Mheshimiwa Mwai Kibaki, CGH, MP kwa kujitolea pakubwa mno kuunga mkono mfumo wa vyama vya Ushirika nchini Kenya.

Maisha marefu kwa mfumo wa Vyama vya Ushirika

Maisha marefu kwa Benki ya Co-operative Bank of Kenya.

SC Muchiri, EBS
Mwenyekiti

Machi 22, 2006

corporate governance

INTRODUCTION

Corporate Governance is the process by which companies are directed, controlled and held to account. It is used to direct and manage business affairs of the group towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholders' value while taking into account the interests of other stakeholders.

The Co-operative Bank of Kenya is committed to adhering to the highest standards of Corporate Governance in all its operations. This commitment is based not just on our desire to meet the requirements of good governance but, also, on our core values and beliefs.

The Board is responsible for the group's corporate governance practices and recognizes its responsibilities to shareholders and other stakeholders to uphold the highest standards in economic, social, environmental and ethical matters by ensuring that the group conducts its business in accordance with best practice in corporate governance. The Co-operative Bank of Kenya has in place mechanisms to fully comply with the provisions and principles of good corporate governance as set out in the sample code of best practice for corporate governance issued by the Centre for Corporate Governance, Kenya (CCG), the Co-operatives Societies Act and Prudential Guidelines from the Central Bank of Kenya under the Banking Act. As part of this process all the directors have for instance now attended training on good corporate governance provided by the Centre for Corporate Governance.

BOARD OF DIRECTORS

Board Manual

The Board has a Board Manual which governs its operations in conformity with practices of good corporate governance. The manual contains the following matters:-

- The Terms of Reference of the Board including the various Sub-committees of the Board
- Governing Statutes under the Co-operative Societies Act, the Banking Act and Central Bank prudential guidelines
- By-laws of the Bank
- Duties and Responsibilities of Directors.

The manual has a schedule of matters specifically reserved for the Board's attention to ensure it exercises full control over significant strategic, financial, operational and compliance matters. It sets out the schedule of meetings of the Board and its committees and then the main business to be dealt with at those meetings.

The Board consists of sixteen directors, one of whom is executive and fifteen are non-executive. The Board is composed of directors with a good mix of skills, experience and competences in the relevant fields of expertise and is well placed to take the business forward. Once appointed all directors have a fixed tenure of office.

The full Board meets at least six times a year. It is responsible for providing leadership to the Bank and has the following duties and responsibilities:

- Setting the strategic direction of the Bank

corporate governance

- Establishing and maintaining the Bank's overall systems of planning, accounting and internal control
- Setting policy guidelines for management and ensuring competent management of the business including the selection, supervision and remuneration of senior management;
- Ensuring that the business of the Bank is conducted in compliance with relevant laws and regulations and
- Reporting the performance of the Bank to shareholders and other stakeholders and ensuring the Bank meets other responsibilities to shareholders and other stakeholders.

COMMITTEES OF THE BOARD

Subject to fundamental, strategic, policy and formal matters reserved for its decision, the Board has delegated some of its responsibilities to a number of standing committees which operate within defined terms of reference laid down by the Board. The Board has the following standing committees.

- Finance Board
- Staff and Training Board
- Audit Board
- Subsidiary Companies Boards (2)



RISK MANAGEMENT AND INTERNAL CONTROLS

Risk Management

The Board recognizes that managing risks to ensure an optimal mix between risks and return is an integral part of achieving corporate goals. The Board has put in place procedures for identifying risks and implementing risk mitigation actions to ensure the risk of failure to achieve business objectives is appropriately mitigated. In this regard the Board is aware, at any one time, of all the key risks facing the Bank and ensures that risk mitigation procedures are in place. As a key risk management initiative, the Bank has put in place a comprehensive system of setting and implementing objectives, measuring performance against the objectives and implementing corrective action to ensure the objectives are achieved. In addition risks are further identified and managed through in-house risk reviews and the internal and external audit processes.

Internal Controls

The Board has a collective responsibility for the Bank's systems of internal controls and for reviewing their effectiveness. The system of internal control in place has defined procedures and operational and financial controls to ensure that assets are safeguarded, transactions are authorized and recorded properly, and that material errors and irregularities are either prevented or detected within a reasonable period of time. In reviewing the effectiveness of the systems of internal control and risk management, the Board takes into account the results of all the work carried out to audit and review the activities of the Bank by both internal and external auditors.

corporate governance

Internal Audit

The Internal Audit Department has the responsibility to conduct objectively internal audits for the Bank in a process separate from the oversight exercised by the Board of Directors on the shareholders' behalf. The Internal Audit Department acts independently of the Bank's business units, to ensure that the internal audit function is executed in an unbiased and objective fashion.

The Internal Audit Department conducts internal audits to assess the soundness of banking operations and assets, as well as to verify that the Bank's internal control system, including compliance and risk management, is appropriate and effective. The results of these audits are periodically reported to the Audit Board Committee. Based on the findings of its examination, the Audit Board recommends improvements to the internal control systems of the concerned or related departments, branches and group companies.

CONDUCT OF BUSINESS AND PERFORMANCE REPORTING

The Bank's business is conducted within a devolved control framework, underpinned by defined processes and objectives, policy statements, written procedures and control guidelines. The Board has established a management structure which clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls also include segregation of duties, the regular reconciliation of accounts and the valuation of assets and positions.

CORPORATE SOCIAL REPORT

Ethical Standards

The Bank has established clear ethical guidelines embedded in the values of the Bank. These values have been cascaded downward to staff in form of a code of ethics and in the employee's staff handbook. All employees must comply with these provisions.

We believe that observing the highest ethical standards will attract more like-minded people and organizations and ensure the long term survival of our business. A statement to confirm compliance with the code of ethics is signed by every member of staff every year and by new employees at their point of entry.

Health, Safety and Employee welfare

The welfare of our customers, staff, contractors and members of the public is an essential concern of the Bank, which strives to provide all employees with safe working conditions at work and a safe environment for our customers, contractors and members of the public.

The Bank is committed to the welfare of all its employees. The Bank maintains a policy of equal opportunity of employment for all qualified persons and strives to provide all employees with fair terms of employment. All employees are provided with relevant training locally and overseas to equip them with relevant skills both for the job and for their welfare.

corporate governance

In response to the challenges presented by the HIV/AIDS problem the Bank has put in place a policy on dealing with HIV/AIDS built on non-discrimination and support for employees who may be infected or affected and provides continuous training to all employees on the disease and its consequences.

Corporate Social Responsibility

The Bank recognizes the importance of supporting community development activities whose objective is to build capacity to initiate, develop and sustain such activities for the wellbeing of the society. We sponsor numerous events including a number of charity sporting events, education of the needy and provision of other facilities to the community. The main activities



A visit to the Kerugoya School for the deaf

we sponsored in 2005 included medical causes, environmental causes, education and national famine relief efforts. The Bank is in the process of establishing "The Co-operative Bank Foundation" to better address its Corporate Social Responsibility.

Care for the Environment

One of our core values is to conduct our business with care for the environment. We do this by ensuring that our operations do not lead or

contribute to the degradation of the environment. As surplus contribution to society we will also support activities that minimize the degradation of our natural heritage.

Compliance with Laws

The Board is satisfied that the Bank has to the best of their knowledge complied with all applicable laws and conducted its business affairs in accordance with the law in particular to the Co-operative Societies Act and the Banking Act.

(Signed)
S.C. Muchiri, EBS
Chairman

(Signed)
Gideon Muriuki, OGW
Managing Director

taarifa ya uongozi wa shirika

Uongozi wa Shirika ni mfumo ambao kwamba hutumiwa na makampuni kuyaelekeza, kuyasimamia na kutaka yajieleze yanavyojiendesha. Hutumika kuelekeza na kusimamia shughuli za biashara ya kundi kwa madhumuni ya kuzalisha faida na shirika kujieleza msimamo wake kukiwa na lengo kubwa la kumpa mwenyehisa thamani na vile vile kuyachunga masilahi ya washika dau wengine.

Benki ya Co-operative Bank of Kenya inajitolea kufuata kwa viwango vya juu kabisa vya Uongozi wa Shirika katika utendaji wa shughuli zake zote. Kujitolea huku hakutegemei tu hamu yetu ya kutimiza masharti ya uongozi mzuri wa shirika, bali vile vile kunategemea, kiini cha tunayoyathamini pamoja na imani yetu.

Almashauri inawajibika kwa utekelezaji wa uongozi wa shirika wa Kundi na inatambua majukumu yake kwa wenyehisa na washika dau wengine ya kutetea kuwe viwango vya juu zaidi katika iktisadi, jumuiya, mazingira na maswala ya kimaadili kwa kuhakikisha kundi linafanya shughuli zake kwa kutegemea desturi bora zaidi za uongozi wa shirika. Benki ya Co-operative Bank of Kenya imeweka utaratibu ili kutekeleza kikamilifu na kuambatana na vipengee na maadili ya uongozi wa shirika kama ilivyotolewa mfano wa mfumo wa njia bora zaidi ya usimamizi na kituo cha Centre for Corporate Governance, Kenya (CCG), sheria zinazosimamia vyama vya ushirika (Co-operatives Societies Act) na maadili yaliyoko katika sheria kutoka benki Kuu ya Kenya chini ya sheria za Benki. Katika kufuatia mfumo huu, kwa mfano, wakurugenzi wote wamehudhuria mafunzo yanayohusu usimamizi mzuri wa shirika yanayotolewa katika kituo cha Centre for Corporate Governance.

ALMASHAURI YA WAKURUGENZI

Kitabu cha mwongozo cha Almashauri

Almashauri ina kitabu cha mwongozo ambacho kinasimamia shughuli zake kuambatana na utekelezaji wa usimamizi bora wa shirika. Kitabu hiki kina mambo yafuatayo:-

- Hadidu za rejea za Almashauri pamoja na kamati zote ndogo za Almashauri
- Sheria za usimamizi kama ilivyo chini ya sheria za Vyama vya Ushirika (Co-operative Societies Act), sheria za Benki na zile za Benki Kuu ya Kenya
- Sheria maalum za Benki
- Kazi na wajibu wa Wakurugenzi.

Kitabu hiki kina ratiba ya mambo maalum yaliyotengewa Almashauri ili kuhakikisha inatekeleza usimamizi madhubuti wa mikakati maalum, mipango ya kifedha, utendakazi na utekelezaji wa mambo yote. Inatoa jedwali ya mikutano ya Almashauri na kamati zake na pia mambo muhimu yatakayojadiliwa katika mikutano hiyo.

Almashauri iko na wakurugenzi kumi na sita, mmoja wao akiwa ni mtendaji kumi na tano wakiwa si watendaji. Almashauri inaundwa na wakurugenzi wenye mchanganyiko wa ujuzi, uzoefu na ustadi wa kutosha katika nyanja mbali mabli za taaluma na wakiwa katika nafasi muafaka ya kuipeleka biashara yetu mbele. Wakishachaguliwa, wakurugenzi wote wana kipindi maalum cha kudumu cha kuweko mamlakani.

Almashauri yote kamili hukutana takriban mara sita kwa mwaka. Almashauri ina jukumu la kutoa maongozi kwa Benki na kazi zake ni kama ifuatavyo:

taarifa ya uongozi wa shirika

- Kupanga mfumo wa mikakati ya Benki
- Kuanzisha na kusimamia utaratibu wa mipango, uhasibu na uthibiti uongozi
- Kuweka mfumo wa kuongoza usimamizi na kuhakikisha ustadi unatumika kwa shughuli zote ikiwa ni pamoja na kuchagua, kuongoza na malipo ya wakuu mbali mbali katika ukurugenzi
- Hakikisha shughuli za Benki zinafanyika kwa mujibu wa sheria na masharti yote yaliyowekwa na
- Kuripoti yaliyotekelezwa na Benki kwa wenyehisa na washika dau wengine na kuhakikisha masilahi yao yanatimizwa.

KAMATI ZA ALMASHAURI

Kwa uelekeo wa kiasili wa mkakati, sera na shughuli zake rasmi, Almashauri imenaibisha mamlaka ya baadhi ya majukumu yake kwa kamati kadhaa amabazo zinafanaya kazi chini ya masharti yaliyowekwa na Almashauri. Almashauri ina kamati zifuatazo:

- Almashauri ya fedha
- Almashauri ya wafanyikazi na mafunzo
- Almashauri ya ukaguzi wa hesabu
- Almashauri ya kampuni tanzu (Mbili)

USIMAMIZI WA DHIMA NA UHAKIKI WA NDANI

Usimamizi wa Dhima

Almashauri inatambua usimamizi wa dhima kuhakikisha kuna uwiano kutegemewa wa dhima na upataji kama kina cha matarajio ya shirika. Almashauri imeweka utaratibu wa kutambua dhima na utekelezaji wa vizuizi kuhakikisha hakuna nafasi ya kushindwa kuthibiti dhima. Kwa mujibu wa hii, Almashauri inatambua kuwa, wakati wowote Benki inaweza kupatwa na mashaka kwa kuwa na vizuizi vilivyowekwa kuthibiti haya.

Uhakiki wa Ndani

Almashauri ina jukumu la pamoja kuhakikisha utaratibu wa Benki wa uhakiki wa ndani na kukagua na kutafakari utekelezaji wake. Utaratibu wa uhakiki wa ndani ulioko unafuata mpango maalum uliyowekwa wa utenda kazi na usimamizi wa fedha, ili kuhakikisha rasilimali zinachungwa na shughuli zote ninarekodiwa barabara, na kuwa makosa na kutofuata kanuni kunathibitiwa au kuwekwa kando kwa muda. Katika kutazama utekelezaji wa uhakiki wa ndani na usimamizi wake, Almashauri inatilia maanani matokeo ya kazi zote zinazotekelezwa ili kuratibu shughuli za Benki kwa ukaguzi hesabu wa ndani na wa nje.

Ukaguzi wa hesabu wa ndani

Idara ya ukaguzi wa ndani wa hesabu una jukumu la kufanya ukaguzi maridhawa wa ndani wa Benki kupitia mfumo ulio kando na ule wa uangalizi unaotekelezwa na Almashauri ya wakurugenzi kwa niaba ya wenyehisa. Idara ya ukaguzi ya ndani inafanya kazi huru kabisa na shughuli nyingine za Benki, ili kuhakikisha uchunguzi unaofanywa bila upendeleo wala chuki.

taarifa ya uongozi wa shirika

Idara ya ukaguzi ya ndani hufanya ukaguzi wa hesabu ili kutarakimu uthabiti wa Benki shughuli zake na rasilimali zake, pamoja na kudhihirisha mifumo ya ndani ya Benki, pamoja na kuwa kuna uelekevu katika usimamizi wa dhima. Matokeo ya ukaguzi huu huchunguzwa mara kwa mara na ripoti kamili kutolewa kwa kamati ya Almashauri ya ukaguzi. Kutegemea matokeo ya uchunguzi huu, Almashauri ya ukaguzi hupendekeza marekekebisho yatakayotekelezwa ya mpango wa usimamizi wa ndani kulingana na idara husika, matawi au kundi kampuni tanzu.

UENDESHAJI BIASHARA NA KURIPOTI UTENDAJI WAKE

Biashara ya Benki inaendeshwa chini ya mfumo wa kupokezana madaraka, kukisisitizwa mpango na matarajio, taarifa ya sera, kuandikwa kwa utaratibu na shuruti za usimamizi. Almashauri imeunda utaratibu wa usimamizi unaoeleza kinagaubaga majukumu na utaratibu wa kuripoti. Jinsi uwezo ulivyotolewa na ulivyoarifiwa. Mpango wa kuendesha umewekwa ili kuwezesha kukamilisha kikamilifu shughuli zote za kulinda rasilimali. Usimamizi huu wote ni pamoja na kutenganisha kazi, upatanisi wa hesabu wa kawaida na kujua thamani ya rasilimali.

RIPOTI YA KUHUSIKA KWA SHIRIKA KATIKA JUMUIYA

Viwango vya maadili

Benki imeweka mfumo ulio wazi wa kufuata maadili ambao undani wake unawiana na maadili ya Benki kwa kina. Viwango hivi vya maadili vinatiririka hadi kwa wafanyakazi wetu kupitia mfumo wa kanuni zilizokubaliwa zilizo kwenye kijitabu cha wafanyakazi. Ni sharti kwa wafanyakazi wote kufuata sheria hizi.

Tunaamini kufuata viwango vya juu zaidi vya maadili kutavutia watu wenye fikira sawa na zetu katika shirika letu na kuhakikisha tunadumu kwa muda mrefu katika biashara hii. Taarifa ya kuthibitisha utekelezaji wa maadili haya husainiwa na kila mfanyakazi kila mwaka na kila mfanyakazi mpya anapojiunga nasi.

Afya, usalama na maslahi ya wafanyakazi

Masilahi ya wateja wetu, wafanyakazi, wanaopewa kandarasi na wananchi kwa ujumla ni muhimu sana kwa Benki, ambayo hujitahidi sana kuwapa wafanyakazi wote wanakuwa katika mandhari yaliyo salama kwao wao, wenye kandarasi na wananchi kwa ujumla.

Benki imejitolea kuwapa wafanyakazi haya njema. Benki inadumisha sera ya kuajiri watu jinsia zote kwa usawa kulingana na ujuzi unaohitajika na hujaribu kuwapa wafanyakazi wake masharti maridhawa ya kazi. Wafanyakazi wote hupewa nafasi ya kupata ujuzi hapa nchini na hata nchi za nje ili kuwahami wawe ustadi wa kutekeleza majukumu yao na vile vile kwa maslahi yao.

Kwa kuitikia mwito wa kuthibiti tatizo la HIV/AIDS Benki imeweka mfumo wa kupambana na HIV/AIDS unaotegemezwa kwa maadili ya kutobagua na kuwaunga mkono wafanyakazi amabo wameambukizwa na hutoa mafunzo ya mara kwa mara kwa wafanyakazi wote juu ya madhara ya ugonjwa huu hatari.

taarifa ya uongozi wa shirika

Kuwajibika kwa Shirika katika Jumuiya

Benki inatambua umuhimu wa kuunga mkono shughuli za maendeleo ya jumuiya ambayo matarajio yake ni kujenga uwezo wa kuanzisha na kutekeleza shughuli zote za kuboresha jumuiya. Tunagharamia mipango mabli mbali ikiwa pamoja na kutoa misaada katika michezo, elimu kwa wasiojiweza na misaada ya kufaidi jumuiya. Muhimu zaidi ni kugharamia katika 2005, misaada ya matibabu, ya mazingira, elimu na mkoba wa waathiriwa wa njaa hapa nchini. Benki iko katika kuanzisha mfuko wa fedha "The Co-operative Bank Foundation" ili kufanya kazi ya uwajibikaji wa jumuiya kwa njia bora.

Kujali mazingira

Moja ya vitu tunavyothamini sana katika biashara yetu ni kujali mazingira. Tunafanya hili kwa kuhakikisha shughuli zetu hazichangii katika kudhoofisha mazingira. Kama mchango wa ziada kwa jumuiya vile vile tunaunga juhudi zote za kulinda mazingira.

Ufuataji wa Sheria

Almashauri iantosheka kuwa Benki imefanya yote iwezalo kufuata sheria zote za kibiashara zilizowekwa katika Co-operative Societies Act na Banking Act.

S.C. Muchiri, EBS
Mwenyekiti

Gideon Muriuki, OGW
Mkurugenzi Mkuu

Machi 22, 2006

board of directors



L to R: Mr. Gideon Muriuki (Managing Director),
Mr. S. C. Muchiri (Chairman) & Mr. J. Riungu (Vice Chairman)



L to R: Mr. F. Odhiambo (Commissioner of Co-operatives),
Mr. M. Malonza & Mr. K. Mwangi
(Representing PS Treasury)



L to R: Dr. J. Kahunyo, Mrs. S. Odhiambo
& Mr. R. L. Kimanthi



L to R: Mr. E. K. Mbogo, Mr. G. Mburia & Mr. C. Kabira



L to R: Mr. G. J. S Wakasyaka, Major(Rtd),
Mr. P. K. Githendu & Mr. J. Sitienei

report of the directors YEAR ENDED 31 DECEMBER 2005



The directors submit their report together with the audited financial statements for the year ended 31 December 2005, which show the state of the Group's and the Bank's affairs.

PRINCIPAL ACTIVITIES

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

GROUP OPERATIONS

The operating results of the Bank's subsidiaries, Co-optrust Investment Services Limited and the Co-operative Consultancy Services Limited have been included in the group financial statements. Co-operative Consultancy Services Limited offers financial advisory services. Co-optrust Investment Services Limited is involved in the business of fund management.

RESULTS

The results of the Group for the year are set out on page 39

DIVIDEND

The directors recommend the payment of a dividend of KShs 5.00 per share (2004 -KShs 4.00 per share).

BONUS

The directors do not recommend the issuance of bonus shares.

RESERVES

The movement in the Group's reserves is shown on page 42 of these financial statements.

DIRECTORATE

The Bank has a directorship of 16 board members of whom 13 represent the co-operative movement, 2 represent 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. The directors who served during the year and to the date of this report are shown on page 2.

HUMAN RESOURCES

The Bank has put together a strong management team that has seen tremendous progress in the operational and business restructuring of the Bank. The synergies from the teamwork and determination to be the best has seen the Bank achieve excellent results detailed herein.

report of the directors YEAR ENDED 31 DECEMBER 2005

We continue to create an environment that attracts and retains the most competent personnel and ensure they remain a proud and motivated team, enthusiastic about serving the Bank's clients, hence making the Bank the institution of choice.

BRANCHES

The Bank has 35 branches and 3 agencies, which are spread all over the country with a concentration in the economically high potential areas.

AUDIT COMMITTEE

The Bank's audit committee consists of:-

J. Riungu - Chairman

Dr. J. Kahunyo

K Mwangi

AUDITORS

The auditors, 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

(Signed)
Gideon Muriuki, OGW
Managing Director

March 22, 2006

ripoti ya wakurugenzi MWAKA ULIOMALIZIKA 31 DISEMBA 2005

Wakurugenzi wanatoa ripoti yao pamoja na ile ya ukaguzi wa hesabu katika kipindi cha mwaka unaomalizika 31 Disemba 2005, ambayo inaonyesha hali ya Kundi na ile ya Benki.

SHUGHULI MUHIMU

Shughuli muhimu ni kutoa huduma zote za benki kama ilivyo katika leseni na chini ya sheria za Benki.

SHUGHULI ZA KUNDI

Matokeo ya kampuni tanzu za Benki, Co-optrust Investment Services Limited na Co-operative Consultancy Services Limited ziko pamoja katika ripoti ya kundi ya kifedha. Co-operative Consultancy Services Limited hutoa ushauri wa kifedha. Co-optrust Investment Services Limited inahusika na biashara ya kusimamia rasilimali.

MATOKEO

Matokeo ya kundi ya mwaka ni kama yanavyoonyeshwa katika ukurasa wa 39

MGAO

Wakurugenzi wanapendekeza malipo ya mgao wa faida ya shilingi 5.00 kwa kila hisa (2004 - shilingi 4.00 kwa kila hisa).

TOLEO LA ZIADA

Wakurugenzi hawapendekezi kutolewa kwa hisa za ziada.

AKIBA

Mwenendo wa akiba ya Kundi ni kama unavyoonyeshwa katika ukurasa wa 42 wa ripoti hii ya kifedha

UKURUGENZI

Benki iko na wakurugenzi 16 ambao 13 ni wawakilishi wa mfumo wa vyama vya ushirika, 2 wawakilishi wa serikali na Murugenzi Mkuu. Bodi ina jukumu la sera ya kufanya maamuzi kwa mujibu wa sheria za Benki. Hukutana mara kwa mara kuamua maswala ya utoaji mikopo na kuamua utaratibu wa utenda kazi wa halmashauri. Wakurugenzi waliokuweco katika kipindi cha mwaka tunaozungumzia wamechapishwa ukurasa wa 2.

WAFANYAKAZI

Benki imeweka pamoja timu ya wasimamizi ambao madhumuni yao ni kupanga mifumo ya kufuatwa na wafanyikazi. Uwiano wa shughuli hizi unaleta utenda kazi bora wa Benki. Sisi bado tunaendelea kubuni mandhari ambayo yanavutia na kuwahifadhi wafanyikazi wenye ujuzi wenye motisha ya kuhudumia wateja wetu kwa njia sawa.

ripoti ya wakurugenzi MWAKA ULIOMALIZIKA 31 DISEMBA 2005

MATAWI

Benki ina matawi 35 na maajenti 3, ambayo yametapakaa kote nchini, mkusanyiko mkubwa ukiwa zaidi katika maeneo yenye shughuli nyingi za kiuchumi.

KAMATI YA UKAGUZI HESABU

Hii ndiyo kamati ya Benki ya ukaguzi hesabu:-

J. Riungu - Mwenyekiti

Dr. J. Kahunyo

K. Mwangi

WAKAGUZI WA HESABU

Wakaguzi wa hesabu, Ernst & Young, wameeleza kukubali kwao kuendelea kuhudumu kwa mujibu wa sheria Sehemu 25(3) ya sheria za Vyama vya Ushirika. Wakurugenzi wanawapendekeza wachaguliwe tena kwa kutegemea kutolewa ruhusa na Benki Kuu ya Kenya chini ya sehemu 24(1) ya Sheria za mabanki.

Kwa amri ya Bodi

Gideon Muriuki, OGW
Mkurugenzi Mkuu

Machi 22, 2006

board of management



Mr. G. M. Muriuki, OGW
Managing Director



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



Mr. Z. Chianda
General Manager
Corporate & Institutional Banking



Mr. P. Munyiri
General Manager
Retail Banking



Mrs. R. Githaiga
Company Secretary



Mr. S. G. Mutungi
General Manager,
Operations

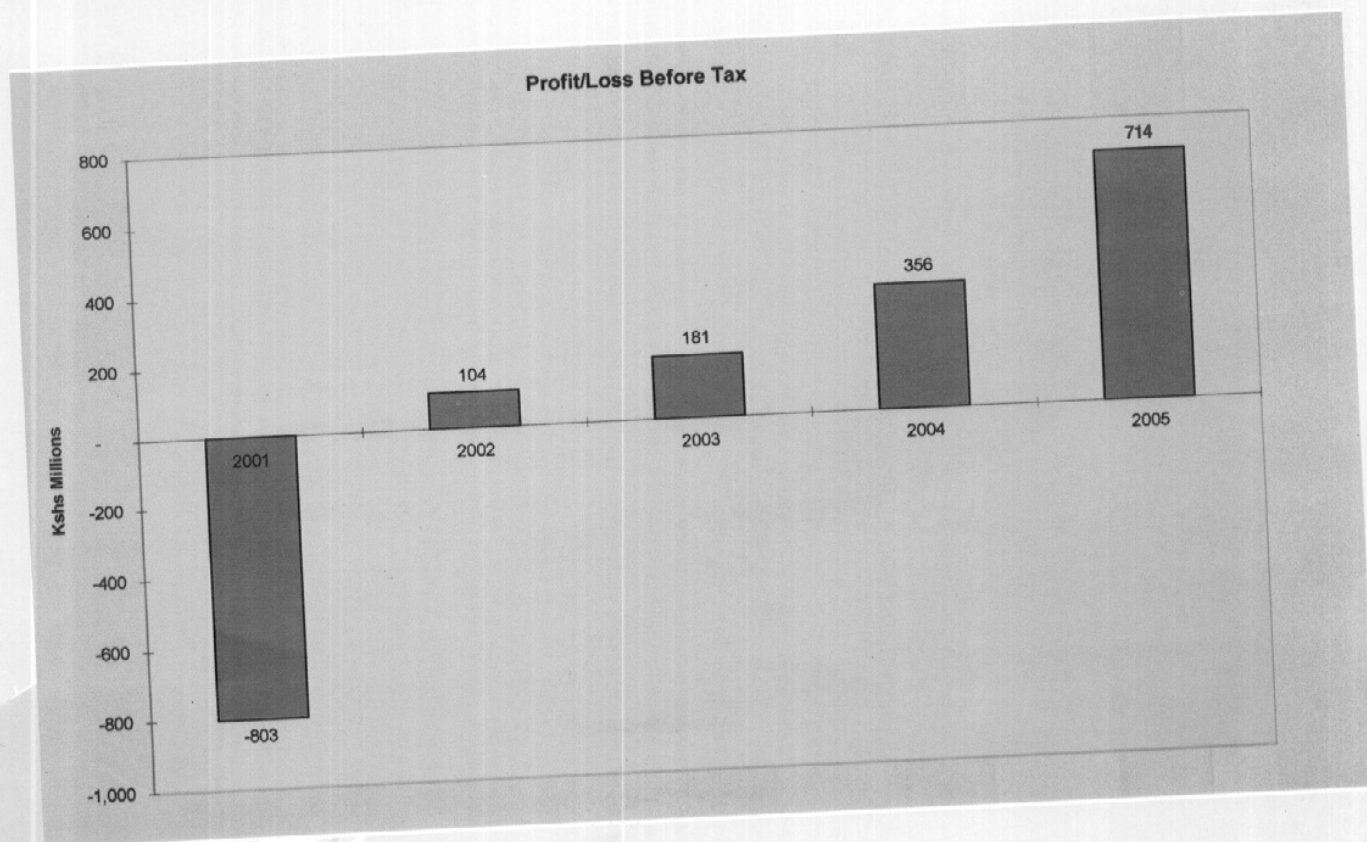
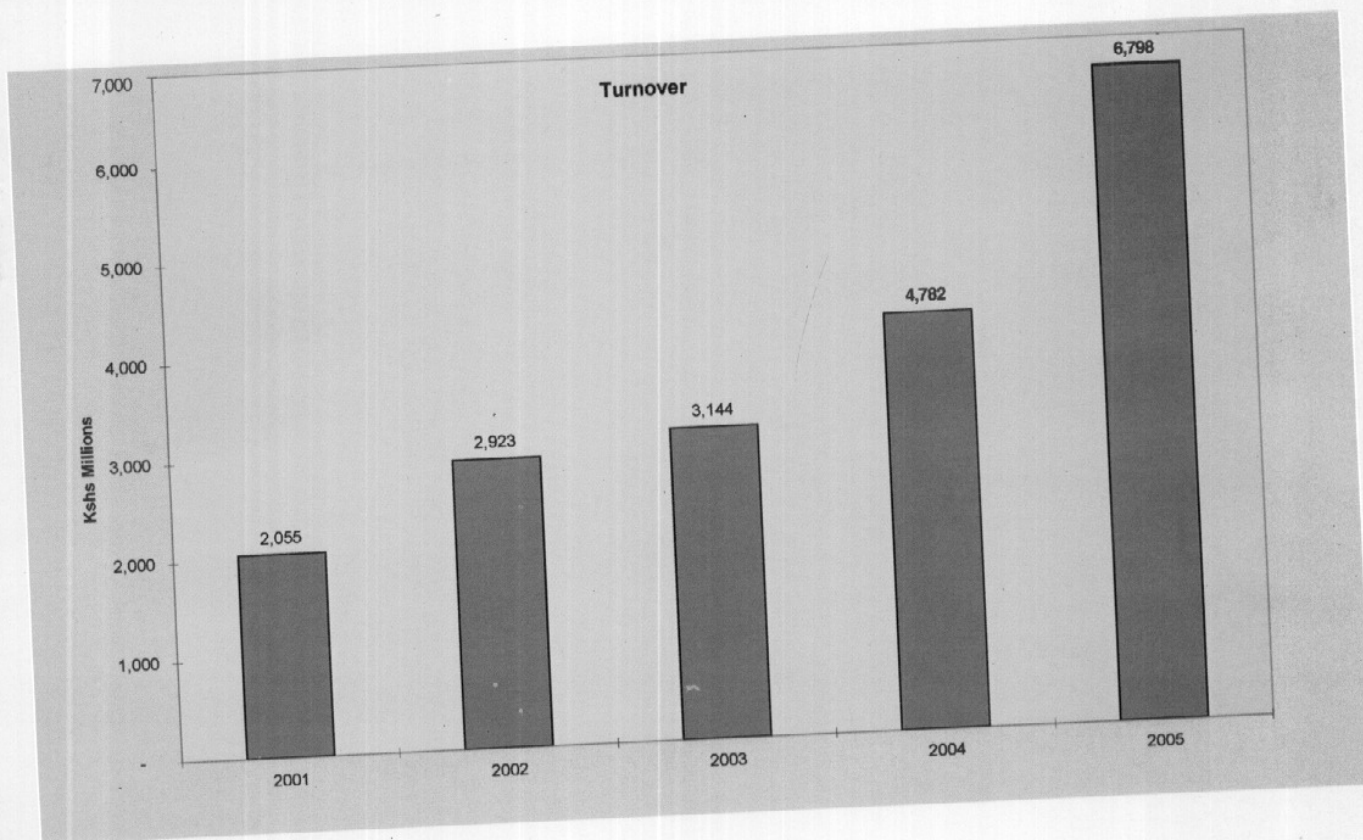


Mr. T. Kabiru
Treasurer

five year group review

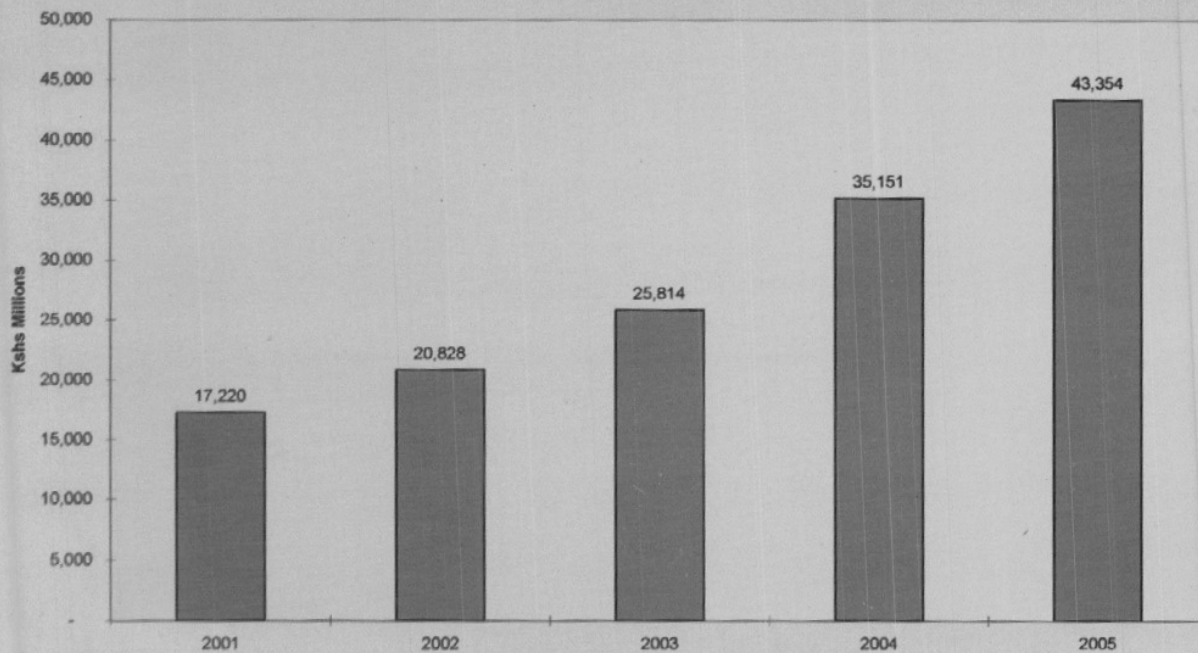
	2001 Shs million	2002 Shs million	2003 Shs million	2004 Shs million	2005 Shs million
Operating income	2,055	2,924	3,145	4,214	5,299
Operating expenses	(2,011)	(2,408)	(2,499)	(2,971)	(3,421)
Provision for Impaired loans	(847)	(411)	(464)	(886)	(1,164)
Profit(Loss) before tax	(803)	104	181	356	714
Net profit(Loss)	(651)	278	155	205	446
Loans and advances to customers (gross)	23,304	28,075	29,790	40,498	44,665
Provision for impaired loans	(8,503)	(10,179)	(11,695)	(13,489)	(15,459)
Cash and short term funds	3,073	3,528	3,584	6,344	6,421
Government securities	1,815	3,066	5,258	7,449	11,269
Property and Equipment	2,496	2,502	2,340	2,341	2,556
Other assets	1,415	1,965	3,117	3,291	2,378
Total assets	23,600	28,957	32,394	46,434	51,830
Customer deposits	17,220	20,828	25,814	35,151	43,354
Other liabilities	4,766	5,523	4,444	7,889	4,409
Total liabilities	21,986	26,351	30,258	43,040	47,763
Net Assets	1,614	2,606	2,136	3,394	4,067
Shareholders funds	1,614	2,606	2,136	3,394	4,067
Performance ratios					
Return on capital employed	-40%	11%	7%	6%	11%
Return on assets	-3%	1%	0.5%	0.4%	0.9%
Provision charge/ advances	-4%	-1%	-2%	-2%	-3%
Balance sheet ratios					
Gross advances to deposits (%) -own funds	98%	118%	101%	104%	95%
Liquidity ratio	21.77%	20.65%	31.30%	27.40%	35.70%
Others					
Staff numbers	885	947	1,083	1,172	1,381

five year group review (cont)

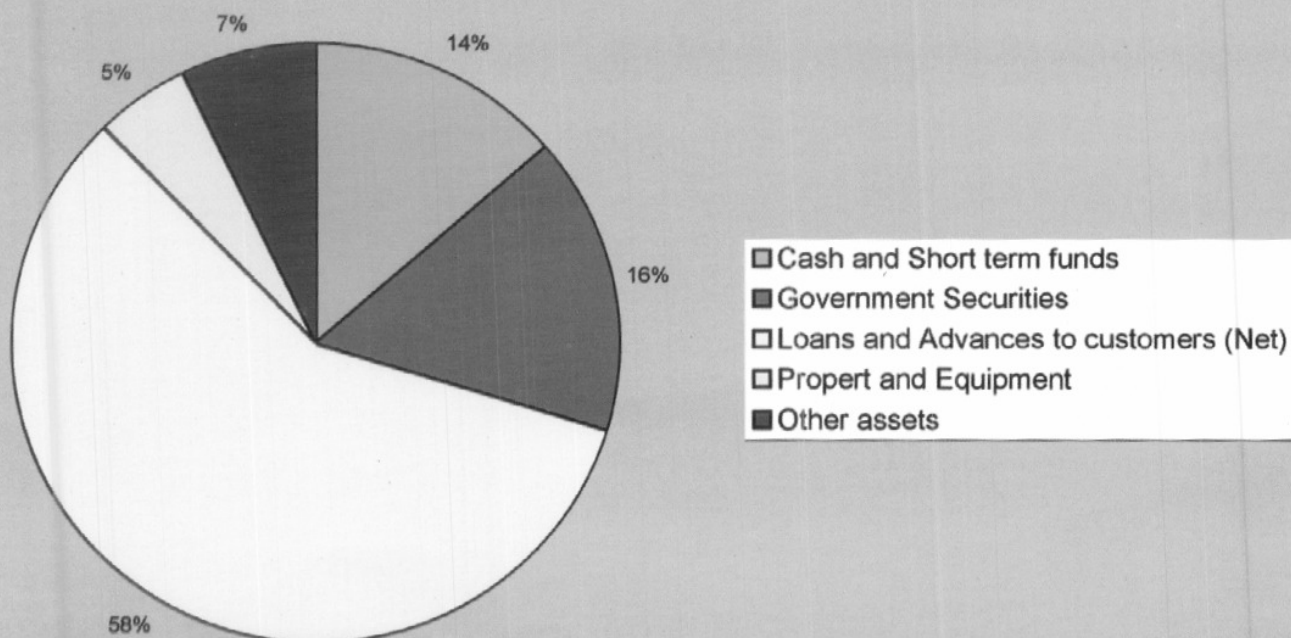


five year group review (cont)

Customer Deposits



Distribution of Assets - 2004



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five year group review (cont)

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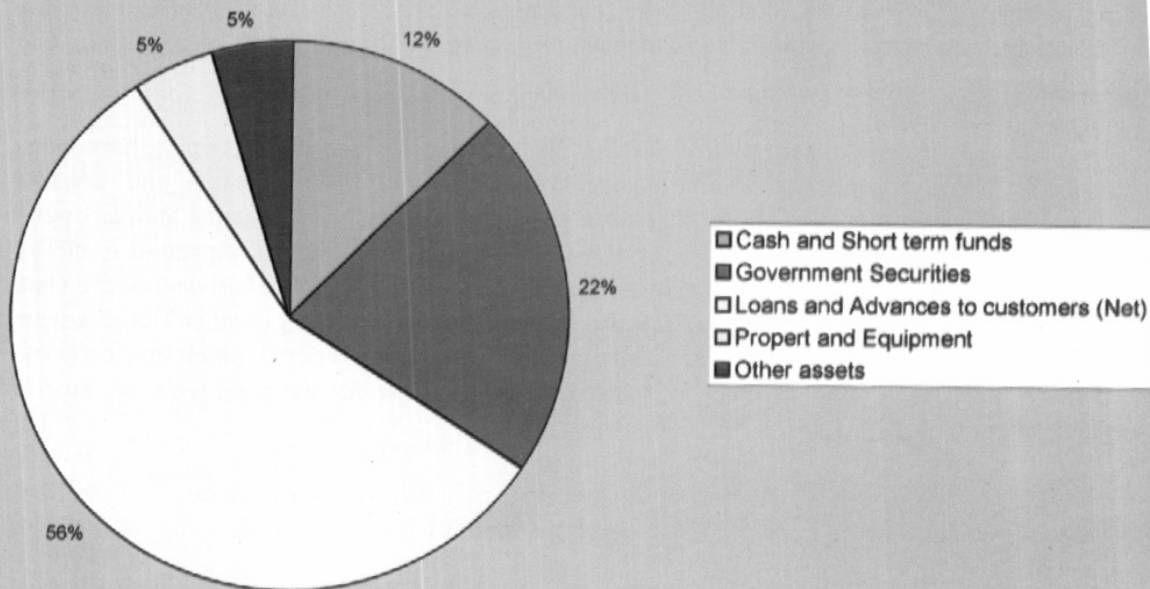
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Distribution of Assets-2005



consolidated balance sheet

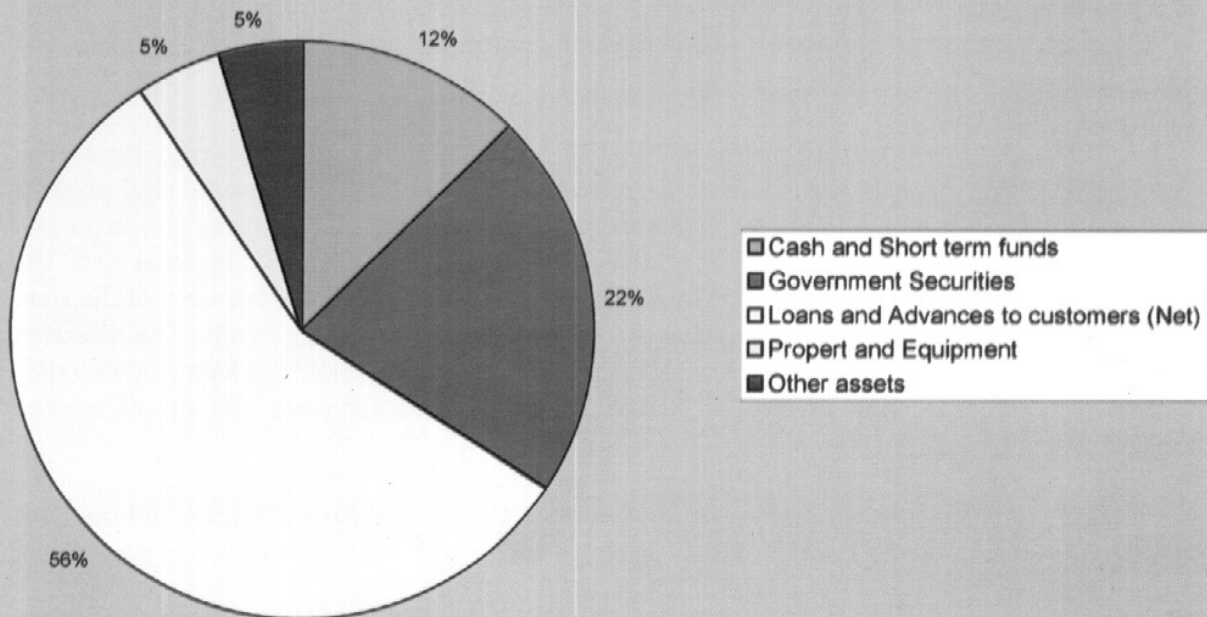
	Note	2005 KShs'000	2004 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	2	4,586,617	3,727,180
Deposits and balances due from other banking institutions	3	1,833,842	2,616,820
Trading investments	4	3,030,813	4,117,643
Non trading investments	6	8,317,075	3,412,397
Advances to customers(net)	7	29,088,569	27,008,715
Tax recoverable	8(b)	-	9,969
Other assets	9	2,009,073	2,526,186
Intangible assets	10	137,827	153,001
Prepaid lease rental	11	43,196	43,912
Property and equipment	12(a)	2,556,410	2,340,827
Deferred tax	13	226,256	477,283
TOTAL ASSETS		51,829,678	46,433,933
LIABILITIES			
Deposits and balances due to banks	14	740,287	4,304,547
Customer deposits	15(a)	43,354,127	35,151,287
Loans	16	1,918,161	1,918,161
Other borrowings	17	-	235,500
Tax payable	8(b)	1,658	-
Other liabilities	18	1,748,835	1,430,392
Total Liabilities		47,763,068	43,039,887
EQUITY			
Share capital	19	2,618,977	2,285,048
Reserves		598,836	271,531
Grants	21	717,848	746,065
Proposed dividends	22	130,949	91,402
TOTAL EQUITY		4,066,610	3,394,046
TOTAL LIABILITIES & EQUITY		51,829,678	46,433,933

The financial statements were approved by the Board of Directors on March 22, 2006 and signed on its behalf by: -

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

five year group review (cont)

Distribution of Assets-2005



statement of directors responsibilities

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Co-operative Societies and the Kenyan Companies Acts. 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)
S. C. Muchiri
Chairman

(Signed)
J. Riungu
Vice Chairman

(Signed)
G. M. Muriuki, OGW
Managing Director

(Signed)
R. Githaiga(Mrs)
Company Secretary

March 22, 2006

report of the independent auditors to the members of the co-operative bank of kenya

We have audited the financial statements on pages 38 to 70 for the year ended 31 December 2005, which have been prepared on the basis of the accounting policies set out on pages 44 to 46. 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 36, 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 of 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 2005 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 Kenyan Companies Act and International Financial Reporting Standards.

 **ERNST & YOUNG**

Ernst & Young
Certified Public Accountants
NAIROBI

March 22, 2006

consolidated balance sheet

	Note	2005 KShs'000	2004 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	2	4,586,617	3,727,180
Deposits and balances due from other banking institutions	3	1,833,842	2,616,820
Trading investments	4	3,030,813	4,117,643
Non trading investments	6	8,317,075	3,412,397
Advances to customers(net)	7	29,088,569	27,008,715
Tax recoverable	8(b)	-	9,969
Other assets	9	2,009,073	2,526,186
Intangible assets	10	137,827	153,001
Prepaid lease rental	11	43,196	43,912
Property and equipment	12(a)	2,556,410	2,340,827
Deferred tax	13	226,256	477,283
TOTAL ASSETS		51,829,678	46,433,933
LIABILITIES			
Deposits and balances due to banks	14	740,287	4,304,547
Customer deposits	15(a)	43,354,127	35,151,287
Loans	16	1,918,161	1,918,161
Other borrowings	17	-	235,500
Tax payable	8(b)	1,658	-
Other liabilities	18	1,748,835	1,430,392
Total Liabilities		47,763,068	43,039,887
EQUITY			
Share capital	19	2,618,977	2,285,048
Reserves		598,836	271,531
Grants	21	717,848	746,065
Proposed dividends	22	130,949	91,402
TOTAL EQUITY		4,066,610	3,394,046
TOTAL LIABILITIES & EQUITY		51,829,678	46,433,933

The financial statements were approved by the Board of Directors on March 22, 2006 and signed on its behalf by: -

S.C. Muchiri, EBS

Chairman

J. Riungu

Vice Chairman

G.M. Muriuki, OGW

Managing Director

R. M. Githaiga (Mrs.)

Company Secretary

consolidated income statements

	Note	2005 KShs'000	2004 KShs'000
Interest income	23	4,241,389	2,756,114
Interest expense	24	1,498,820	568,494
Net interest income		2,742,569	2,187,620
Commissions		2,124,093	1,875,133
Foreign exchange gain		196,713	135,686
Net gains from disposal of investments		1,806	17,371
Changes in fair value of investments		(65,304)	(133,151)
Armortisation of Capital Grants		28,217	25,761
Other income	25	270,689	104,878
OPERATING INCOME		5,298,783	4,213,298
Operating expenses:-			
Provision for impairment of			
Loans and Advances	7c (i) & (ii)	1,163,557	886,499
Other Operating expenses	26	3,421,225	2,970,502
OPERATING EXPENSES		4,584,782	3,857,001
PROFIT BEFORE TAXATION	27	714,001	356,297
TAX CHARGE	8(a)	(267,867)	(151,420)
PROFIT FOR THE YEAR		446,134	204,877
Earnings per share(Kshs)	28	27.36	14.36

bank balance sheet

	Note	2005 KShs'000	2004 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	2	4,586,617	3,727,180
Deposits and balances due from other banking institutions	3	1,833,842	2,616,820
Trading investments	4	3,030,175	4,115,547
Amount due from subsidiary companies	5(a)	3,755	1,302
Non trading investments	6	8,375,994	3,462,037
Advances to customers(net)	7	29,088,569	27,008,715
Tax recoverable	8(b)	-	11,055
Other assets	9	1,953,787	2,505,820
Intangible assets	10	137,827	151,976
Prepaid lease rental	11	43,196	43,912
Property and equipment	12(b)	2,555,156	2,339,828
Deferred tax	13	225,816	476,952
TOTAL ASSETS		51,834,734	46,461,144
LIABILITIES			
Deposits and balances due to banking institutions	14	740,287	4,304,547
Other customer deposits	15(a)	43,369,814	35,181,866
Loans	16	1,918,161	1,918,161
Other borrowings	17	-	235,500
Amount due to subsidiary companies	5(b)	-	2,932
Tax payable	8(b)	2,124	-
Other liabilities	18	1,747,518	1,427,696
TOTAL LIABILITIES		47,777,904	43,070,702
EQUITY			
Share capital	19	2,618,977	2,285,048
Reserves	20	589,056	267,927
Grants	21	717,848	746,065
Proposed dividends	22	130,949	91,402
TOTAL EQUITY		4,056,830	3,390,442
TOTAL LIABILITIES & EQUITY		51,834,734	46,461,144

The financial statements were approved by the Board of Directors on March 22, 2006 and signed on its behalf by:-

S. C. Muchiri, EBS

Chairman

J. Riungu

Vice Chairman

G. M. Muriuki, OGW

Managing Director

R. M. Githaiga (Mrs)

Company Secretary

bank income statement

	Note	2005 KShs'000	2004 KShs'000
ASSETS			
Interest income	23	4,240,041	2,749,906
Interest expense	24	<u>1,498,820</u>	<u>568,494</u>
Net Interest Income		2,741,221	2,181,412
Commissions		2,088,474	1,845,389
Foreign exchange gain		196,713	135,686
Net (losses)/ gains from disposal of investments		(1,139)	15,598
Changes in fair value of investments		(65,304)	(133,158)
Amortisation of capital grants		28,217	25,761
Other income	25	<u>270,689</u>	<u>104,583</u>
OPERATING INCOME		<u>5,258,871</u>	<u>4,175,271</u>
Provision for bad and doubtful debts	7c (i) & (ii)	1,163,557	886,499
Other operating expenses	26	<u>3,389,669</u>	<u>2,935,205</u>
OPERATING EXPENSES		<u>4,553,226</u>	<u>3,821,704</u>
PROFIT BEFORE TAXATION	27	705,645	353,567
TAX CHARGE	8(a)	<u>(265,685)</u>	<u>(146,958)</u>
PROFIT FOR THE YEAR		<u>439,960</u>	<u>206,609</u>
Earnings per share (KShs)	28	<u>27.04</u>	<u>14.48</u>

consolidated statement of changes in equity

	Share capital	Capital reserve	General reserve	Share transfer fund	Share fractions	Revenue reserves	TOTAL
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Balance at 1 January 2004	1,211,566	318,935	3,100	534	63	(190,886)	1,343,312
Realisation of revaluation surplus	-	(4,368)	-	-	-	4,368	-
Net movement in revenue grants for the year	-	-	-	-	-	25,012	25,012
Deferred tax	-	1,310	-	-	-	-	1,310
Issue of share	1,073,482	-	-	-	-	-	1,073,482
Net transfer of shares	-	-	-	(12)	-	-	(12)
Profit for the year	-	-	-	-	-	204,877	204,877
Proposed dividends	-	-	-	-	-	(91,402)	(91,402)
Balance at 31 December 2004	2,285,048	315,877	3,100	522	63	(48,031)	2,556,579
Balance at 1 January 2005	2,285,048	315,877	3,100	522	63	(48,031)	2,556,579
Realisation of revaluation surplus	-	(4,368)	-	-	-	4,368	-
Net movement in revenue grants for the year	-	-	-	-	-	10,806	10,806
Deferred tax	-	1,310	-	-	-	-	1,310
Issue of share	333,929	-	-	-	4	-	333,933
Net transfer of shares	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	446,134	446,134
Proposed dividends	-	-	-	-	-	(130,949)	(130,949)
Balance at 31 December 2005	2,618,977	312,819	3,100	522	67	283,328	3,217,813

consolidated cashflow statement

	2005 KShs'000	2004 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES:-		
Profit before taxation	714,001	356,297
Adjustments for:		
Depreciation	325,945	276,043
Amortisation of prepaid lease rentals	717	717
Provision for diminution in value of investment	1,400	1,400
Amortisation of intangible assets	83,363	71,426
Amortisation of capital grants	(28,217)	(25,761)
Gain on sale of fixed assets	(2,131)	(7,562)
Foreign exchange gain	(196,713)	(135,686)
Unrealised gain on re-measurement of investments	30,016	15,878
Changes in fair value of investments	36,977	133,158
Dividend income	(116)	(110)
Cash flows from operating activities before working capital changes	965,242	685,800
Advances to customers	(2,079,855)	(8,914,237)
Other assets	1,149,892	(4,066,838)
Deposits from customers	8,172,261	9,336,990
Deposits from Banking Institutions	(3,564,260)	2,967,894
Other liabilities	(318,443)	241,035
Central Bank of Kenya Cash Ratio	(464,073)	(520,129)
Trading Investments	269,866	1,007,517
Non-Trading Investments	177,900	-
Cash generated by operating activities	4,308,530	738,032
Tax paid	(3,902)	-
Net cash flow from operating activities	4,304,628	738,032
CASH FLOWS FROM INVESTING ACTIVITIES:-		
Purchase of Property & Equipment	(548,525)	(280,663)
Purchase of software	(65,452)	(99,695)
Proceeds from disposal of Property & Equipment	4,336	10,001
Dividends received	116	-
Dividends paid	(91,402)	(36,347)
Net cash flow from investing activities:-	(700,927)	(406,704)
CASH FLOWS FROM FINANCING ACTIVITIES:-		
Proceeds on issue of share capital	333,930	1,073,520
Proceeds from grants	-	25,012
Proceeds from loans	(235,500)	235,500
Share transfer fund	-	(12)
Share fractions	4	-
Net cash flow from financing activities	98,434	1,334,020
Net movement in cash and cash equivalents	3,702,135	1,665,348
Cash and cash equivalents at the beginning of the year	4,300,648	2,499,614
Foreign exchange gain	196,713	135,686
Cash and cash equivalents at the end of the year (note 29)	8,199,496	4,300,648

notes to the financial statements

I. ACCOUNTING POLICIES

a) Basis of preparation

The consolidated financial statements are prepared under the historical cost convention as modified by the measurement at fair value of trading 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 the shareholder's right to receive payment is established. Fee and commission income arises on financial services provided by the Bank. Fee and commission income is recognised on accrual basis.

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 income statement on a straight-line basis over the period of the lease.

e) Intangible assets and amortisation

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

notes to the financial statements (cont)

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, based on the net present value of future anticipated cash flows including anticipated recoveries from guarantees and collateral, discounted at effective interest rates, recognised in the statement of income.

A general provision is made at the rate of 1% of loans and advances classified under normal and watch categories as per the Central Bank Kenya prudential guidelines.

- 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.

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 initially recognised at cost are 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 dealt with in the income statement.

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-op Trust Investment Services Limited and Co-operative Consultancy Services Limited, both wholly owned subsidiaries of the Bank, have been incorporated in the group financial statements.

notes to the financial statements (cont)

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.

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 deferred and utilised in the reduction of the carrying amounts of the related assets over 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 and balances due from banking institutions.

o) **Repurchase agreement transactions**

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continued to be recognised in the balance sheet and are measured in accordance with accounting policies for non-trading investments.

The liability for amounts under these agreements is included in due to banks and balances with Central Bank of Kenya. The difference between sale and repurchase price is treated as interest expense using the effective yield method.

notes to the financial statements (cont)

2. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	GROUP		BANK	
	2005	2004	2005	2004
	KShs'000	KShs'000	KShs'000	KShs'000
Cash on hand	1,372,319	983,963	1,372,319	983,963
Central Bank of Kenya	3,214,298	2,743,217	3,214,298	2,743,217
	<u>4,586,617</u>	<u>3,727,180</u>	<u>4,586,617</u>	<u>3,727,180</u>

3. DEPOSITS AND BALANCES DUE FROM BANKS

	GROUP		BANK	
	2005	2004	2005	2004
	KShs'000	KShs'000	KShs'000	KShs'000
Commercial banks	788,889	1,766,948	788,889	1,766,948
Foreign banks	1,044,953	849,872	1,044,953	849,872
	<u>1,833,842</u>	<u>2,616,820</u>	<u>1,833,842</u>	<u>2,616,820</u>

4. TRADING INVESTMENTS

	GROUP		BANK	
	2005	2004	2005	2004
	KShs'000	KShs'000	KShs'000	KShs'000
Treasury bonds maturing within 91 days of the balance sheet date	200,000	200,000	200,000	200,000
Treasury bonds maturing after 91 days of the balance sheet date	2,830,813	3,917,643	2,830,175	3,915,547
	<u>3,030,813</u>	<u>4,117,643</u>	<u>3,030,175</u>	<u>4,115,547</u>

5(a) AMOUNTS DUE FROM SUBSIDIARY COMPANIES

	BANK	
	2005	2004
	KShs'000	KShs'000
Co-op Trust Investments Services Limited	3,755	1,302
Co-operative Consultancy Services Limited	<u>3,755</u>	<u>1,302</u>

Interest is not charged on amounts from group companies

notes to the financial statements (cont)

5(b) AMOUNTS DUE TO SUBSIDIARY COMPANIES

	BANK	
	2005 KShs'000	2004 KShs'000
Co-op Trust Investment Services Limited-	-	-
Co-op Consultancy Services Limited	-	2,932
	<u>-</u>	<u>2,932</u>

6. NON TRADING INVESTMENTS

	GROUP		BANK	
	2005 KShs'000	2004 KShs'000	2005 KShs'000	2004 KShs'000
a)Held to maturity investments				
Government treasury bills	4,216,178	19,784	4,216,178	19,784
Treasury bonds maturing within 91 days of the balance sheet date	89,983	150	89,983	150
Treasury bonds maturing after 91 days of the balance sheet date	3,931,415	3,311,564	3,930,334	3,311,204
	<u>8,237,576</u>	<u>3,331,498</u>	<u>8,236,495</u>	<u>3,331,138</u>

b)Unquoted investments

i)Investment in subsidiaries:- Ownership

Co-operative House Ltd 100% 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%	-	-	40,000	30,000
Co-op Trust Investment Services Ltd 100%	-	-	20,000	20,000
	<u>40,000</u>	<u>40,000</u>	<u>100,000</u>	<u>90,000</u>

notes to the financial statements (cont)

	GROUP		BANK	
	2005 KShs'000	2004 KShs'000	2005 KShs'000	2004 KShs'000
ii) Available for sale equity shares				
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
	<u>45,099</u>	<u>45,099</u>	<u>45,099</u>	<u>45,099</u>
Less provision for diminution in value of investment in Consolidated Bank of Kenya Ltd	<u>(5,600)</u>	<u>(4,200)</u>	<u>(5,600)</u>	<u>(4,200)</u>
	<u>39,499</u>	<u>40,899</u>	<u>39,499</u>	<u>40,899</u>
Total equity investments	<u>79,499</u>	<u>80,899</u>	<u>139,499</u>	<u>130,899</u>
Total non trading investments	<u>8,317,075</u>	<u>3,412,397</u>	<u>8,375,994</u>	<u>3,462,037</u>

The weighted average effective interest rate on held to maturity investments as at 31 December 2005 was 8.1% (2004-7.57%)

notes to the financial statements (cont)

6 NON TRADING INVESTMENTS (continued)

- iii) Co-operative House Limited is a non-trading, wholly owned subsidiary of the Bank. Co-operative, Consultancy Services Limited and Co-opTrust Investment Services Limited are wholly owned subsidiaries.

Included under available for sale investments are unquoted equity investments, which are carried at cost amounting to KShs 39.5 million due to lack of comparable quoted investment 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 Government securities are intended to be held to maturity and are carried at amortised cost. Discount or premium on these securities is amortised on a pro rata basis.

7 LOANS AND ADVANCES TO CUSTOMERS

	GROUP		BANK	
	2005 KShs'000	2004 KShs'000	2005 KShs'000	2004 KShs'000
Overdrafts	2,611,361	2,315,851	2,611,361	2,315,851
Commercial Loans	38,110,985	33,771,819	38,110,985	33,771,819
Government/Donor funded loan schemes	2,709,142	3,156,469	2,709,142	3,156,469
Credit card balances	669,071	833,054	669,071	833,054
Micro enterprises	447,304	420,579	447,304	420,579
a) Gross loans and advances	44,547,863	40,497,772	44,547,863	40,497,772
Provision for impairment of loans and advances (note 7c)	(15,459,294)	(13,489,057)	(15,459,294)	(13,489,057)
Net loans and advances	29,088,569	27,008,715	29,088,569	27,008,715
b) Sectoral analysis:-				
Agriculture	7,740,361	10,177,228	7,740,361	10,177,228
Manufacturing	158,557	125,329	158,557	125,329
Construction	8,866,938	2,399,200	8,866,938	2,399,200
Service	13,502,082	13,389,214	13,502,082	13,389,214
Other	14,279,925	14,406,801	14,279,925	14,406,801
	44,547,863	40,497,772	44,547,863	40,497,772

notes to the financial statements (cont)

c) Provision for impairment of loans and advances

	GROUP		BANK	
	2005 KShs'000	2004 KShs'000	2005 KShs'000	2004 KShs'000
(i) Specific provisions:				
Balance at the beginning of the year	12,969,446	11,515,866	12,969,446	11,515,866
Specific provisions made during the year	1,163,557	546,114	1,163,557	546,114
Interest not recognised as income	996,642	933,745	996,642	933,745
Specific provisions written back	(55,052)	(26,279)	(55,052)	(26,279)
	<u>15,074,593</u>	<u>12,969,446</u>	<u>15,074,593</u>	<u>12,969,446</u>
(ii) General Provisions:				
Balance at the beginning of the year	519,611	179,226	519,611	179,226
Provisions made during the year	-	340,385	-	340,385
General provisions written back	(134,910)	-	(134,910)	-
	<u>384,701</u>	<u>519,611</u>	<u>384,701</u>	<u>519,611</u>
	<u>15,459,294</u>	<u>13,489,057</u>	<u>15,459,294</u>	<u>13,489,057</u>

d) The Bank continues to carry classified doubtful debts and delinquent accounts on its books even after making allowances for impairment in accordance with IAS 39. Interest is accrued on these accounts for contractual/litigation purposes only and accordingly not taken to income. The value of such accounts/loans at year end was KShs 13.25 billion (2004 KShs. 12.935 billion).

e) The weighted average effective interest rate at 31 December 2005 on loans and advances was 10.37% (2004 – 13.24%)

notes to the financial statements (cont)

8. TAXATION

	GROUP		BANK	
	2005 KShs'000	2004 KShs'000	2005 KShs'000	2004 KShs'000
a) Income statement:-				
Current tax at 30% (2004 - 30%) on the taxable profit for the year	15,529	9,231	13,238	6,862
Under-provision in previous years	-	37,650	-	37,650
Deferred tax	252,338	104,539	252,447	102,446
Tax charge	267,867	151,420	265,685	146,958
b) Balance sheet:-				
Balance brought forward	(9,969)	(54,968)	(11,055)	(55,567)
Charge for the year	15,529	9,231	13,238	6,862
Under-provision in previous years	-	37,650	-	37,650
Paid during the year	(3,902)	(1,882)	(59)	-
	1,658	(9,969)	2,124	(11,055)
c) Reconciliation of taxation expense to tax based on accounting profit:-				
Accounting profit	714,001	356,297	705,645	353,567
Tax applicable rate of 30 % (2004- 30%)	214,200	106,889	211,694	106,070
Under-provision in previous years	-	37,650	-	37,650
Tax effect of items not eligible for tax	53,667	6,881	53,991	3,238
	267,867	151,420	265,685	146,958

notes to the financial statements (cont)

CMA-LIBRARY

9. OTHER ASSETS

	GROUP		BANK	
	2005 KShs'000	2004 KShs'000	2005 KShs'000	2004 KShs'000
Interest receivable	235,960	262,272	235,960	262,272
Deposits with default financial institutions	43,052	43,052	43,052	43,052
Deferred clearing	1,196,747	1,786,287	1,196,747	1,786,287
Sundry debtors and prepayments	576,366	477,627	521,080	457,261
	<u>2,052,125</u>	<u>2,569,238</u>	<u>1,996,839</u>	<u>2,548,872</u>
Provision for deposits with default financial institutions	(43,052)	(43,052)	(43,052)	(43,052)
	<u>2,009,073</u>	<u>2,526,186</u>	<u>1,953,787</u>	<u>2,505,820</u>

10. INTANGIBLE ASSETS

	GROUP		BANK	
	2005 KShs'000	2004 KShs'000	2005 KShs'000	2004 KShs'000
Software in use by the group companies				
Cost at 1 January	357,127	257,433	341,665	241,970
Transfers	4,560	-	4,560	-
Additions	65,452	99,695	65,452	99,695
	<u>427,139</u>	<u>357,128</u>	<u>411,677</u>	<u>341,665</u>
At 31 December				
Accumulated amortisation				
1 January	204,127	132,701	189,689	121,356
Transfers	1,824	-	1,824	-
Amortisation for the year	83,361	71,426	82,337	68,333
Accumulated amortisation at 31 December	<u>289,312</u>	<u>204,127</u>	<u>273,850</u>	<u>189,689</u>
Net book value at 31 December	<u>137,827</u>	<u>153,001</u>	<u>137,827</u>	<u>151,976</u>

notes to the financial statements (cont)

11. PREPAID LEASE RENTALS

	GROUP	BANK
	2005 KShs'000	2004 KShs'000
Cost		
At 1 January and 31 December	55,568	55,568
Amortisation:		
At 1 January	(11,656)	(10,939)
Charge for the year	(716)	(717)
At 31 December	(12,372)	(11,656)
Net book value at 31 December	43,196	43,912

Prepaid lease rentals relate to the cost of leasehold land.

notes to the financial statements (cont)

12 (a) PROPERTY AND EQUIPMENT-GROUP

	Freehold Land & building KShs'000	Capital work in progress KShs'000	Office machinery KShs'000	Furniture & equipment KShs'000	Motor vehicles KShs'000	Fixtures KShs'000	Computers KShs'000	Total KShs'000
COST/VALUATION								
At 1 January 2005	1,759,087	274,101	54,850	409,402	117,000	410,206	1,239,235	4,263,881
Additions	-	237,930	10,336	72,061	18,900	4,688	204,613	548,528
Disposals	-	-	-	(2,108)	(17,904)	-	(12,142)	(32,154)
Transfers	-	(286,540)	-	-	-	300,039	(18,059)	(4,560)
Write offs	-	-	-	-	(1,127)	-	(952)	(2,079)
At 31 December 2005	1,759,087	225,491	65,186	479,355	116,869	714,933	1,412,695	4,773,616
Comprising:								
Cost	1,287,912	225,491	65,186	479,355	116,869	714,933	1,412,695	4,302,441
Valuation	471,175	-	-	-	-	-	-	471,175
	1,759,087	225,491	65,186	479,355	116,869	714,933	1,412,695	4,773,616
DEPRECIATION								
At 1 January 2005	160,762	-	39,702	352,604	84,565	357,984	927,437	1,923,054
Charge for the year	42,567	-	7,321	31,773	17,154	55,081	172,049	325,945
Disposals	-	-	-	(1,821)	(16,274)	-	(11,874)	(29,969)
Transfers	-	-	-	-	-	-	(1,824)	(1,824)
At 31 December 2005	203,329	-	47,023	382,556	85,445	413,065	1,085,788	2,217,206
NET BOOK VALUE								
At 31 December 2005	1,555,758	225,491	18,163	96,799	31,424	301,868	326,907	2,556,410
At 31 December 2004	1,598,325	274,101	15,148	56,798	32,435	52,222	311,798	2,340,827

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 20).

iii Freehold land and buildings include an amount of KShs. 55,426,467 (2004-KShs 45,701,993) against which no depreciation has been charged, as these are not in use.

notes to the financial statements (cont)

iv. 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.

v. No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs 1,208,945,160 (2004-KShs.979,266,831), 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.221,217,971 (2004-KShs.183,236,473). Included in these fully depreciated assets is KShs 4,156,602 representing idle assets in the process of being disposed.

12 (b) PROPERTY AND EQUIPMENT-BANK

	Freehold land & building KShs'000	Capital work in progress KShs'000	Office machinery KShs'000	Furniture & equipment KShs'000	Motor vehicles KShs'000	Fixtures KShs'000	Computers KShs'000	Total KShs'000
COST/VALUATION								
At 1 January 2005	1,759,087	274,101	54,851	408,844	117,002	410,206	1,237,893	4,261,984
Additions	-	237,930	10,334	71,580	18,900	4,688	204,362	547,794
Disposals	-	-	-	(2,108)	(17,904)	-	(12,142)	(32,154)
Transfers	-	(286,540)	-	-	-	300,039	(18,059)	(4,560)
Write offs	-	-	-	-	(1,127)	-	(952)	(2,079)
At 31 December 2005	1,759,087	225,491	65,185	478,316	116,871	714,933	1,411,102	4,770,985
Comprising:								
Cost	1,287,912	225,491	65,185	478,316	116,871	714,933	1,411,102	4,299,810
Valuation	471,175	-	-	-	-	-	-	471,175
	1,759,087	225,491	65,185	478,316	116,871	714,933	1,411,102	4,770,985
DEPRECIATION								
At 1 January 2005	160,762	-	39,703	352,240	84,565	357,984	926,902	1,922,156
Charge for the year	42,567	-	7,320	31,613	17,154	55,081	171,731	325,466
Disposals	-	-	-	- (1,821)	(16,274)	-	(11,874)	(29,969)
Transfers/write offs	-	-	-	-	-	-	(1,824)	(1,824)
At 31 December 2005	203,329	-	47,023	382,032	85,445	413,065	1,084,935	2,215,829
NET BOOK VALUE								
At 31 December 2005	1,555,758	225,491	18,162	96,284	31,426	301,868	326,167	2,555,156
At 31 December 2004	1,598,325	274,101	15,148	56,604	32,437	52,222	310,991	2,339,828

notes to the financial statements (cont)

13. DEFERRED TAX

Deferred tax movement and balances are analysed as follows:

	2005	Dealt with in income statement	Dealt with in equity	2004
	KShs'000	KShs'000	KShs'000	KShs'000
GROUP				
Tax losses carried forward	(129,016)	192,226	-	(321,242)
Loan losses disallowed for tax purposes	(115,410)	40,473	-	(155,883)
Revaluation surplus	122,780	-	(1,310)	124,090
Accelerated depreciation over wear and tear	(84,887)	33,898	-	(118,784)
Provisions and other deferred tax assets	(19,723)	(14,259)	-	(5,464)
Total	<u>(226,256)</u>	<u>252,338</u>	<u>(1,310)</u>	<u>(477,283)</u>
BANK				
Tax losses carried forward	(129,016)	192,226	-	(321,242)
Loan losses disallowed for tax purposes	(115,410)	40,473	-	(155,883)
Revaluation surplus	122,780	-	(1,310)	124,090
Accelerated depreciation over wear and tear	(84,426)	34,043	-	(118,468)
Provisions and other deferred tax assets	(19,744)	(14,295)	-	(5,449)
Total	<u>(225,816)</u>	<u>252,447</u>	<u>(1,310)</u>	<u>(476,952)</u>

14 DEPOSITS AND BALANCES DUE TO BANKS

	GROUP AND BANK	
	2005	2004
	Kshs'000	Kshs'000
Payable on demand	-	453,215
Payable within 30 days	62,311	445,068
Payable after 30 days but within 1 year	<u>677,976</u>	<u>3,406,264</u>
	<u>740,287</u>	<u>4,304,547</u>

notes to the financial statements (cont)

	GROUP		BANK	
	2005	2004	2005	2004
	KShs'000	KShs'000	KShs'000	KShs'000
15 CUSTOMER DEPOSITS				
a) Call deposits	3,596,283	2,552,452	3,596,283	2,552,452
Fixed deposits	14,224,464	11,592,239	14,224,464	11,592,239
Savings accounts	13,983,839	11,411,202	13,983,839	11,409,420
Current accounts	10,628,798	8,619,029	10,644,485	8,727,377
Foreign currency deposits	920,743	976,365	920,743	900,378
	<u>43,354,127</u>	<u>35,151,287</u>	<u>43,369,814</u>	<u>35,181,866</u>
b) From government and parastatals:-				
Payable on demand	1,929,621	1,460,567	1,929,621	1,460,567
Payable within 30 days	1,861,538	1,733,308	1,861,538	1,733,308
Payable after 30 days but within 1 year	6,176,472	3,715,536	6,176,472	3,715,536
	<u>9,967,631</u>	<u>6,909,411</u>	<u>9,967,631</u>	<u>6,909,411</u>
From private sector and individuals:-				
Payable on demand	9,310,723	7,168,594	9,326,410	7,199,173
Payable within 30 days	15,446,888	14,222,241	15,446,888	14,222,241
Payable after 30 days but within 1 year	8,628,885	6,851,041	8,628,885	6,851,041
	<u>33,386,496</u>	<u>28,241,876</u>	<u>33,402,183</u>	<u>28,272,455</u>
	<u>43,354,127</u>	<u>35,151,287</u>	<u>43,369,814</u>	<u>35,181,866</u>

Included in customers' deposits is an amount of KShs 1,270 million (2004 KShs 2,135 million) that have been pledged to the Bank by customers as security for loans and advances.

The weighted average effective interest rate on interest bearing customer deposits as at 31 December was 3.20% (2004 - 1.90%)

16. LOANS

	GROUP AND BANK	
	2005	2004
	KShs'000	KShs'000
Integrated 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

notes to the financial statements (cont)

16. LOANS

	GROUP AND BANK	
	2005	2004
	KShs'000	KShs'000
Smallholder Coffee Improvement:-		
• Project Phase I	291,678	291,678
• Project Phase II	1,348,514	1,348,514
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 Integrated Agricultural 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	24,500
	<u>1,918,161</u>	<u>1,918,161</u>
Repayable within one year	1,017,490	963,266
Repayable after one year	900,671	954,895
	<u>1,918,161</u>	<u>1,918,161</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 31 December 2005 was 8% (2004 - 8%).

17. OTHER BORROWINGS

This related to short term facility obtained from East African Development Bank to enable the Bank issue US dollar overdraft facilities and confirmed letters of credit to customers. The loan attracted interest of 3 months United States Dollars libor plus a margin of 2.5% p.a. The loan was secured by a pledge of treasury bonds amounting to KShs 299 million. These treasury bonds were deposited with EADB. The principal amount was repaid in one bullet payment in the current year.

notes to the financial statements (cont)

	GROUP		BANK	
	2005 KShs'000	2004 KShs'000	2005 KShs'000	2004 KShs'000
18. OTHER LIABILITIES				
Interest payable	864,456	539,970	864,456	593,970
Transfers in transit	(2,795)	17,970	(2,795)	17,970
Sundry creditors and accruals	829,566	541,505	829,566	541,505
Other creditors	57,608	330,947	56,291	274,251
	<u>1,748,835</u>	<u>1,430,392</u>	<u>1,747,518</u>	<u>1,427,696</u>

19. SHARE CAPITAL

	GROUP AND BANK	
	2005 KShs'000	2004 KShs'000
Authorised:- An unlimited number of shares of KShs.100 each.	-	-
Issue of new shares : class A	333,929	1,073,502
Issued and fully paid:-		
Class A Shares	1,853,371	779,829
Class B Shares	431,677	431,717
Share transfers:-		
Class B Shares transferred to Class A	1,102	(40)
Transfers from Class A to B	(1,102)	40
	<u>2,618,977</u>	<u>2,285,048</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

	BANK	
	2005 KShs'000	2004 KShs'000
Capital reserve	312,819	315,877
General reserve	3,100	3,100
Share transfer fund	522	522
Share fractions	66	63
Revenue reserves	272,549	(51,635)
	<u>589,056</u>	<u>267,927</u>

notes to the financial statements (cont)

The movement in revenue reserves is shown below.

	BANK	
	2005	2004
	KShs'000	KShs'000
At 1 January	(51,635)	(196,222)
Profit for the year	439,960	206,609
Realisation of revaluation surplus	4,368	4,368
Net movement in revenue grants	10,805	25,012
Proposed dividends	(130,949)	(91,402)
	<u>272,549</u>	<u>(51,635)</u>

The movement in other reserve accounts are as shown on page 42.

21. CAPITAL GRANTS

	GROUP AND BANK	
	2005	2004
	KShs'000	KShs'000
Fair value of grant receipts		
Fair value at 1 January	746,065	756,051
Received during the year	<u>-</u>	<u>15,775</u>
Balance at 31 December	<u>746,065</u>	<u>771,826</u>
At fair value less amortisation		
Grant net of amortisation at beginning of the year	746,065	756,051
Additions	<u>-</u>	<u>15,775</u>
	746,065	771,826
Amortisation for the year	<u>(28,217)</u>	<u>(25,761)</u>
At 31 December	<u>717,848</u>	<u>746,065</u>

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 House financed by USAID.

22. PROPOSED DIVIDENDS

	GROUP AND BANK	
	2005	2004
	KShs'000	KShs'000
Final dividends - proposed	<u>130,949</u>	<u>91,402</u>
Dividend per share (KShs)	<u>5</u>	<u>4</u>

notes to the financial statements (cont)

- (i) A final dividend of KShs. 5 per share totalling KShs 131 million has been proposed and the amount shown as a separate component of equity at 31 December 2005. 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	
	2005 KShs'000	2004 KShs'000	2005 KShs'000	2004 KShs'000
Loans and advances	3,393,542	2,166,219	3,393,542	2,166,219
Government securities	793,740	563,934	792,392	558,481
Deposits and placements with banks	54,107	25,961	54,107	25,206
	<u>4,241,389</u>	<u>2,756,114</u>	<u>4,240,041</u>	<u>2,749,906</u>

24. INTEREST EXPENSE

	GROUP AND BANK	
	2005 KShs'000	2004 KShs'000
Short call deposits	233,638	73,680
Fixed deposits	1,069,482	219,474
Savings accounts	109,301	122,040
Interbank borrowings	51,474	43,392
Government loans	34,925	109,908
	<u>1,498,820</u>	<u>568,494</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 (cont)

25. OTHER INCOME

	GROUP		BANK	
	2005	2004	2005	2004
	KShs'000	KShs'000	KShs'000	KShs'000
Dividend income	116	110	116	110
Gains on disposal of property and equipment	2,131	7,562	2,131	7,562
Rental income (net)	44,128	22,828	44,128	22,828
Miscellaneous	34,352	48,600	34,352	48,305
Provision writeback:				
Specific	55,052	25,778	55,052	25,778
General	134,910	-	134,910	-
	<u>270,689</u>	<u>104,878</u>	<u>270,689</u>	<u>104,583</u>

26. OTHER OPERATING EXPENSES

Staff costs	1,447,037	1,230,649	1,433,819	1,213,164
Directors' emoluments	49,794	29,635	43,305	23,990
Depreciation on property and equipment	325,945	276,043	325,466	275,735
Amortisation of leasehold land	717	717	717	717
Amortisation of intangible assets	83,363	71,426	82,338	68,333
Auditors' remuneration	6,145	6,894	5,445	6,194
Contribution to Deposit Protection Fund	47,704	38,507	47,704	38,507
Other administrative expenses	666,635	599,641	659,277	599,641
Other operating expenses	793,885	716,990	791,598	708,924
	<u>3,421,225</u>	<u>2,970,502</u>	<u>3,389,669</u>	<u>2,935,205</u>

notes to the financial statements (cont)

27. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging:-

	GROUP		BANK	
	2005	2004	2005	2004
	KShs'000	KShs'000	KShs'000	KShs'000
Staff costs	1,318,748	1,121,467	1,305,530	1,103,982
Directors' emoluments	49,794	29,635	43,305	23,990
Depreciation on property and equipment	325,945	276,043	325,466	276,976
Amortisation of leasehold land	717	717	717	717
Amortisation of intangible assets	83,363	71,426	82,338	68,333
Auditors' remuneration	6,145	6,894	5,445	6,194
Provision impairment of loans and advances	1,163,557	886,499	1,163,557	886,499
Contribution to Deposit Protection Fund	47,704	38,507	47,704	38,507
Contribution to staff retirement benefit scheme	128,289	109,182	128,289	109,182
and after crediting:-				
Foreign exchange gains	196,713	135,686	196,713	135,686
Gains on disposal of property and equipment	2,131	7,562	2,131	7,562
Net rental income	44,128	22,828	44,128	22,828
Dividend income	116	110	116	110
Amortisation of capital grants	28,217	25,761	28,217	25,761
Provision write back on loans and advances	189,962	25,778	189,962	25,778

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. CASH AND CASH EQUIVALENTS

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

	GROUP	
	2005	2004
	KShs'000	KShs'000
Cash on hand	1,372,319	983,963
Cash with Central Bank of Kenya	3,214,298	2,743,217
Deposits and balances due from banking institutions	1,833,842	2,616,820
Government securities and other investments maturing within 91 days	4,306,161	19,699
	10,726,620	6,363,699

notes to the financial statements (cont)

	GROUP	
	2005 KShs'000	2004 KShs'000
Less CBK cash ratio	(2,527,124)	(2,063,051)
	<u>8,199,496</u>	<u>4,300,648</u>

30. 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 AND BANK	
	2005 KShs'000	2004 KShs'000
Directors	44,069	41,545
Employees	1,244,493	981,252
	<u>1,288,562</u>	<u>1,022,797</u>

The weighted average interest on loans to related parties during the year was 3.89% (2004 - 2.9%)

(b) Inter-company balances:-

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

	GROUP AND BANK	
	2005 KShs'000	2004 KShs'000
Due from:-		
Balances due from subsidiary companies (note 5a)	3,755	1,302
Due to:-		
Deposits from subsidiary companies	15,688	30,634
Other balances (note 5b)	-	2,932
	<u>15,688</u>	<u>33,566</u>

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

notes to the financial statements (cont)

31. GROUP INTEREST RATE RISK

The group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of 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 group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to 1 month KShs '000	1-3 month KShs '000	3-12 months KShs '000	1-5 years KShs '000	over 5 yrs KShs '000	non-interest bearing	Total
ASSETS							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	4,586,617	4,586,617
Deposits and balances due from banks	1,833,842	-	-	-	-	-	1,833,842
Trading investments	200,000	-	606,696	1,406,632	817,485	-	3,030,813
Non trading investments	1,459,015	2,813,924	254,945	2,693,490	1,095,701	-	8,317,075
Loans and advances to customers	9,640,681	2,133,723	5,469,337	6,241,932	5,423,670	179,226	29,088,569
Other assets	-	-	-	-	-	2,009,073	2,009,073
Intangible assets	-	-	-	-	-	137,827	137,827
Prepaid lease rentals	-	-	-	-	-	43,196	43,196
Property and equipment	-	-	-	-	-	2,556,410	2,556,410
Deferred tax	-	-	-	-	-	226,256	226,256
Total assets	13,133,538	4,947,647	6,330,978	10,342,054	7,336,856	9,738,605	51,829,678
LIABILITIES							
Deposits and balances due to banks	740,287	-	-	-	-	-	740,287
Customer deposits	29,246,807	9,828,805	3,200,348	1,071,096	7,071	-	43,354,127
Loans	-	-	1,046,490	871,671	-	-	1,918,161
Other borrowed funds	-	-	-	-	-	-	-
Tax payable	-	-	-	-	-	1,658	1,658
Other liabilities	-	-	-	-	-	1,748,835	1,748,835
Share capital	-	-	-	-	-	2,618,977	2,618,977
Reserves	-	-	-	-	-	598,836	598,836
Capital grants	-	-	-	-	-	717,848	717,848
Proposed dividends	-	-	-	-	-	-	-
Proposed dividends	-	-	-	-	-	130,949	130,949
Total liabilities	29,987,094	9,828,805	4,246,838	1,942,767	7,071	5,817,103	51,829,678
Interest sensitivity gap at 31 December 2005	(16,853,556)	(4,881,158)	2,084,140	8,399,287	7,329,785	3,921,502	-
Interest sensitivity gap at 31 December 2004	(2,124,981)	(13,198,328)	4,139,688	11,062,974	4,706,395	(4,585,748)	-

notes to the financial statements (cont)

32. GROUP LIQUIDITY RISK MANAGEMENT

The group 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 group's assets and liabilities into relevant groupings based on the remaining period at 31 December 2005 to the contractual 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	Total KShs'000
Cash and balances with Central Bank of Kenya	4,586,617	-	-	-	-	4,586,617
Deposits and balances due from banks	1,833,842	-	-	-	-	1,833,842
Trading investments	200,000	-	606,696	1,406,632	817,485	3,030,813
Non trading investments	1,459,015	2,813,924	254,945	2,693,490	1,095,701	8,317,075
Loans and advances to customers	9,640,681	2,133,723	5,469,337	6,241,932	5,602,896	29,088,569
Other assets	1,609,849	-	399,224	-	-	2,009,073
Intangible assets	-	-	-	137,827	-	137,827
Prepaid lease rentals	-	-	659	2,544	39,993	43,196
Property and equipment	-	-	-	-	2,556,410	2,556,410
Deferred tax	-	-	-	226,256	-	226,256
Total Assets	19,330,004	4,947,647	6,730,861	10,708,681	10,112,485	51,829,678
LIABILITIES	-	-	-	-	-	-
Deposits and balances due to banks	740,287	-	-	-	-	740,287
Customers' deposits	29,246,807	9,828,805	3,200,348	1,071,096	7,071	43,354,127
Loans	-	-	1,046,490	871,671	-	1,918,161
Tax payable	-	-	-	-	1,658	1,658
Other liabilities	1,748,835	-	-	-	-	1,748,835
Share capital	-	-	-	-	2,618,977	2,618,977
Reserves	-	-	-	-	598,836	598,836
Capital grants	-	-	-	-	717,848	717,848
Proposed dividends	-	-	-	-	130,949	130,949
Total liabilities	31,735,929	9,828,805	4,246,838	1,942,767	4,075,339	51,829,678
Net liquidity gap at 31 December 2005	(12,405,925)	(4,881,158)	2,484,023	8,765,914	6,037,146	-
Net Liquidity gap at 31 December 2004	(10,737,624)	(8,658,281)	4,265,206	11,507,633	3,623,066	-

notes to the financial statements (cont)

33. FOREIGN CURRENCY EXPOSURE

THE BANK

CURRENCY TYPE COST/VALUATION	USD	GBP	EURO	JPY	ZAR	OTHERS	TOTAL
EXCHANGE RATE	72.4500	124.6212	85.4801	0.6155	11.4167		
Foreign Currency Assets:	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cash and balances with banks abroad 6	610,602	167,167	312,659	894	689	6,679	1,098,690
Loan and advances	107,637	22	2,648	-	-	-	110,307
Other foreign assets	1,091,632	11,378	46,174	-	8	3,004	1,152,196
Off balance sheet items	97	(16,201)	-	-	-	1	(16,103)
Total Foreign Assets	1,809,968	162,366	361,481	894	697	9,684	2,345,090
Foreign Currency Liabilities:							
Loans and advances	-	-	-	-	-	-	-
Other foreign liabilities	1,818,285	161,879	361,457	725	809	8,394	2,351,549
Off-balance sheet items	-	-	-	-	-	-	-
Total Foreign liabilities	1,818,285	161,879	361,457	725	809	8,394	2,351,549
Net Exposure at 31 December 2005	(8,317)	487	24	169	(112)	1,290	(6,459)
Net Exposure at 31 December 2004	586	19,368	1,428	224	147	2,913	24,666

notes to the financial statements (cont)

34. COFFEE DEBT WRITE OFF

The Government of Kenya, in its effort to revamp the coffee sector has decided to take over/write off the coffee farmers debts owed to the bank as at 28 February 2005. The bank in liaison with the relevant Government ministries have already determined the actual amount owing from the coffee farmers. The amount, KShs 5billion, is expected to be settled during the financial year 2006. In light of this, no provision has been made on the coffee loans that are subject of the write off.

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 AND BANK	
	2005	2004
	KShs'000	KShs'000
i)Capital: authorised and Contracted for	63,185	151,333
ii)Loans committed, not disbursed at year end	1,094,304	255,403

37. CONTINGENT LIABILITIES

a)Letters of credit, guarantees and other engagements entered into on behalf of customers	1,735,448	951,903
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b)Pending legal suits: -

(i)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 the year 1995. The customer is seeking compensation amounting to KShs 1.074 billion. The Bank has lodged a counter-claim and the directors are of the opinion that the Bank has a strong defence against the plaintiff.

(ii)A former customer has sued the Bank seeking special damages amounting to KShs 25,866,564 plus general damages to be quantified by the court, for stopping a cheque for KShs 1,072,279 issued against the customer's account. 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.

(iii)Former employees have sued the Bank for wrongful dismissal in the year 2003. 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 (cont)

(iv) A former customer has sued the Bank seeking restitution of KShs 31 million on the ground of irregular withdrawals from his account in the period 1998-1999. The Bank filed a defence denying any allegations of fraud. The matter has been referred by Court to the Criminal Investigation Department.

(v) An advocate of the bank has sued the bank for legal fees for work done. The registrar has taxed the bill of KShs 77 million pending hearing of an objection in the High Court. No provision has been made in these financial statements for the above five 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

The average number of employees during the year was

GROUP		BANK	
2005	2004	2005	2004
<u>1,381</u>	<u>1,184</u>	<u>1,369</u>	<u>1,172</u>

39. COMPARATIVES

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

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 KShs1,000.

facts about Co-operative Bank

1. That the Co-operative Bank is 100% privately owned by over 57,000 Kenyan shareholders countrywide who include Co-operatives and individual members of co-operatives.
2. That the Bank impacts on the livelihoods of 5.6 million Kenyans directly, and over 22 million indirectly, ranking it as the single biggest business partner to Co-operatives in Africa
3. That at our current capitalisation level of Kshs 3.9 billion, a deposit base of Kshs 44 billion and an asset base of over Kshs 52 billion, we rank as one of the largest banks in Kenya.
4. That we offer branch-less centralised banking as all our 35 branches are fully interconnected, ranking us among the few banks in Kenya that are fully networked across the entire countrywide network.
5. That in addition to serving big Co-operatives and Corporate bodies, the bank caters for the special needs of unique customer segments like NGO's, Religious Organizations and Small and Medium-sized Enterprises, without forgetting children.
6. That the bank is the largest issuer of debit electronic cards in Kenya.
7. That the Co-operative Bank wholly owns Co-operative Bank House in Nairobi. Co-operative House now holds a dedicated service center for Co-operatives.
8. That 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.
9. That the Bank maintains a comprehensive network of correspondent banks covering all the major financial centres and currencies in the world. Our principal correspondents include HSBC Midland Bank in London, American Express Bank and ABN Amro Bank in New York, ABN Amro Amsterdam in Euroland, and Standard Bank of South Africa in South Africa.
10. That the bank is leading the path to innovation by using cutting edge technologies to offer a world-class product line which includes Visa electron debit card for saccos.

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