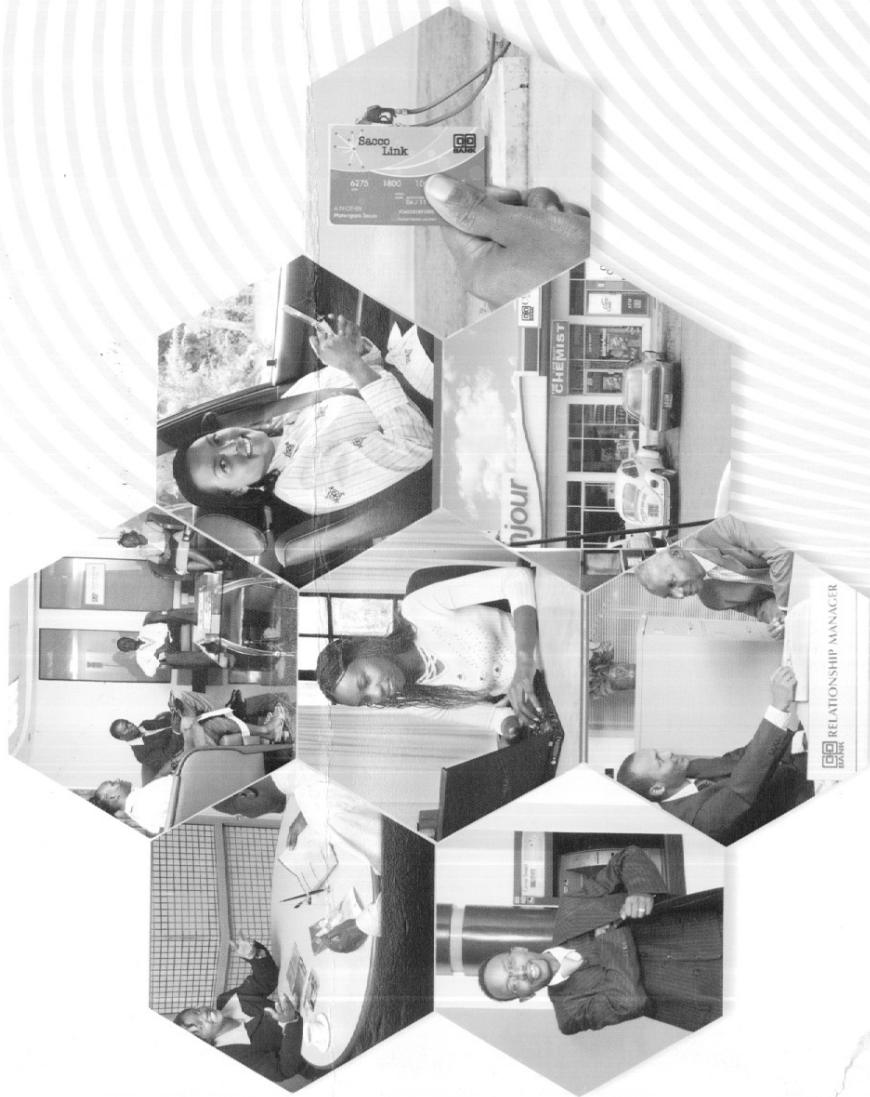




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CO-OPERATIVE
BANK OF KENYA
We are great

Annual Report & Financial Statements 2006

100-41-AMG

100-41-AMG

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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
S. Odhiambo (Mrs)
Dr. J. Kahunyo
C. Kabira
W. Ongoro - Appointed 26-04-06
PS Ministry of Finance - K. Mwangi (representing PS, Ministry of Finance)
Commissioner of Co-operative Development - F. Odhiambo, DSM, MBS

R. M. Githaiga (Mrs) - Company Secretary

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

Parliament Road Branch
P O Box 67881-00200,
Tel. 020 228974/5
NAIROBI

Digo Road Branch
P O Box 81535-50100,
Tel. 041-2317941/2/3
MOMBASA

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

2007/1436

BANK INFORMATION

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

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

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. 055 30459/60
HOMA BAY

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. 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 225400/11/211818
NAIROBI



BANK INFORMATION

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

Mumias Branch
P O Box 90-50102
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 815-01000
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

Kakamega Branch
P O Box 595-50100
Tel. 056 31701/3/4/5, 31711, 31714
KAKAMEGA

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

Nairobi Business Centre, Ngong Road
P O Box 19555-00202
Tel. 020 2711624/2711625/2711674
NAIROBI

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

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

Maua Branch
P O Box 1328-60200
Tel. 064 21548, 21370, 21114
MERU

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

BANK INFORMATION

Migori Agency
C/o Homabay Branch
Tel. 059 20131
HOMABAY

Malaba Agency
C/o Bungoma
Tel. 055 540095
BUNGOMA

BANKERS	Central Bank of Kenya P O Box 60000 - 00200 Tel 020 2860000/2861000/2863000 NAIROBI
LAWYERS	Various A list is available at the Bank
AUDITORS	Ernst & Young Kenya-Re Towers, Upperhill, Off Ragati Road, P O Box 44286 - 00100 NAIROBI GPO



NOTICE OF THE 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 27, 2007 AT 11.00A.M AT THE CO-OPERATIVE BANK STAFF TRAINING CENTRE, KAREN.

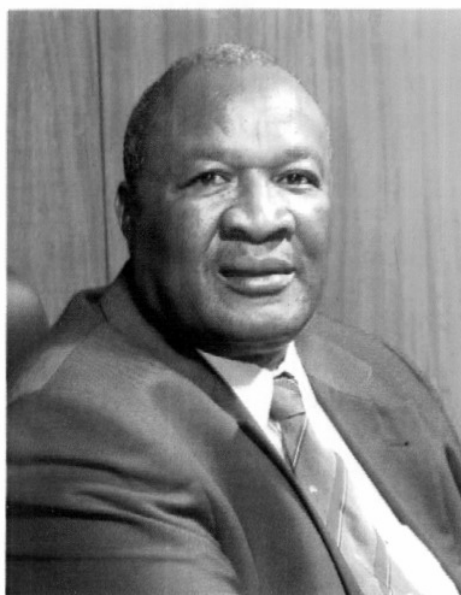
Proposed Agenda

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 26, 2006
5. Consideration and adoption of the Annual Report and Financial Statements for the year ended December 31, 2006 together with the Directors' and Auditors' Reports.
6. Confirmation of the Auditors for the next financial year.
7. Co-operative Bank Foundation; Proposed School Fees Award.
8. Any other Business for which 15 days notice has been given.

Gideon Muriuki, OGW
Managing Director

March 20, 2007

CHAIRMAN'S STATEMENT



Once again, I am delighted to present to you our Bank's annual report and financial statements for the year ended December 31, 2006. The year has seen significant achievements notably the growth of our Bank and improvement in our financial performance as a result of significant growth in net income. Our Bank made the highest profit in its history by surpassing the Kes. 1 billion mark, with a commendable profit before tax of Kes. 1.3 billion.

Performance is my top priority. This year's results are evidence of the performance culture that has taken root in your Bank, reflecting the strength and focus of the Board of Directors and the management team.

It is notable that your Bank delivered a 76 percent increase in profitability and a 19 percent increase in Total Shareholders' Equity in 2006, one of the highest among the major Kenyan banks during the year.

THE BANKING INDUSTRY

Kenya's banking industry remained stable, mainly due to favourable macroeconomic conditions prevailing during the review period. Stiff competition was witnessed forcing banks to re-package their services and products including the E- Banking services to satisfy the needs of the customers and retain their market share.

The revised Central Bank of Kenya Prudential Guidelines issued in November 2005 became effective on 1st January 2006. Under the new guidelines, institutions are required to discount securities for non-performing loans over a period of five years while at the same time maintaining higher provisions for normal and watch categories of loans and advances. The Central Bank of Kenya, also, adopted a risk based inspection approach.

2006 FINANCIAL RESULTS: SOLID IMPROVEMENTS

The Group's profit before tax was up by 76% from Kes 714 million to Kes 1.256 billion, reflecting stable income growth, well managed expenses and significantly improved operating profit.

Other financial highlights were:

- Interest income rose from Kes 4.2 billion to Kes 4.4 billion reflecting a 4% increase despite a reduction of over Kes 5 billion, being coffee debts written off by the Government during the year to jumpstart the crucial coffee sector;
- Total shareholders' funds stood at Kes 4.8 billion up from Kes 4.1 billion in the previous year;
- Total assets increased by 11% from Kes 52 billion to Kes 58 billion;
- Customer deposits rose by 11% from Kes 44 billion to Kes 48 billion;
- Non-funded income went up by 21% from Kes 2.3 billion to Kes 2.8 billion;
- Return on capital employed for the year 2006 stood at 25.97% against 18.16% for 2005; and
- Liquidity on the reporting date was 41.4% against a minimum statutory requirement of 20%.

CO-OPERATIVES

The co-operatives sector remains the largest banking customer base in Kenya and your Bank continues to focus on strategies aimed at maintaining its position as the banker of choice for this sector. In this regard, we have and will continue to focus on the following areas:

• **Relationship management:** This strategy is now fully implemented and has continued to give positive impact on our relationship with this key sector of our customers. The Co-operatives Centre dedicated to the movement is up and running and I am pleased to report to you that the experience is quite promising. We aim to continuously extend highest quality solutions to Kenya's Co-operatives and Corporate sectors.

- **Product development:** The Bank continues to develop products that meet the needs of these customers in light of the changing business environment and competitive forces. Several products have already been developed and offered to the customers which have had a great mutual benefit to both your Bank and the co-operative movement and has greatly enhanced our mutual relationship. We shall continue to identify needs and develop relevant products for the mutual benefit of your Bank and the co-operative movement as a whole.

- **Capacity building:** Your Bank continues to play a key role in training within the co-operative movement to enable them develop into stronger institutions that can better cater for the needs of their customers. We offer training courses in the area of Front Office Services (FOSA) development, banking operations, audit and Information Technology. We have witnessed tangible success which has enabled a number of co-operative societies to streamline their operations and open FOSAs.

In particular, your Bank aims at establishing an integrated financial system which shall see co-operative societies join the national and international payments system with Co-operative Bank as their central gateway. To this end the pilot programme on two key SACCOs wherein their members have been issued with the Sacco Link debit card that enables them to access cash from the Bank's ATMs and purchase goods and services at all Visa branded outlets, has now been successfully launched.

Superb customer service shall remain a critical component in service to these key customers and we shall develop elaborate mechanisms for tracking performance on each of our chosen focus on this sector.

The Government of Kenya, in its effort to revamp and jumpstart the crucial coffee sub-sector, decided to give a debt relief on coffee debts owed by farmers to the Co-operative Bank. An amount of Kshs. 5.2 billion was, therefore, taken over by the Government and the same written off from the books of the Bank during the year under review. This was a huge relief to our coffee farmers who had struggled with these debts in the wake of all the problems in the coffee sub-sector.

RETAIL BANKING

Retail banking remained a key contributor to our financial results. Retail asset book grew by 24% mainly due to revamping of our personal loan product and sprucing up of our Micro Credit Unit (MCU) products, giving more attractive features. In order to further develop this contributor our strategies shall be segmented to cover the following:

- **Personal banking sector:** We shall endeavour to give special attention to the diverse banking needs of these customers to enable us meet our strategic objective of reaching over 1 million Kenyans. This shall be met through customer service, technological innovation, product development and new and efficient methods of service delivery.

- **Micro business sector:** Your bank has a wealth of experience in this sector with continued success and growing volumes. We are now the leading commercial bank in this sector and our strategies are geared towards improving further this enviable position. Our relationship in this sector shall continue to target individual entrepreneurs with specially designed products and services for our mutual benefit.



Members of the Bank's Business Processing Centre (BPC) visit the Merciful Redeemer Children's Home in December 2006

CHAIRMAN'S STATEMENT

- **Business banking sector:** In this segment we shall be targeting commercial enterprises of medium size with specific needs like professional outfits. Your Bank is developing relationships within this sector to ensure that we assist in their growth and maintain long term profitable engagements and build customer loyalties.

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 107 ATMs and an additional 40 are planned before year end. This number of ATMs has facilitated convenient customer service outside the banking halls.

Efforts in the future shall focus on strengthening sales and service delivery through improvement of sales reporting systems, leading edge technology, attractive sales incentives, brand redesign and communication.

TREASURY BANKING

The Bank continues to strengthen our treasury operations 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. Treasury's main goal remains to generate a steady flow of high-level earnings from trading in money market instruments while managing our market liquidity positions.

RISK MANAGEMENT

Risk Management is a core function of the Bank. We recognise this and have substantially enhanced this function in line with internationally recognised practice. Our Vision is to add value to business through focused quality and professional loss prevention strategies which secure business streams. We have a mission to continuously and proactively seek assurance that all risks within the organisation are being identified, captured, assessed, measured, reported and effectively managed in accordance with organisational policies and internationally accepted best practices.

2007 STRATEGY

Building on our past successes, we have lined up for this year strategies which will ensure sustained growth for the coming years. Revenue growth shall be the primary driver of shareholder value. This shall result from our efforts at consolidating our strategies in innovative service delivery to our customers and broadening of the products range and services we offer them.

We believe these strategies shall make it easier for the Bank to achieve differentiation and an unassailable competitive advantage over our competitors. We shall continue to improve our infrastructure for delivering good customer service, a good corporate culture that attracts the best 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.



Staff Training College Staff visit the Christ Children's Home in Kasarani

Our top priorities, as we start 2007, will address delivery on promises to customers, improved cost management, capital efficiency and maintenance of an appropriate credit portfolio quality. Strict cost management through tighter project management and stricter discipline on general expenditure will remain high on the agenda.

CORPORATE SOCIAL RESPONSIBILITY

The Bank continues its commitment of improving welfare and the well being of the communities within the environment it operates. In current times, it is obvious that the welfare of the people and the communities, organisations and the environment will continue to be interlinked. To ensure sustainability, therefore, the Bank will continue to give equal consideration to our social, economic and environmental goals. Towards this end, the Bank will be implementing the corporate foundation whose aim is to set up and implement key agenda's in corporate social responsibility.



Kimathi Branch Staff visit the Wairegi's in Kiambu after the expose on KTN News

Our staff are, also, personally committed to contributing their time and resources to various charities and appeals focusing on education, the environment, child welfare and health.

In the year under review, various teams made high impact visits to various homes and establishments of the less fortunate in our society. They helped in donations in kind but more importantly help mentor and encourage these people to feel they are part of the society they live in.

Our strategies are, also, geared with the dual purpose of not only steering the Bank to

greater heights per our mission but, also, having a significant positive economic and social impact on the communities. Our Corporate Social Responsibility initiatives made a major contribution to the engagement of employees in our Business Strategy and have enhanced our reputation with our customers.

OUR PEOPLE

We continue to place great emphasis on the role played by our staff in the development and growth of our business. We are proud of the many skills they do the business with. Our staff are, therefore, our most valuable resource. I would like to share with you at this point my confidence that you have a professional and motivated staff in the Bank 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.

CHAIRMAN'S STATEMENT

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 consolidate the momentum of growth and shall wither the uncertainties of the election year to emerge stronger. Your Bank is positioned to take advantage of the growth opportunities and consolidate the gains attained in the preceding years. We shall continue to develop products and services 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 2006 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 satisfaction, employee engagement, market recognition and commitment to the community. We are dedicated to earning your trust each and every day.

As promised in our last Annual General Meeting, we have delivered impressive results for 2006. With your support we are determined yet again to deliver even better results in 2007.

APPRECIATION

In a year with significant results and achievements, I would like to thank the Managing Director and all our employees for their excellent work and continued dedication to the Bank. I would, also, like to underscore the invaluable contribution by all members of the Board of Directors for their unity of purpose and direction. Through their support and judicious advice, they ensure the sustainability of the Bank and defend the interests of shareholders. I would, also, like to thank our shareholders, who share our vision and honour us with their trust.

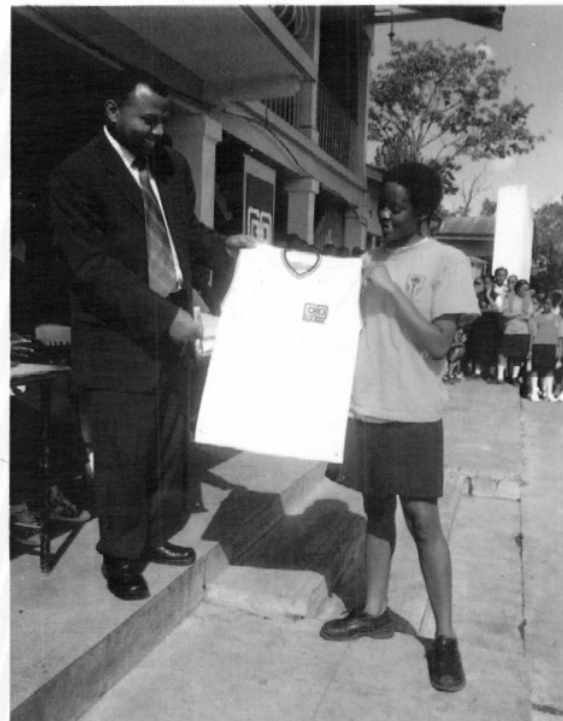
Finally, I would like to register my deep appreciation to our Minister of Co-operative Development and Marketing, Hon. Peter Ndwiga EGH, MP and the President of the Republic of Kenya His Excellency Hon. Mwai Kibaki, CGH, MP, for their immense support to the Co-operative Movement in Kenya.

Long live the Co-operative Movement.

Long live The Co-operative Bank of Kenya.

S. C. Muchiri, EBS
Chairman

March 14, 2007



The Bank Presents the Ngara Girls High School Volleyball Team with Jerseys during their Sports Day



TAARIFA YA MWENYEKITI

Kwa mara nyingine tena, ninafuraha kutoa kwenu ripoti ya fedha ya Benki yenu ya mwaka unaomalizika tarehe 31, Disemba, 2006. Katika mwaka huo kulipatikana mafanikio makubwa hasa katika ukuaji wa Benki yetu na kustawi kwa hali yetu ya kifedha iliyopelekea kuongezeka pakubwa kwa mapato halisi. Benki yetu ilipata faida kubwa zaidi katika historia yake hadi kufikia ile alama ya juu ya shilingi bilioni 1, na kupata faida inayostahili sifa ya kiasi cha shilingi bilioni 1.3 kabla ya kulipa kodi.

Utenda kazi bora ndilo jambo ninalolipa umuhimu zaidi. Matokeo ya mwaka huu ni ushahidi wa tabia ya utenda kazi bora inayokita mizizi katika Benki yako na inayoonyesha uwezo na maono imara ya timu ya wasimamizi.

Ni muhimu kutaja hapa kuwa Benki yako ilileta ongezeko la faida la asilimia 76 na ongezeko la asilimia 19 katika Jumla ya Haki ya Wenye-hisa mwaka wa 2006, hii ikiwa ni ongezeko kubwa zaidi miongoni mwa benki kubwa hapa Kenya katika mwaka tunaozungumzia.

HALI YA BIASHARA ZA MABENKI

Shughuli za biashara za mabanki ya hapa Kenya zilikuwa shwari, sababu kubwa ikiwa ni kuweko kwa hali nzuri ya kufanikisha biashara ndogo ndogo katika mwaka huo tunaoutazama.. Kulikuweko na ushindani mkubwa wa kibiashara hivi kwamba ilibidi mabanki kujibuni upya katika huduma na bidhaa wanazotoa ikiwa ni pamoja na ile ya kimtandao ya *E-Banking* ili kuwatosheleza wateja wao na kuendelea kushikilia nafasi zao katika soko.

Utaratibu wa muongozo uliorekebisha na kutolewa na Benki Kuu ya Kenya katika mwezi wa Novemba 2005 ulianza kutekelezwa tarehe 1 Januari 2006. Chini ya muongozo huu mpya, mashirika yanatarajiwa kutoa kipunguzo katika rehani kwa mikopo iliyokwama kwa kipindi cha miaka mitano na wakati huo huo kudumisha akiba ya kiwango cha juu dhidi ya mikopo mizuri. Vile vile Benki Kuu ya Kenya iliazimia kuchukua mfumo wa uchunguzi kulingana na dhima ya mkopo.

MATOKEO YA FEDHA YA 2006: MAENDELEO IMARA

Faida ya shughuli za Kundi kabla ya kulipa kodi iliongezeka kwa zaidi ya asilimia 76 kutoka shilingi milioni 714 hadi shilingi bilioni 1.256, hii ikionyesha ukuaji thabiti wa mapato, usimamizi mzuri wa gharama, na kuimarika kuzuri kwa faida ya shughuli zake.

Matokeo mengine muhimu yahasuyo fedha yalikuwa:

- Faida kutokana na riba iliongezeka kutoka shilingi bilioni 4.2 hadi shilingi bilioni 4.4 hii ikiwa ni ukuaji wa asilimia 4 licha ya upunguaji wa zaidi ya shilingi bilioni 5 kutokana na uamuzi wa serikali kufuta madeni ya wakulima wa kahawa ili kufufua sekta hiyo muhimu ya ukuzaji kahawa.
- Jumla ya Hazina ya Wenye-hisa ilisimama kwa shilingi bilioni 4.8 ikiwa imepanda juu kutoka shilingi bilioni 4.1 katika mwaka uliopita;
- Jumla ya rasilimali iliongezeka kwa asilimia 11 kutoka shilingi bilioni 52 hadi shilingi bilioni 58;
- Jumla ya pesa zilizowekwa na wateja ilipanda kwa asilimia 11 kutoka shilingi bilioni 44 hadi shilingi bilioni 48;
- Faida kutokana na shughuli zisizogharamiwa iliongezeka kwa takriban asilimia 21 kutoka shilingi bilioni 2.3 hadi shilingi bilioni 2.8;
- Faida ya mtaji uliokezwa katika mwaka wa 2006 ilikua asilimia 25.97 dhidi ya asilimia 18.16 ya mwaka wa 2005; na
- Uwezo wa kupata pesa katika mwaka tunaouripotia ulikuwa asilimia 41.4 ikilinganishwa na kiwango cha chini zaidi kinachokubaliwa kisheria cha asilimia 20.

VYAMA VYA USHIRIKA

Sekta ya vyama vya ushirika bado inabaki kuwa sehemu kubwa ya wateja wa benki katika Kenya na Benki yako inaendelea kulenga mikakati ambayo itaidumisha Benki katika nafasi yake ya kuwa chaguo benki katika sekta hii. Kwa minajili hii, tutaendelea kutazama kwa makini mambo yafuatayo:

- **Usimamizi wa uhusiano mwema:** Tayari mkakati huu umetekelezwa kikamilifu na umeshaanza kuonyesha bayana kuimarika kwa uhusiano mwema katika sekta hii yenye wateja wetu muhimu. Kituo maalum cha kushughulikia walio katika mfumo huu wa ushirika yaani *Co-operatives Centre*, kiko imara na kinafanya kazi na mimi nina furaha kuwaripotia hapa kuwa ni uzoefu wenye matumaini makubwa. Malengo yetu ni kuendelea kutoa bila kusita, utatuzi wa hali ya juu kwa maswala yahasuyo sekta ya ushirika hapa Kenya pamoja na ya mashirika.
- **Ustawishaji wa bidhaa:** Benki inaendelea kubuni bidhaa na huduma ambazo zinatoshesha mahitaji ya wateja hawa huku ikizingatiwa mabadiliko katika mazingira ya biashara na ushindani wa kibiashara. Tayari zipo bidhaa kadha wa kadha ambazo zimebuniwa na kutolewa kwa wateja na zimeonyesha mafanikio makubwa kwa pande zote mbili, Benki yako na kwa Wanaushirika na hivyo kuchangia pakubwa katika kuimarisha uhusiano wetu nao. Tutaendelea kutambua mahitaji na kubuni bidhaa za kukithi mahitaji hayo ili kuleta manufaa kwa pande zote mbili, kwa Benki yako na kwa mfumo wa ushirika kwa ujumla.
- **Kuongeza Uwezo:** Benki yako inaendelea kuhusika zaidi katika kutoa mafunzo kwa wanaushirika ili kuwastawisha na kuweza kuwa idara thabiti ambayo itwahudumia vyema wateja wao. Tunatoa mfulizo wa masomo katika nyanja ya kuboresha Huduma ya ofisi kwa mbele (FOSA), shughuli za benki, ukaguzi wa hesabu na teknolojia ya kompyuta. Tumeshuhudia ufanisi mkubwa ambao umewezesha baadhi ya vyama vya ushirika kufaulu kunyoosha shughuli zao na kufungua FOSAs. Muhimu hasa, Benki yako inalenga kuasisi mfumo wa kifedha unaochanya kila kitu utakaopelekea vyama vya ushirika kujiunga na utaratibu wa kitaifa na kimataifa wa malipo, huku Benki ya Co-operative ikiwa lango lao kuu. Ili kutimiza haya mpango kielelezo upo katika vyama viwili muhimu vya ushirika (SACCO) ambako wanachama wao wamepatiwa kadi za ATM za kutoa pesa katika mashine za ATM na kununua bidhaa na huduma katika maduka yanayokubali kadi za VISA. Mpango huu unaendelea vizuri.

Huduma kwa wateja, ya hali ya juu, bado ni kiungo cha msingi katika kutoa huduma bora kwa wateja hawa wetu muhimu na tutaendelea kubuni mikakati ya kina ya kufuatilia utendakazi wa kila lengo tutakalo chagua katika sekta hii.

Serikali ya Kenya, katika jitihada zake za kuhuisha tena sekta ya ukuzaji kahawa, iliamua kuipa sahali sekta hii kwa kufutulia mbali madeni ya wakulima waliyokuwa nayo katika Benki ya Co-operative. Hapo basi shilingi bilioni 5.2 zilisimamiwa na serikali na kufutuliwa mbali katika vitabu vya Benki yetu katika mwaka tunaoukadiria. Hii ilikuwa ni faraja kubwa sana kwa wakulima wetu wa kahawa ambao walikuwa wakijitahidi na madeni haya bila kufaulu kutokana na hali ya shida iliyokumba sekta hii ya kahawa.



Presentation of beds to the Prefects of Kanjuri High School.



BIASHARA REJAREJA YA BENKI

Biashara rejareja ya Benki iliendelea kuchangia pakubwa katika matokeo haya ya kifedha. Daftari la rasilimali rejareja lilikua kwa asilimia 24 hasa zaidi kutokana na kutengenezwa upya kwa bidhaa yetu ya mkopo ya kibinafsi (personal loan) na kunadhifishwa kwa bidhaa zetu za biashara ndogo kwa kuzipatia sura za kuvutia zaidi. Ili kuendeleza zaidi kisababisho hiki muhimu, mikakati yetu itagawanywa na kujumuisha yafuatayo:

- **Sekta ya benki kushughulikia watu binafsi:** Tutaweka juhudi kuona kwamba tunazingatia kwa makini mahitaji mbali mbali ya kibenki ya wateja hawa ili kutimiza malengo ya mikakati wetu wa kuwafikia zaidi ya wakenya milioni moja. Haya yatatekelezwa kupitia huduma bora kwa wateja, uvumbuzi wa kiteknolojia, ubunifu wa bidhaa na njia mpya na zinazofanya kazi za kufikisha huduma kwa watarajiwa.

- **Sekta ya biashara ndogo:** Benki yako ina uzoefu mkubwa kwenye sekta hii na imeendelea kufaulu na kupata ukuaji mkubwa kwayo. Hivi sasa sisi ndiyo benki ya kibiashara inayoongoza katika sekta hii na mikakati yetu inalenga kwenye kuboresha na kujikita zaidi katika nafasi hii nzuri inayofanya wengi waone kijicho. Mahusiano yetu katika sekta yataendelea kulenga waekezaji wa kibinafsi walio na bidhaa na huduma maalum bunifu zitakazoleta mafanikio kwa pande zote mbili.

- **Sekta ya benki kwa biashara kubwa:** Katika sehemu hii tutalenga wafanyibiashara waekezaji wa kati wenye mahitaji mahsusi kama vile biashara zinazohitaji ustadi fulani. Benki yako inaendelea kudumisha uhusiano na wahusika katika sekta hii ili kuhakikisha inasaidia vya kutosha katika ukuaji wake na kuboresha utendakazi wenye faida na kujenga uhusiano wa kudumu na wateja.

Kupitia mikakati maalum, tumekuwa tunageuza matawi ya Benki kutoka vituo vya kuendesha kazi za kawaida pekee na kuwa vituo vya mauzo kwa kukagua na kulinganisha mtandao wa tawi dhidi ya eneo, hali na ukubwa na kuamua shughuli zitakazofaa.

Hivi sasa Benki, vile vile, ina mashine 107 za ATM na nyingine 40 zinapangiwa kuwekwa kabla ya kumalizika mwaka. Idadi hii ya mashine za ATM imerahisisha utoaji wa huduma bora kwa wateja nje ya masebule ya benki.

Juhudi katika siku zijazo zitaangazia juu ya kutilia nguvu mauzo na utoaji wa huduma kupitia kuimarishwa kwa mfumo kuweka ripoti ya mauzo, utumaiji wa teknolojia ya upeo wa juu, vichocheo na vivutio katika mauzo, kubuni tena bidhaa na matangazo.

HAZINA KATIKA BENKI

Benki inaendelea kujiimarisha katika upande wa shughuli za uwekaji hazina kuhudumia mahitaji ya wateja wetu katika uchuuzi na kununua rasilimali na kuchukua fursa ya kutoa mwongozo wa kuwawekezea kwa njia ya faida, na wakati huo huo kusimamia hali ya soko na dhima ya upataji pesa kwa viwango vifaavyo. Lengo kuu la hazina bado ni kuzalisha mfululizo wa faida kwa viwango vya juu kutokana na kufanya biashara kupitia zana za soko la fedha huku tukisimamia nafasi zetu katika soko la fedha.

USIMAMIZI WA DHIMA

Usimamizi wa dhima ndio kiini cha shughuli za Benki. Tunatambua hivi na tumeboresha zaidi shughuli hii kuambatana na inavyokubalika na mujibu wa kanuni za kimataifa. Maono yetu ni kuongeza thamani katika biashara kupitia mikakati iliyo bora na ya ustadi ya kuzuia hasara na kulinda mwelekeo wa biashara. Tuna kazi maalum ya kujitolea bila kusita, kujaribu kutafuta dhima dhidi ya hasara zote katika shirika, ijulikane, ihifadhiwe, ichunguzwe, iangaliwe kiwango chake, iripotiwe na isimamiwe barabara kwa mujibu wa sera za shirika na desturi zinazokubalika kote ulimwenguni.

TAARIFA YA MWENYEKITI

MKAKATI WA 2007

Kutegemea mafanikio yetu ya siku zilizopita, tumepanga mikakati muafaka mwaka huu ambayo itatuhakikishia tunahimili ukuaji katika miaka inayokuja. Motisha muhimu wa kuongeza thamani kwa wenyekiti utakuwa ni ukuzaji wa mapato. Hii itatokana na juhudi zetu kuleta pamoja mikakati yetu ya ubunifu wa kufikisha huduma kwa wateja wetu na kupanua aina za bidhaa na huduma tunazotoa kwao.

Tunaamini ya kuwa mikakati hii itafanya iwe rahisi kwa Benki yako kufanikiwa kujitofautisha na kuwa katika hali bora zaidi kuliko washindani wetu wa kibiashara. Tutaendelea kuboresha muundo msingi wetu katika kutoa huduma bora kwa wateja, kuweka fani na hali njema ya shirika itakayovutia rasilimali bora, kuhimiza kujitolea na utenda kazi bora, na kufanya biashara kwa njia ambayo inaleta hali ya uaminifu. Lengo letu kubwa likiwa ni kuendelea bila kusita kuimarisha matokeo na utenda kazi bora, kuimarisha ubora katika huduma tunazotoa na kuwapa wateja wetu aina mabli mbali ya bidhaa za kifedha ambazo wana haki ya kutarajia kutoka kwetu.

Mambo muhimu ya kwanza, tunapoanza mwaka wa 2007, itakuwa kujishughulisha na kutimiza ahadi zetu tulizotoa kwa wateja, kuimarisha usimamizi wa gharama, rasilimali madhubuti na kukimu muamana ufaao na wa hali ya juu. Usimamizi kwa nidhamu kali kupitia miradi yenye kanuni zilizobanwa na nidhamu kali ya matumizi ya kawaida itazidi kuwa ajenda muhimu.

KUWAJIBIKA KWA SHIRIKA KATIKA JAMII

Benki inaendelea kujitolea katika kuboresha hali ya maisha ya jumuiya katika maeneo tunayofanya shughuli zetu. Hali ilivyo hivi sasa, ni wazi kuwa hali ya maisha ya watu na ya jumuiya, mashirika na ya mazingira itaendelea kufungamana pamoja. Hivyo basi, ili kuhakikisha uwiano Benki yako itaendelea kuzingatia kwa usawa maswala ya kijamii, ya kiuchumi na kimazingira. Kutimiza haya, Benki itatekeleza taasisi ya shirika ambayo madhumuni yake ni kuanzisha na kutekeleza ajenda ya shirika letu ya uwajibikaji katika jumuiya.

Wafanyakazi wetu wamejitolea kibinafsi kuchangia muda na uwezo wao kuhudumia mashirika mbali mbali ya kutoa msaada hasa katika nyanja za elimu, mazingira, hali njema ya watoto na afya. Katika mwaka tunaouzungumzia, makundi mbali mbali yalifanya mahudhurio ya athari katika sehemu na nyumba zinazowahudumia wale wasiojiweza katika jumuiya yetu. Walisaidia kutoa mchango wa hali na mali lakini la muhimu zaidi kutoa nasaha na kuwahimiza hawa wananchi kujisikia hata wao wako katika jumuiya wanamoishi. Mikakati yetu vile vile inalenga kujumuisha mambo mawili muhimu, kuendesha shughuli zetu kwa ufanisi wa upeo wa juu na vile vile kuleta athari ya uchumi bora na hali njema kwa jumuiya yote. Mipango yetu ya uwajibikaji katika jumuiya imechangia pakubwa katika kuwashughulisha wafanyikazi wetu katika Mkakati wetu wa Biashara na imeinua jina letu miongoni mwa wateja wetu.

WATU WETU

Tunaendelea kutambua waziwazi wajibu na juhudi za wafanyakazi wetu katika kustawisha na kukuza biashara yetu. Tunajivunia ujuzi wanaotumia katika kutekeleza shughuli zao. Kwa sababu hii, wafanyakazi wetu ndio rasilimali yenye thamani kubwa zaidi. Ningependa kuwajumuisha hapa katika kuonyesha kuridhika kwangu kuwa tuna wafanyakazi wenye ustadi wenye motisha ya kazi katika Benki kukiwa na hali na ushindani mkubwa wa kibiashara katika sekta ya mabenki.

Kuendelea kufaulu kwa Co-operative Bank kunatokana na kuungwa mkono, kunakostahili sifa, na wafanyikazi wetu wote na mkakati wa Benki utaendelea kutilia mkazo kujitolea huku kwa daraja la kwanza kabisa ili kuleta hali bora ya kazi ambapo wafanya kazi wetu wanatambua majukumu yao na mchango wao, na waendeleo kujivunia kufanyia kazi Benki yetu. Natambua kuwa wasimamizi na wafanyakazi wataendelea kujitolea zaidi katika maendeleo ya Benki katika siku za usoni na kuwaletea wenyehisa thamani bora ya hisa zao.

MATARAJIO KATIKA SIKU ZIJAZO

Hali ya Benki yako katika mustakabala ni angavu yenye matumaini na wakati tunapohitimisha mwaka kifedha kwa mafanikio, mawazo yetu yanaangazia siku za usoni ambazo kwazo, tukitegemea kufaulu katika siku zilizopita, tuna mpango ulio bayana kabisa. Bodi ina matumaini kuwa kufanikiwa kwa Benki yako kutaendelea kuimarika katika miaka inayokuja.

Tunaamini kuwa uchumi wa Kenya utaimarisha msukumo wa ukuaji na kuondoa shaka zozote za mwaka huu wa uchaguzi na kuibuka ukiwa madhubuti. Benki yako iko katika nafasi nzuri ya kuchukua fursa katika hali hii ya ukuaji na kuimarisha mazuri iliyopata katika miaka ya nyuma. Tutaendelea kubuni bidhaa na huduma hususan za kukithi mahitaji ya wateja wetu. Tuna maono imara ya kufaulu. Wakati huo huo tutachukulia kwa umuhimu zaidi ustawishaji wa wafanyikazi wetu ili kuhakikisha mwenendo wa ukuaji wa Benki yetu unaendelea hadi katika siku zijazo.

Unapoendelea kusoma taarifa hii ya hesabu za mwaka wa 2006, wewe, mshirika muadhama wa Co-operative Bank of Kenya, utagundua kuwa ina mengi zaidi ya utoaji wa taarifa ya mwaka ya hesabu za fedha. Utapata kuona taswira ya halmashauri inayohitaji uaminifu wako kamili, ambayo maendeleo yake yanategemea nguzo nne imara: Kutosheleza wateja, kuwahusisha wafanyakazi, kutambua hali ya soko, na kujitolea katika maendeleo ya jumuiya. Tunajitolea na kujitahidi tuwe katika hali ya kustahili imani yenu, kila siku.

Kama ilivyoahidiwa katika mkutano mkuu wa mwaka jana, tumewaletea matokeo ya kupendeza katika mwaka wa 2006. Tukiungwa mkono nanyi tunadhamiria kuwaletea matokeo mazuri zaidi katika mwaka wa 2007.

SHUKRANI

Katika mwaka uliokuwa na matokeo mazuri na maendeleo makubwa, ningependa kutoa shukrani zangu kwa Mkurugenzi Mkuu na wafanyakazi wetu wote kwa kazi yao nzuri kabisa na kwa kuendelea kujitolea kwao kwa Benki. Ningependa vile vile kuwasifu wanachama wote wa Bodi ya Wakurugenzi kwa mchango wao wa maana unaostahili sifa na umoja wao katika nia na njia ya kufanikisha shughuli. Kupitia kuungwa mkono nao na ushauri wao mwema, wamehakikisha kustawika kwa Benki na kulindwa kwa matakwa ya wenyehisa, ambao wana maono sawa na haya yetu, kutuheshimu na kutuamini.

Mwisho, ningependa kutoa shukrani zangu za dhati kwa Waziri wetu wa Maendeleo ya Vyama vya Ushirika na Mauzo Mheshimiwa Peter Ndwigwa EGH, MP na Rais wa Jamhuri yetu ya Kenya Mtukufu Mheshimiwa Mwai Kibaki, CGH, MP kwa kuunga mkono sana juhudi za 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.

CORPORATE GOVERNANCE

INTRODUCTION

Corporate governance is critical in enhancing the Bank's prosperity and corporate accounting, thus achieving the long term objective of improved shareholders' value while taking into account the interests of the other stakeholders. Good corporate governance ensures that the organization is well directed, controlled and held to account.

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. There are, also, processes and practices in place on an ongoing basis to ensure adherences to changes in corporate governance requirements. The Board has, also, gone through a self evaluation exercise to assess its effectiveness.

BOARD OF DIRECTORS

Composition of the Board

The Board consists of sixteen directors who possess a good mix of skills, experience and competencies 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. Dates of the meeting for the Board and its committees are scheduled and special meetings may be convened as and when material issues requiring decisions arise. Nine board meetings were held in the reporting year, one of which was a Board of Directors' strategic seminar. The attendance of members at the board meetings is reflected below:-

2006										
Attendance										
Director's							28-			%
Name	3.3.06	22.3.06	25.04.06	25.05.06	12.07.06	10.08.06	29.08.06	16.11.06	15.12.06	Attendance
S. C. Muchiri	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
J. Riungu	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
G. Muriuki	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
K. Mwangi	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
M. Malonza	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
S. Odhiambo (Mrs)	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
P.K. Githendu	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
G. Mburia	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
G. Wakasyaka	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
R. L. Kimanthi	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
W. Ongoro	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Dr. J. Kahunyo	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
C. Kabira	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
E.K. Mbogo	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
J. Sitienei	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
F. Odhiambo	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%

Role and Functions of the Board

The Board has fundamental, strategic, policy and formal matters which it is required to deal with. The Board has a manual that governs its operations in conformity with practices of good corporate governance. The manual contains the following matters:-

- The size, role and function of the Board including Board committees;
- Elections of the Board;
- An induction programme for newly appointed directors and training programme for all directors;
- Tenure of directors and removal of directors;
- How to manage potential conflicts of interest in the Board.

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 is responsible for providing leadership to the Bank and has the following duties and responsibilities:

- Setting the strategic direction of the Bank;
- 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
- Reviewing and reporting the performance of the Bank to shareholders and other stakeholders and ensuring the Bank meets other responsibilities to shareholders and other stakeholders.

CORPORATE GOVERNANCE

A comprehensive evaluation of the Board and individual directors is performed annually to validate the effectiveness at the Board and individual level and, also, enhance corporate governance.

Board Committees

Several Board committees exist to assist the Board in discharging its responsibilities. The committees operate within defined terms of reference which sets out the composition, role and responsibilities as mandated by the Board. The assistance to the Board is rendered in form of reported minutes which have to be formally endorsed by the main Board thus ensuring transparency and full disclosure of the committee activities. The Board committees are as follows:-

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

RISK MANAGEMENT AND INTERNAL CONTROLS

Risk Management

Risk Management continues to be a key focus area within the Bank. The Board recognizes that managing risks to ensure an optimal mix between risks and return is an integral part of achieving corporate goals and objectives. The Board has put in place procedures for identifying risks and implementing risk mitigation actions to ensure a coordinated approach to risk management. In this regard, the Board determines the risk appetite and has approved strategies that aid the Bank in determining the risk values from an enterprise wide risk perspective. 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.

The Bank has adopted the Enterprise wide risk Management, set up a Risk Management Division with the aim of embedding a risk management culture culminating to better focus and standardize risk management approach as proposed in Basel 11. The effectiveness of the approach being measured by lower risk costs.

Internal Controls

The Board has the ultimate responsibility in establishing a framework of internal controls and review of their effectiveness. The controls in Co-operative Bank focus on critical risk areas as identified by various groups focusing on risks. The Managing Director has the responsibility for establishing and implementing appropriate systems and controls in the running of the business of the Bank and providing assurance to the Board that he has done so. The system of internal control in place has defined procedures, 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.

Internal Audit

In line with good corporate governance, the Bank has an internal audit function. The Internal Audit function has the responsibility to give assurance to the Audit Board that the internal controls are appropriate and effective. This is achieved by means of an independent, objective appraisal of the internal controls and risk management as well as identifying corrective actions and suggesting remedial actions and improvements to the controls and processes.

The internal audit department audit findings are reported periodically to the Board of Directors through the Audit Board Committee.

CONDUCT OF BUSINESS

Conduct of business in the Bank is 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.

KEY MANAGEMENT COMMITTEES

The Board of Management is the executive committee whose members are the leaders of the various divisions in the Bank and is chaired by the Managing Director. The committee assists the Managing Director in guiding and controlling the overall direction of the business of the Bank and in exercising executive control and is responsible for ensuring the effective management of the day to day operations of the Bank. The committee meets regularly based on specific agenda and ad hoc meetings are called when necessary. The Board of Management is assisted in carrying out its duties by the various subcommittees, for instance, Asset and Liability Committee (ALCO), Business User Committee (BUSCO), IT User Prioritization Committee (IT USER), Training User Committee and the Expenditure Management Committee (Tender Committee) amongst others.

PERFORMANCE REPORTING TO STAKEHOLDERS

It is the responsibility of the Board to present a balanced and understandable assessment of the Bank's financial position and prospects. The Board is, also, required to disclose to shareholders any information that would materially affect either the value or worth of their investments and/or earnings there from. This assessment is provided in the Chairman's statement and the audited financial statements forming part of this report.

AUDIT AND SHAREHOLDER RELATIONS

The Bank's financial statements comply with International Accounting/Financial Reporting Standards (IAS/IFRS) and the requirements of the Co-operatives and Companies Acts and are audited in accordance with International Auditing Standards. The directors recognize their responsibility and confirm 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 the profit of the Group. All the elected Bank Delegates are invited to the Annual General Meeting and are free to put questions to the Board and auditors on matters concerning the group.

CORPORATE GOVERNANCE

CORPORATE SOCIAL REPORT

Ethical Business Standards

The Bank values excellence, integrity, innovation and customer satisfaction and is committed to best standards in ethical behaviour in all its dealings and decisions. The Board has established clear ethical guidelines embedded in the values of the Bank. These values have been cascaded downwards to staff in form of a code of ethics and in the employee's staff handbook. All employees must comply with these provisions.

We note that observing the highest ethical standards is vital in managing our risks and opportunities and will attract more like minded people and organizations ensuring prosperity 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.

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.

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.

S. C. Muchiri, EBS
Chairman

Gideon Muriuki, OGW
Managing Director

March 14, 2007



UONGOZI WA SHIRIKA

UTANGULIZI

Uongozi wa shirika ni muhimu sana katika kuzidisha mafanikio ya Benki na uwajibikaji wa shirika, hivyo basi kutekeleza malengo ya muda mrefu ya kustawisha thamani kwa wenyehisa huku ikitilia maanani matakwa ya washika dau wengine. Uongozi mzuri wa shirika unahakikisha ya kuwa utaratibu una mwelekeo imara, uliosimamiwa na kwa kuwajibika.

Benki ya Co-operative imejitolea kufuata viwango vya juu zaidi vya uongozi wa shirika katika shughuli zake zote. Kujitolea huku hakukutegemezwwa tu kwa hamu yetu ya kutimiza mahitaji ya uongozi wa shirika bali pia juu ya tunayoyathamini kwa undani na imani.

Bodi ina jukumu la kuweka utaratibu utakaofuatwa na kundi katika uongozi wa shirika na kutambua jukumu lake kwa wenye hisa na washika dau wengine katika kuunga mkono viwango vya juu katika uchumi, ya kijamii, , mazingira na maadili kwa kuhakikisha shirika linaendesha shughuli zake za biashara kwa kutumia desturi bora zaidi za uongozi wa shirika. Benki ya Co-operative imeweka utaratibu wa kutekeleza kikamilifu kanuni na vipengee vyote vya uongozi bora wa shirika kwa mujibu wa sampuli ya kanuni kielezo cha uongozi bora inayotolewa na kituo cha Centre for Corporate Governance, Kenya (CCG), Sheria za Vyama vya Ushirika na utaratibu wa busara (Prudential Guidelines) kutoka Benki Kuu ya Kenya chini ya sheria za mabanki. Vile vile kuna mfumo na utaratibu uliowekwa na kukaririwa mara kwa mara kuchukuana na mabadiliko yoyote yale katika mahitaji ya uongozi bora wa shirika. Bodi vile vile imepitia utaratibu wa kujitathmini yenyewe ili kukisia utenda kazi bora wake.

BODI YA WAKURUGENZI

Waliomo katika Bodi

Bodi inajumuisha wakurugenzi kumi na sita, wenye mchanganyiko wa ujuzi, uzoefu na ustadi katika taaluma mbali mbali za kufaa na wako na fursa nzuri ya kuendeleza biashara yetu mbele. Pindi wachaguliwapo wakurugenzi wote huwa na kipindi cha muda wa kutumika usioweza kugeuzwa.

Bodi yote kamilifu hukutana takriban mara sita kwa mwaka. Tarehe za mikutano ya Bodi na kamati zake huwa zimepangwa lakini mikutano maalum yaweza kupangwa kukiitokea maswala muhimu yanayohitaji maamuzi. Mikutano tisa (9) ya Bodi ilifanyika katika kipindi cha mwaka tunaouripotia, moja yao ikiwa semina ya kimkakati ya Bodi ya Wakurugenzi. Kuhudhuria kwa wanachama hao wa Bodi ni kama inavyoonyeshwa hapa chini;

2006	Kuhudhuria									
Jina La							28-			%
Mkurugenzi	3.3.06	22.3.06	25.04.06	25.05.06	12.07.06	10.08.06	29.08.06	16.11.06	15.12.06	Kuhudhuria
S. C. Muchiri	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
J. Riungu	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
G.Muriuki	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
K. Mwangi	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
M. Malonza	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
S. Odhiambo (Mrs)	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
P.K. Githendu	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
G. Mburia	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
G. Wakasyaka	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
R. L. Kimanthi	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
W. Ongoro	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Dkt. J. Kahunyo	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
C. Kabira	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
E.K.Mbogo	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
J.Sitienei	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
F.Odhiambo	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%

Jukumu na shughuli za Bodi

Bodi ina matendo ya kimsingi, kimkakati, ya desturi na muongozo ambayo inahitajika kutekeleza. Bodi ina kitabu cha maelezo kinachosimamia shughuli zake zote kuambatana na desturi ya Uongozi bora wa Shirika. Kitabu hiki cha maelezo kina mambo yafuatayo ndani yake:-

- Ukubwa, jukumu na shughuli za Bodi ikiwa ni pamoja na kamati za Bodi;
- Uchaguzi wa Bodi;
- Utaratibu wa kuingiza katika kazi wakurugenzi wapya waliochaguliwa na utaratibu wa mafunzo kwa wakurugenzi wote;
- Muda wa kutumika wa wakurugenzi na jinsi ya kuwaondoa wakurugenzi;
- Jinsi ya kusimamia uwezekano wa kuhitilafiana kwa shughuli za Wanabodi.

Kitabu kina mpangilio wa mambo yaliyotengwa hususan kwa tumikio la Bodi kuhakikisha inachukua usimamizi kamili unaohusu mkakati wa kina, kifedha, utendaji kazi na kufuata mambo yanayokubalika. Ina jukumu la kutoa uongozi kwa Benki na ina wajibu na majukumu yafuatayo:

- Kuweka mwelekeo wa kimkakati wa kuelekeza Benki;
- Kuanzisha na kusimamia mifumo yote ya Benki ya kupanga, uwekaji hesabu na usimamizi wa ndani;
- Kuweka muongozo wa usimamizi na kuhakikisha kuna usimamizi ufaao wa biashara ikiwa ni pamoja na kuchagua, kusimamia na kutoa malipo ya wasimamizi wakuu
- Kuhakikisha kuwa shughuli za biashara ya Benki zinaendeshwa kwa mujibu wa sheria na kanuni zote; na
- Kukagua na kuripoti utendaji kazi wa Benki kwa wenyekisa na washika dau wengine na kuhakikisha Benki inatimiza majukumu mengine yote ya wenyekisa na washika dau wengine.

Uchunguzi wa kina wa utendaji kazi wa Bodi na wakurugenzi binafsi hufanyika kila mwaka kuthibitisha wanatekeleza kazi zao barabara katika Bodi na juhudi zao kibinafsi na vile vile kuboresha uongozi wa shirika.

Kamati za Bodi

Kuna kamati kadhaa za kusaidia Bodi katika kutekeleza majukumu yake. Kamati hizi huendesha shughuli zake chini ya mapatano yaliyofafanuliwa wazi yaliyowekwa yarusuyo idadi ya kufanyiza, shughuli na majukumu kama yalivyoamriwa na Bodi. Usaidizi kwa Bodi unatolewa kwa njia ya ripoti zinazonukuliwa mikutanoni ambazo sharti zipitishwe rasmi na Bodi Kuu na hivyo basi kuhakikisha kuwa wazi na kueleza bayana kwa shughuli za kamati. Kamati za Bodi ni kama zifuatazo;

- Bodi Kuu
- Bodi ya Fedha na Dhima
- Bodi ya Wafanyikazi na Mafunzo
- Bodi ya ukaguzi wa Hesabu
- Bodi ya Kampuni ndogo washirika (mbili)

USIMAMIZI WA DHIMA NA UZUIFU WA NDANI

Usimamizi wa Dhima

Usimamizi wa dhima unaendelea kuwa eneo linalopewa kipaumbele katika Benki. Bodi inatambua kuwa usimamizi wa dhima kuhakikisha kuwa mchanganyo ufaao baina ya dhima na faida ni sehemu muhimu ya kutimiza malengo na shabaha ya shirika. Bodi imeweka utaratibu wa kutambua dhima na kuweka vizuizi dhidi yake kuhakikisha kuna mtazamo uliolinganishwa wa usimamizi wa dhima. Kutokana na hii, Bodi huyakinisha shauku ya dhima na imepitisha kuweko kwa mikakati inayosaidia Benki kutambua thamani ya dhima kwa mtazamo mpana wa ujasiri wa biashara. Kama uanzishaji muhimu wa usimamizi wa dhima, Benki imeweka kwayo mfumo mkamilifu wa kuanzisha na kutekeleza malengo, kukadiria utenda kazi dhidi ya malengo na kutekeleza hatua za kurekebisha na kuyakinisha mafanikio yaliyopatikana. Juu ya haya dhima hutambuliwa na kusimamiwa kupitia ukaguzi wa dhima wa ndani na mifumo ya ukaguzi wa hesabu wa ndani na wa nje.

Benki imechukua Usimamizi wa Ujasiri mpana wa biashara, ikaanzisha Kitengo cha Usimamizi Dhima kwa madhumuni ya kuweka imara utamaduni wa kusimamia dhima utakaopelekea kuweko kwa uangalifu mzuri na kipeo bora cha usimamizi wa dhima kama inavyopendekezwa katika Basel 11. Utekelezaji mzuri wa mtazamo huu unapimwa kwa dhima za gharama ndogo.

Usimamizi wa ndani

Bodi ina jukumu kuu la kuanzisha kiunzi cha uzuifu wa ndani na ukaguzi wa utendakazi bora wake. Shabaha ya uzuifu katika Benki ya Co-operative inalenga sehemu zenye dhima kubwa kama zinavyotambulika na makundi mbali mbali yatazamayo dhima kwa undani. Mkurugenzi Mkuu analo jukumu la kuanzisha na kutekeleza mipango ifaayo na usimamizi katika kuendesha shughuli za Benki na uthibitisho kwa Bodi kuwa amefanya hivyo. Mfumo wa uzuifu wa ndani ulioko umefafanua utaratibu wa shughuli na uzuifu wa kifedha

UONGOZI WA SHIRIKA

kuhakikisha rasilimali zimelindwa, shughuli za kibiashara zimeruhusiwa na kumbukumbu kuwekwa sawasawa, na makosa na kutotekelezwa kwa kanuni kumezuiwa au kutambulika katika kipindi kifaacho. Katika kukagua utendaji kazi bora wa mifumo ya uzuifu wa ndani na usimamizi wa dhima, Bodi inatilia maanani matokeo ya kazi yote iliyofanywa ya kukagua hesabu na ukaguzi wa shughuli za Benki na wakaguzi wa ndani na nje.

Ukaguzi wa ndani

Kwa mujibu wa uongozi bora wa shirika, Benki ina ukaguzi wa ndani. Kazi ya ukaguzi wa ndani ina jukumu la kutoa uhakikisho kwa Bodi ya Ukaguzi kuwa uzuifu wa ndani uko hasa kwa ilivyokusudiwa na unafanya kazi barabara. Hii inatekelezwa kwa kupitia ukaguzi wa kina ulio huru wa ndani na usimamizi wa dhima pamoja na kutambua njia za kurekebisha na kupendekeza njia za kuboresha mfumo wa usimamizi huo.

Matokeo ya ukaguzi wa idara ya ndani ya ukaguzi huripotiwa mara kwa mara kwa Bodi ya Wakurugenzi kupitia kamati ya Bodi ya Ukaguzi. Wanaokagua wana fursa ya kufikia. bila pingamizi zozote, kumbukumbu ya shughuli za Benki, rasilimali na wafanyakazi.

MAADILI YA BIASHARA

Maadili ya biashara katika Benki yamo chini ya mfumo wa kukabidhiana madaraka, yakitiliwa mkazo na mfumo ulio bayana na malengo, maelezo ya sera, utaratibu ulioandikwa na mwongozo wa usimamizi. Bodi imeanzisha muundo wa uongozi ambao unaeleza waziwazi wajibu, shughuli na za kutoa taarifa. Ukabidhiaji wa madaraka huwekwa katika nyaraka na kutangazwa kwa wote. Utaratibu wa kuendesha shughuli na usimamizi umewekwa kurahisisha utekelazaji mkamilifu, kwa uangalifu na kwa wakati muafaka na vile vile kulinda rasilimali. Uongozi huu wa kuzuia unajumuisha pia ufafanuzi wa wajibu, upatanisho wa kawaida wa hesabu na kukadiria thamani ya rasilimali na nafasi.

KAMATI MUHIMU ZA USIMAMIZI

Bodi ya Usimamizi ni kamati tekelezi ambayo wanachama wake ni wasimamizi wa idara mbali mbali katika Benki na mwenyekiti wake akiwa ni Mkurugenzi Mkuu. Kamati hii humsaidia Mkurugenzi Mkuu katika kuongoza na kusimamia mwelekeo wa shughuli za biashara za Benki na kutoa usimamizi tekelevu pamoja na jukumu la kuhakikisha shughuli za kawaida za kila siku katika Benki zinatekelezwa barabara. Kamati hukutana mara kwa mara kulingana na ajenda maalum na mikutano isiyopangiwa yaweza kuitishwa itokeapo dharura. Bodi ya Usimamizi husaidiwa katika kutekeleza kazi zake na kamati mbali mbali ndogo, kama vile, Asset and Liability Committee (ALCO), Business User Committee (BUSCO), IT User Prioritization Committee (IT USER), Training User Committee na Expenditure Management Committee (Ama kamati ya kutoa zabuni) katika nyingi nyingine.

UTEKELEZAJI NA KUARIFU WASHIKA DAU

Ni jukumu la Bodi kutoa makadirio yaliyo sawa na kufahamika kwa taarifa ya kifedha ya Benki, msimamo na matarajio yake. Bodi pia inatajikana kueleza bayana kwa wenyehisa habari zozote ambazo zaweza kuathiri kiasi au thamani ya kitega uchumi chao na/au faida yao humo. Ukadiriaji huu hutolewa katika taarifa ya Mwenyekiti na taarifa ya kifedha ya mwaka zilizokaguliwa, hizi zote zikiwa ni sehemu ya taarifa hii.

UKAGUZI NA UHUSIANO NA WENYEHISA

Taarifa ya kifedha ya Benki inaambatana na matarajio ya Uhasibu wa Kimataifa/Uwiano wa Ripoti za Kifedha (IAS/IFRS) na pia matarajio ya sheria za Vyama vya Ushirika na Mashirika na hukaguliwa kulingana na viwango vya Kimataifa vya Ukaguzi.

Wakurugenzi wanatambua jukumu lao na wanathibitisha kuwa taarifa hiyo ya kifedha inatoa taswira ya ukweli na ya sawa kuhusu hali ya kifedha ya Kundi na Benki na ya faida ya Kundi. Wenye hisa wote wanaalikwa katika Mkutano Mkuu wa Mwaka na wako huru kuuliza Bodi na Wakaguzi wa hesabu maswali wanayopenda kuhusu hali ya Kundi.

RIPOTI YA UWAJIBIKAJI WA SHIRIKA

Maadili ya Biashara na viwango vyake

Benki inathamini ubora wa kazi, uadilifu, ubunifu na kuridhisha mteja na inajitolea kuimarisha viwango vya juu vya utaratibu wa maadili katika shughuli zake na maamuzi yake yote. Bodi imeanzisha mwongozo ulio wazi wa maadili ambao ni undani wa vitu vinavyothaminiwa na Benki. Viwango hivi vimetiririka hadi chini kwa wafanyikazi kwa njia ya utaratibu wa kanuni na pia katika kijitabu cha mwongozo cha wafanyikazi. Wafanyikazi wote sharti wafuate vipengele hivi.

Tunafahamu kuwa kufuata viwango vya juu vya maadili ni muhimu sana katika usimamizi wa dhima na matarajio yetu na kuvutia watu wenye fikira sawa na kuhakikisha shirika linapata faida kutokana na biashara yake. Taarifa ya kuthibitisha utekelezaji wa mwongozo wa maadili hutiwa saina na kila mfanyakazi kila mwaka na wafanyakazi wapya pindi wajiungapo na shirika.

Afya, Usalama na Masilahi ya Mfanyikazi

Hali bora ya wateja wetu, wafanyikazi, wahudumu wetu na wananchi wote kwa jumla ni jambo muhimu sana la shughuli za Benki, ambayo huweka juhudi kutoa kwa wafanyikazi wote mazingira salama ya kazi na vile vile kwa wateja wetu na wahudumu pamoja na wananchi kwa ujumla.

Benki inajitolea kuhakikisha hali bora ya wafanyikazi wake. Benki inatekeleza sera ya kutoa nafasi sawa za kazi kwa wote ambao wana ujuzi na wanaostahili na inajitahidi kuwapa wafanyikazi wote mapatano sawa ya kazi. Wafanyakazi wote wanapatiwa mafunzo yafaayo hapa nchini na nchi za nje ili kuwahami na ujuzi utakaowasaidia katika kazi zao na kwa masilahi yao.

Ili kukabiliana na changamoto iletwayo na ugonjwa wa Ukimwi/HIV na matatizo yake, Benki imeweka sera ya kupambana na Ukimwi/HIV iliyojengwa kwa misingi isiyo na ubaguzi na uungaji mkono wa wafanyikazi ambao wameambukizwa au kuathiriwa na kuendelea kutoa mafunzo kwa wafanyikazi wote kuhusu janga hili na athari zake.

Utunzaji wa Mazingira

Miongoni mwa katika kiini cha mambo tunayoyathamini ni kuendesha biashara yetu huku tukitunza mazingira yetu. Hutekeleza haya kwa kuhakikisha kuwa shughuli zetu hazipelekei au kuchangia uharibifu wa mazingira. Kama mchango wetu wa ziada katika jumuiya vile vile tutaunga mkono juhudi zote za kupunguza na kuzuia uharibifu wa urithi wetu asilia.

UTIIFU WA SHERIA

Bodi imetosheka kuwa Benki imeweza, kadri ya uwezo wake, kutii sheria zote zilizowekwa na kuendesha shughuli za biashara zake kwa mujibu wa sheria na kanuni hasa zile za Vyama vya Ushirika na Zinazosimamia mabenki.

S. C. Muchiri, EBS
Mwenyekiti

Gideon Muruiki, OGW
Mkurugenzi Mkuu

Machi 14, 2007

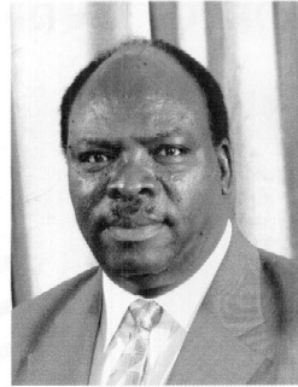
BOARD OF DIRECTORS



Mr. Gideon Muriuki, OGW
Managing Director



Mr. S C Muchiri, EBS
Chairman



Mr. J. Riungu
Vice Chairman



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



Mr. P. K. Githendu



Mr. C. Kabira



Dr. J. Kahunyo



Mr. R. L. Kimanthi



Mr. M. Malonza



Mr. E. K. Mbogo



Mr. G. Mburia



Mr. W. Ongoro



Mr. J. Sitienei



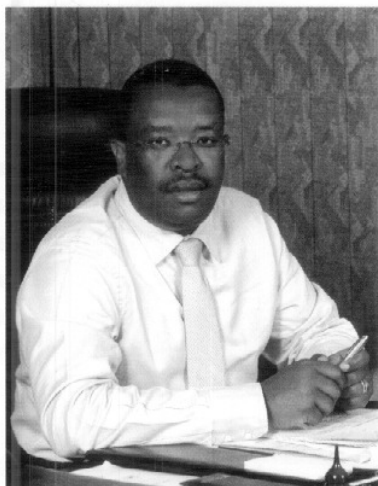
Mrs. S. Odhiambo



Mr. K. Mwangi



Mr. F. Odhiambo,
DSM, MBS



The directors submit their report together with the audited financial statements for the year ended 31 December 2006, 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 Kenya Limited and the Co-operative Consultancy Services Kenya 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 41.

DIVIDEND

The directors recommend the payment of a dividend of Kshs. 5.00 per share (2005 – Kshs. 5.00 per share).

RESERVES

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

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 as detailed herein. 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.

REPORT OF THE DIRECTORS

BRANCHES

The Bank has 38 branches and 5 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 approval of Central Bank of Kenya under section 24(1) of the Banking Act.

By order of the Board

Gideon Muriuki, OGW
Managing Director

March 14, 2007



TAARIFA YA WAKURUGENZI

Wakurugenzi wanatoa kwenu ripoti yao pamoja na taarifa za kifedha zilizokaguliwa katika mwaka unaomalizika tarehe 31 Disemba 2006, ambayo inaonyesha hali halisi ya shughuli za Kundi na za Benki.

SHUGHULI KUU

Benki inatoa huduma za kibenki na nyingine zinazohusiana na mambo ya fedha na ina leseni kuambatana na sheria za benki.

SHUGHULI ZA KUNDI

Matokeo ya shughuli za kampuni ndogo za Benki, Co-optrust Investment Services Kenya Limited na the Co-operative Consultancy Kenya Services Limited yameambatanishwa katika taarifa za kifedha za Kundi. Kampuni ya Co-operative Consultancy Services Limited hutoa ushauri kuhusu maswala ya kifedha. Kampuni ya Co-optrust Investment Services Limited hujihusisha katika biashara ya usimamizi wa hazina.

MATOKEO

Matokeo ya Kundi katika mwaka tunaouzungumzia yanaonyeshwa kwenye ukurasa wa 41.

MGAO

Wakurugenzi wanapendekeza malipo ya mgao wa faida wa shilingi 5.00 kwa kila hisa (2005 – shilingi 5.00 kwa kila hisa).

AKIBA

Mienendo ya akiba za Kundi inaonyeshwa kwenye ukurasa wa 44 katika taarifa hizi za kifedha.

UKURUGENZI

Benki ina ukurugenzi wenye Bodi ya wanachama 16 ambao 13 miongoni mwao wanawakilisha mfumo wa vyama vya ushirika, wawili wanawakilisha serikali na Mkurugenzi Mkuu. Bodi ina jukumu la maamuzi yote ya sera za mfumo na sheria za Benki. Hukutana mara kwa mara kutazama maombi ya mikopo na kuamua maswala ya sera za mwongozo kwa halmashauri. Wakurugenzi waliotumikia katika mwaka uliopita na hadi tarehe ya taarifa hii ni kama wanavyoonyeshwa katika ukurasa wa 2

WAFANYAKAZI

Benki imeweka timu madhubuti ya uongozi ambayo imeleta maendeleo makubwa katika shughuli na mpangilio wa kazi katika Benki. Mikakati ya timu hii na umoja wao na kujizatiti kwao ni bora zaidi na kumepelekea Benki kufikia matokeo ya aula ya juu zaidi kama inayoonyeshwa wazi humu.

TAARIFA YA WAKURUGENZI

Tunaendelea kuunda mazingira ambayo yatakutia na kuhifadhi wafanyikazi stadi huku tukihakikisha wana motisha ya kazi na wanajivunia na kuwa na hamu kubwa ya kuhudumia wateja wa Benki, hivyo basi kuifanya Benki yetu chaguo lao la kwanza.

MATAWI

Benki ina matawi 38 na vituo 5 vya Uajenti, ambayo yametapakaa kote katika nchi yetu kwenye mkusanyiko wa shughuli nyingi za kiuchumi.

KAMATI YA UKAGUZI HESABU

Kamati ya Benki ya ukaguzi hesabu inajumuisha:-

J. Riungu - Mwenyekiti
Dkt. J. Kahunyo
K Mwangi

WAKAGUZI WA HESABU

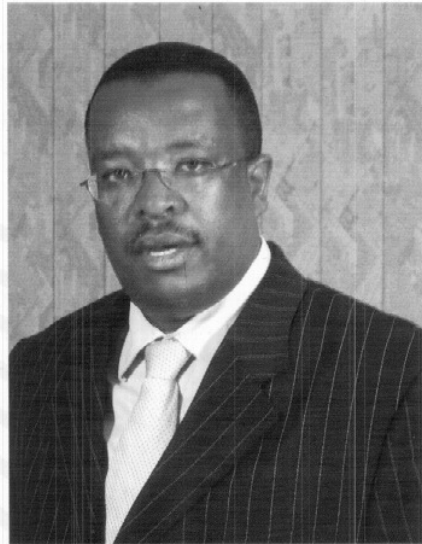
Wakaguzi wa hesabu, Ernst & Young, wameeleza kurithika kwao kuendelea kushikilia wadhifa huu kwa mujibu wa kifungu 25(3) cha sheria za vyama vya Ushirika. Wakurugenzi wanapendekeza kuchaguliwa kwao mara nyingine ikiwa Benki Kuu ya Kenya itaidhinisha chini ya kifungu 24(1) ya sheria za mabenki.

Kwa amri ya Bodi

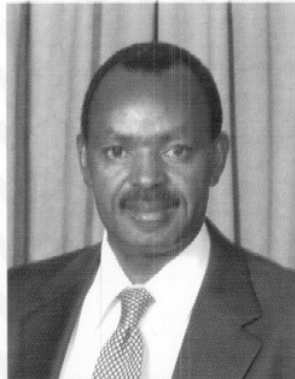
Gideon Muriuki, OGW
Mkurugenzi Mkuu

Machi 14, 2007

BOARD OF MANAGEMENT



Mr. Gideon Muriuki, OGW
Managing Director



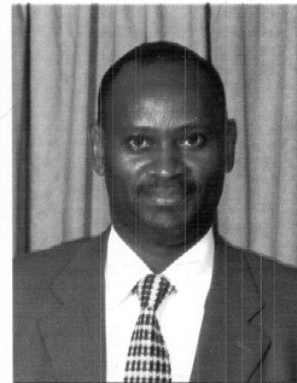
Mr. S. G. Mutungi
General Manager
Operations



Geoffrey Ndambuki
General Manager Corporate and
Institutional Banking Division



Mr. L. C. Karisa
General Manager
Finance & Administration



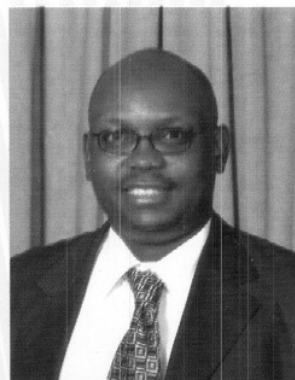
Mr. Z. Chianda
General Manager
Corporatives Banking



Mrs. R. Githaiga
Company Secretary



Mr. Sam Birech
General Manager
Retail Banking



Mr. A. M. Mburu
General Manager
Risk Management



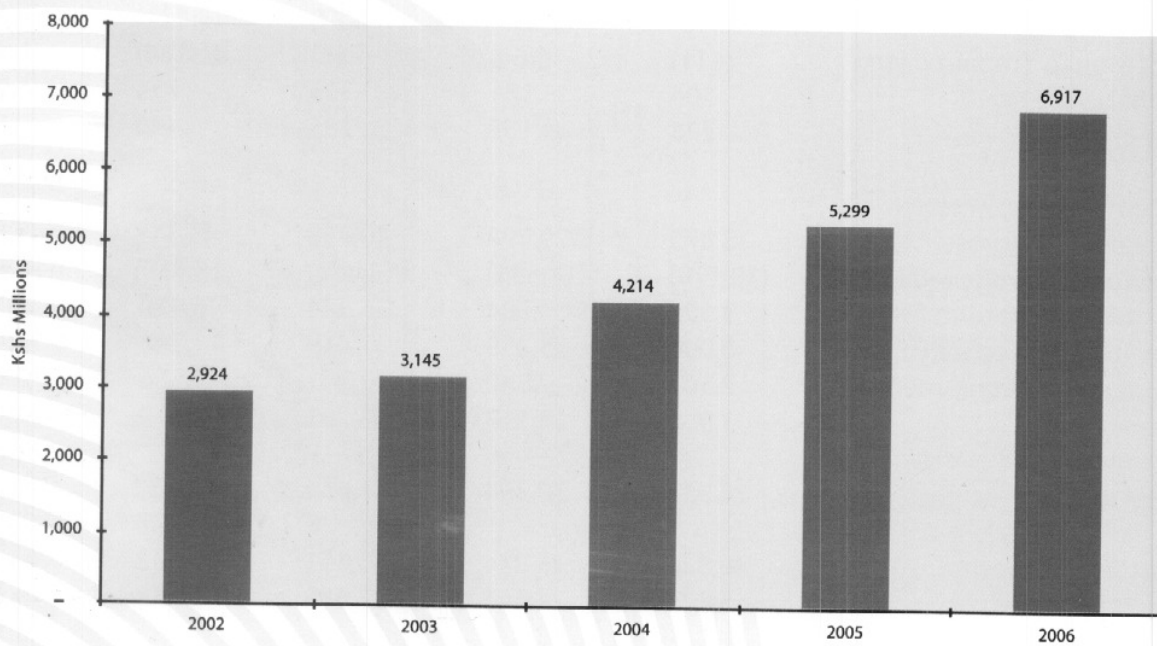
Ms. C. Mugadi
Treasurer

FIVE YEAR GROUP REVIEW

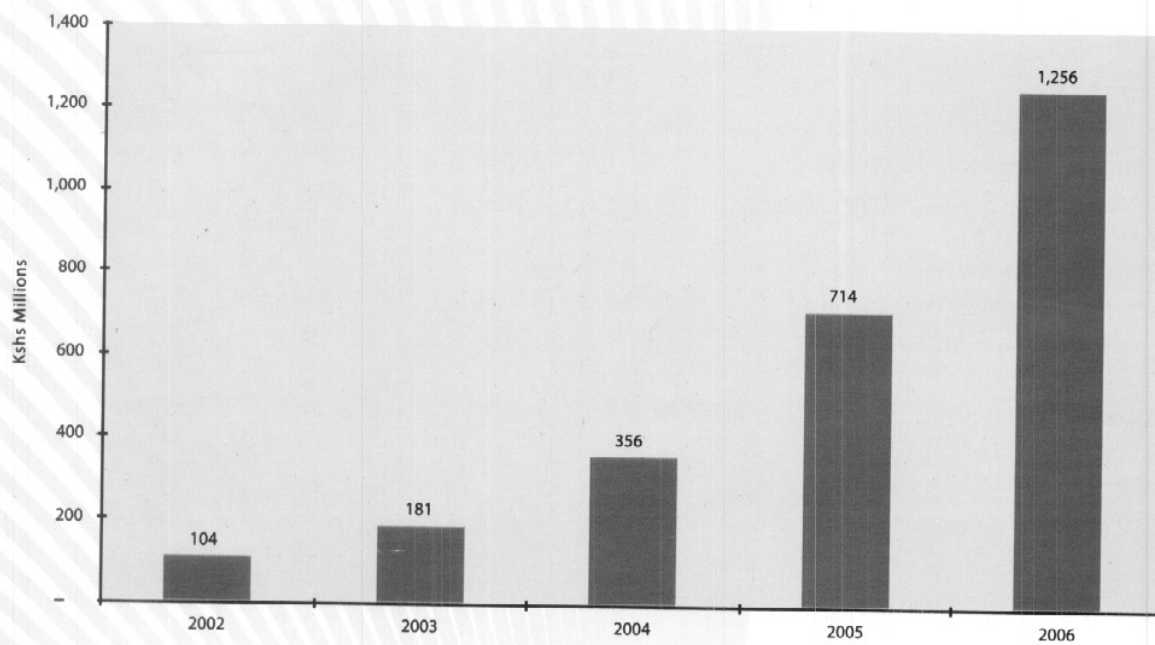
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	2002 Shs million	2003 Shs million	2004 Shs million	2005 Shs million	2006 Shs million
Operating income/Turnover	2,924	3,145	4,214	5,299	6,917
Operating expenses	(2,408)	(2,499)	(2,971)	(3,421)	(4,236)
Provision for Impaired loan	(411)	(464)	(886)	(1,164)	(1,425)
Profit before tax	104	181	356	714	1,256
Net profit	278	155	205	446	867
Loans and advances to customers (gross)	28,075	29,790	40,498	44,548	44,692
Provision for impaired loan	(10,179)	(11,695)	(13,489)	(15,459)	(16,656)
Cash and short term funds	3,528	3,584	6,344	6,420	8,715
Government securities	3,066	5,258	7,449	11,348	15,439
Property and Equipment	2,502	2,340	2,341	2,556	2,794
Other assets	1,965	3,117	3,291	2,419	2,704
Total assets	28,957	32,394	46,434	51,832	57,688
Customer deposits	20,828	25,814	35,151	43,602	48,183
Other liabilities	5,523	4,444	7,889	4,164	4,671
Total liabilities	26,351	30,258	43,040	47,766	52,854
Net Assets	2,606	2,136	3,394	4,066	4,834
Shareholders' funds	2,606	2,136	3,394	4,066	4,834
Performance ratios					
Return on capital employed	11%	7%	6%	11%	18%
Return on assets	1%	0.5%	0.4%	0.9%	1.5%
Provision charge/ advances	-1%	-2%	-2%	-3%	-3%
Balance sheet ratios					
Gross advances to deposits (%)	135%	115%	115%	102%	93%
Provision/ Gross advances (%)	-36%	-39%	-33%	-35%	-37%
Liquidity ratios	20.65%	31.30%	27.40%	35.70%	41.40%
Others					
Staff numbers	947	1,083	1,172	1,381	1,531

Turnover

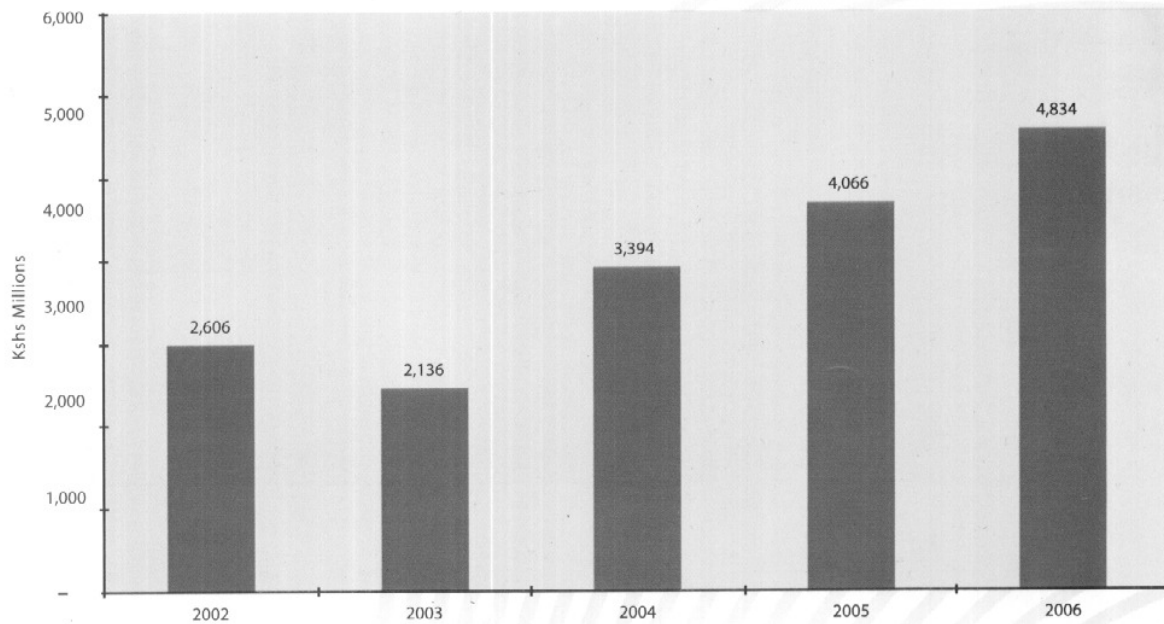


Profit Before Tax

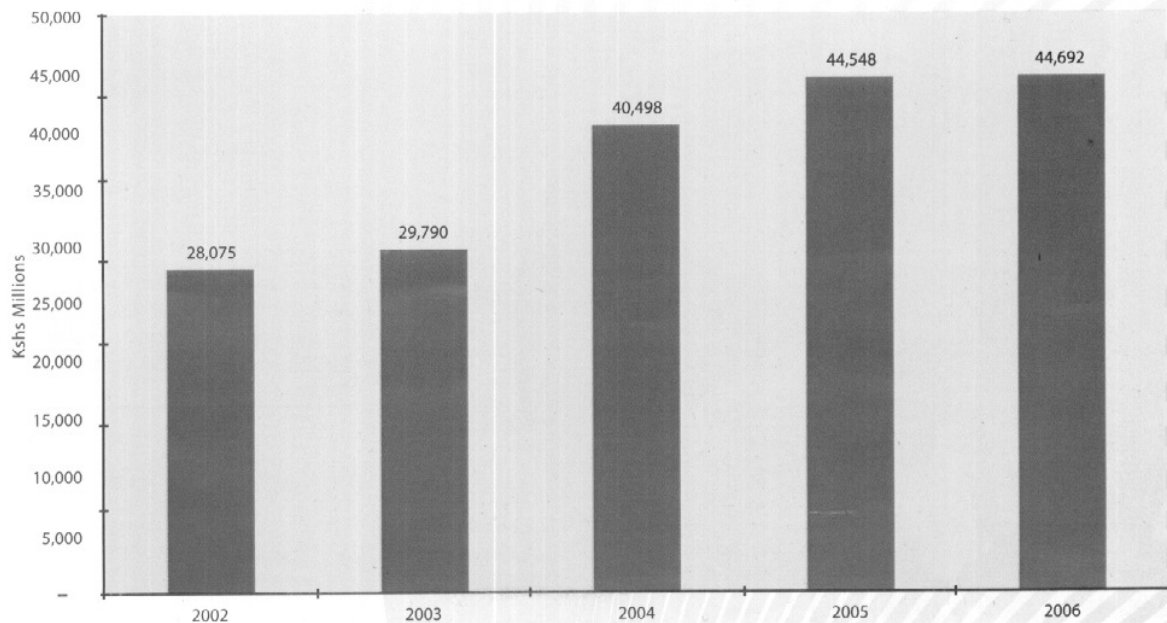


FIVE YEAR GROUP REVIEW

Shareholders' Funds



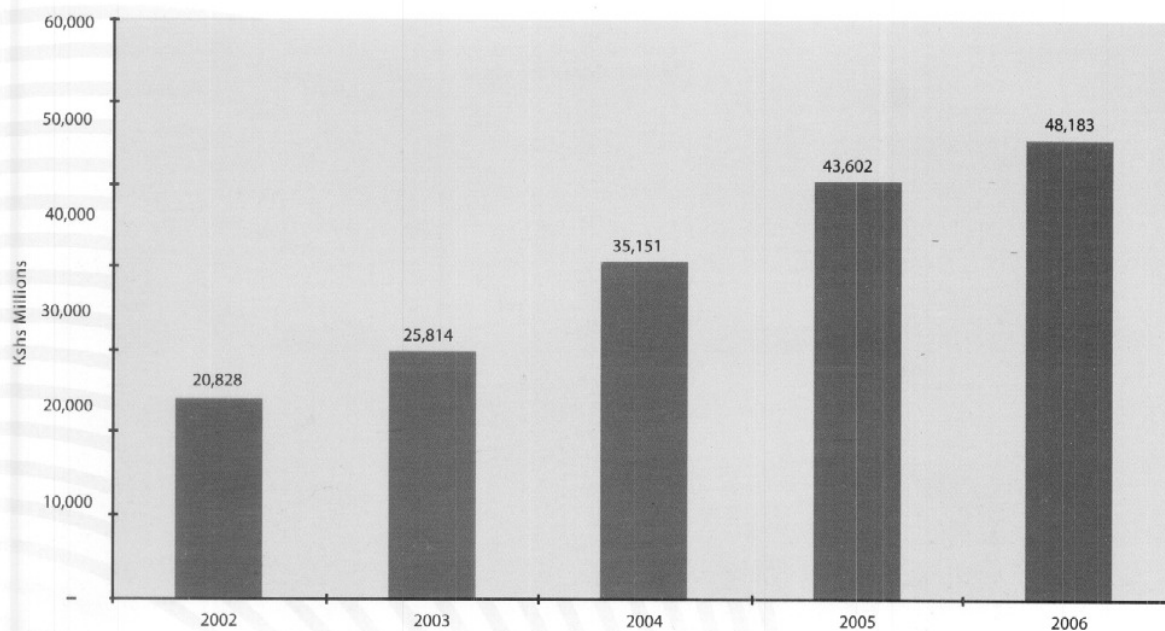
Advances To Customers (Gross)



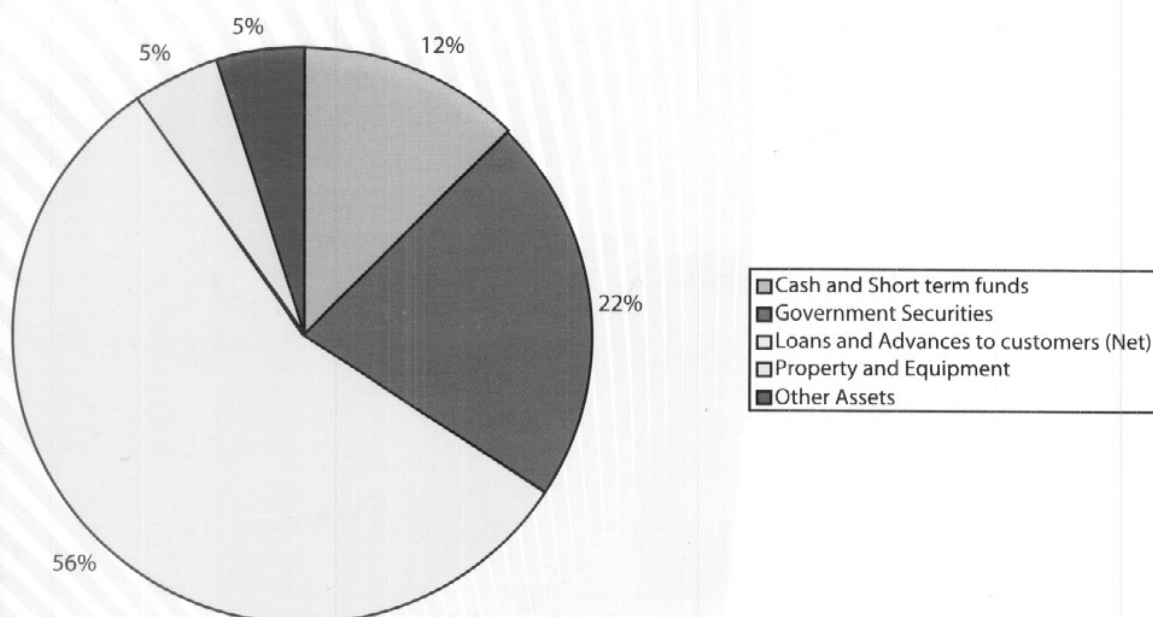


FIVE YEAR GROUP REVIEW

Customer Deposits

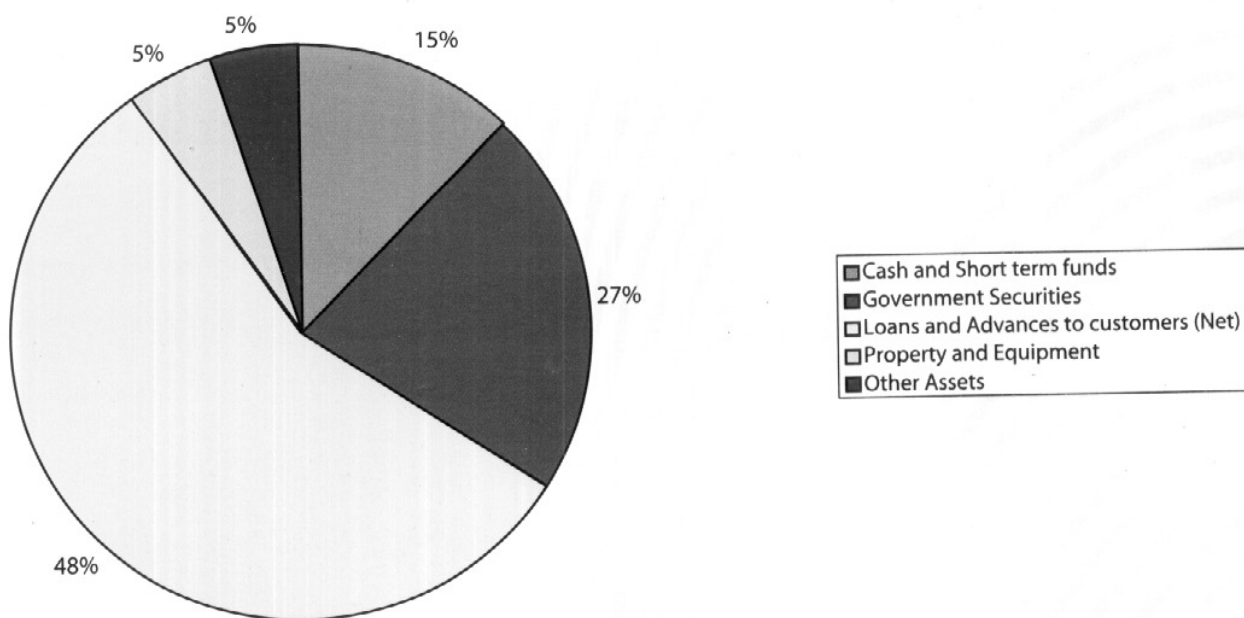


Distribution of Assets-2006



FIVE YEAR GROUP REVIEW

Distribution of Assets-2006





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.

S. C. Muchiri, EBS
CHAIRMAN

J. Riungu
VICE CHAIRMAN

Gideon Muriuki, OGW
MANAGING DIRECTOR

R. Githaiga (Mrs)
COMPANY SECRETARY

March 14, 2007

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF THE CO-OPERATIVE BANK OF KENYA LIMITED

We have audited the financial statements on pages 40 to 70 for the year ended 31 December 2006, and have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purpose of our audit. The financial statements are in agreement with the books of account.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE INDEPENDENT AUDITORS

As stated on page 38, 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, give a true and fair view of the state of the financial affairs of the Group and the Bank at 31 December 2006 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 the International Financial Reporting Standards.

 **ERNST & YOUNG**

Certified Public Accountants
Nairobi

March 14, 2007

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CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006

	Note	2006 KShs'000	2005 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	2	5,281,056	4,586,617
Deposits and balances due from banks	3	3,433,908	1,833,842
Trading investments	4	2,114,438	3,030,813
Non trading investments	6	13,325,043	8,317,075
Loans and advances to customers	7(a)	28,036,652	29,088,569
Other assets	8	2,366,386	2,011,868
Intangible assets	9	141,534	137,827
Prepaid lease rentals	10	42,592	43,196
Property and equipment	11(a)	2,793,787	2,556,410
Deferred tax	12	152,988	226,256
TOTAL ASSETS		<u>57,688,384</u>	<u>51,832,473</u>
LIABILITIES			
Deposits and balances due to banks	13	2,279,052	740,375
Customer deposits	14	48,182,587	43,601,821
Loans	15	283,469	1,918,161
Other borrowings	16	54,816	-
Tax payable	17(b)	334,754	1,658
Other liabilities	18	1,719,240	1,503,848
TOTAL LIABILITIES		<u>52,853,918</u>	<u>47,765,863</u>
EQUITY			
Share capital	19	2,660,363	2,618,977
Reserves		1,343,685	598,836
Capital grants	21	697,400	717,848
Proposed dividends	22	133,018	130,949
TOTAL EQUITY		<u>4,834,466</u>	<u>4,066,610</u>
TOTAL LIABILITIES & EQUITY		<u>57,688,384</u>	<u>51,832,473</u>

The financial statements were approved by the Board of Directors on March 14, 2007 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 STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 KShs'000	2005 KShs'000
Interest income	23	4,417,732	4,241,389
Interest expense	24	<u>1,078,849</u>	<u>1,498,820</u>
NET INTEREST INCOME		3,338,883	2,742,569
Commissions		2,508,935	2,124,093
Foreign exchange gain		299,110	196,713
Net gains from disposal of investments		18,033	1,806
Changes in fair value of investments		(76,544)	(30,016)
Amortisation of investments held to maturity		(29,118)	(35,288)
Amortisation of capital grants		20,448	28,217
Other income	25	<u>837,215</u>	<u>270,689</u>
OPERATING INCOME		<u>6,916,962</u>	<u>5,298,783</u>
Operating expenses:-			
Provision for impairment of loans and advances	7c (i)	1,424,644	1,163,557
Other operating expenses	26	<u>4,236,318</u>	<u>3,421,225</u>
OPERATING EXPENSES		<u>5,660,962</u>	<u>4,584,782</u>
PROFIT BEFORE TAXATION	27	1,256,000	714,001
TAX CHARGE	17(a)	<u>(389,488)</u>	<u>(267,867)</u>
PROFIT FOR THE YEAR		<u>866,512</u>	<u>446,134</u>
Earnings per share (KShs)	28	<u>32.83</u>	<u>27.36</u>



BANK BALANCE SHEET **AS AT 31 DECEMBER 2006**

	Note	2006 KShs'000	2005 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	2	5,281,056	4,586,617
Deposits and balances due from banks	3	3,433,908	1,833,842
Trading investments	4	2,103,638	3,030,175
Amount due from subsidiary company	5(a)	-	3,755
Non trading investments	6	13,359,411	8,375,994
Loans and advances to customers	7(a)	28,036,921	29,088,569
Other assets	8	2,336,645	1,956,582
Intangible assets	9	141,534	137,827
Prepaid lease rentals	10	42,592	43,196
Property and equipment	11(b)	2,789,957	2,555,156
Deferred tax	12	<u>152,839</u>	<u>225,816</u>
TOTAL ASSETS		<u>57,678,501</u>	<u>51,837,529</u>
LIABILITIES			
Deposits and balances due to banks	13	2,279,052	740,375
Customer deposits	14	48,200,693	43,617,508
Loans	15	283,469	1,918,161
Other borrowings	16	54,816	-
Amount due to subsidiary company	5(b)	3,328	-
Tax payable	17(b)	330,607	2,124
Other liabilities	18	<u>1,716,736</u>	<u>1,502,531</u>
TOTAL LIABILITIES		<u>52,868,701</u>	<u>47,780,699</u>
EQUITY			
Share capital	19	2,660,363	2,618,977
Reserves	20	1,319,019	589,056
Capital grants	21	697,400	717,848
Proposed dividends	22	<u>133,018</u>	<u>130,949</u>
TOTAL EQUITY		<u>4,809,800</u>	<u>4,056,830</u>
TOTAL LIABILITIES & EQUITY		<u>57,678,501</u>	<u>51,837,529</u>

The financial statements were approved by the Board of Directors on March 14, 2007 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
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 KShs'000	2005 KShs'000
Interest income	23	4,414,411	4,240,041
Interest expense	24	<u>1,078,849</u>	<u>1,498,820</u>
NET INTEREST INCOME		3,335,562	2,741,221
Commissions		2,458,541	2,088,474
Foreign exchange gain		299,110	196,713
Net gains(loss) from disposal of investments		17,790	(1,139)
Changes in fair value of investments		(76,538)	(30,016)
Amortisation of investments held to maturity		(28,993)	(35,288)
Amortisation of capital grants		20,448	28,217
Other income	25	<u>831,135</u>	<u>270,689</u>
OPERATING INCOME		6,857,055	5,258,871
Provision for impairment of loans and advances	7c (i)	1,424,644	1,163,557
Other operating expenses	26	<u>4,198,980</u>	<u>3,389,669</u>
OPERATING EXPENSES		5,623,624	4,553,226
PROFIT BEFORE TAXATION	27	1,233,431	705,645
TAX CHARGE	17(a)	<u>(381,806)</u>	<u>(265,685)</u>
PROFIT FOR THE YEAR		851,625	439,960
Earnings per share (KShs)	28	<u>32.26</u>	<u>27.04</u>



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY **FOR THE YEAR ENDED 31 DECEMBER 2006**

	Share capital KShs'000	Capital reserve KShs'000	General reserve KShs'000	Share transfer fund KShs'000	Share fractions KShs'000	Proposed dividends KShs'000	Revenue reserves KShs'000	Total KShs'000
Balance at 1 January 2005	2,285,048	315,877	3,100	522	63	91,402	(48,031)	2,647,981
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
Dividends paid	-	-	-	-	-	(91,402)	-	(91,402)
Profit for the year	-	-	-	-	-	-	446,134	446,134
Proposed dividends	-	-	-	-	-	130,949	(130,949)	-
BALANCE AT 31 DECEMBER 2005	<u>2,618,977</u>	<u>312,819</u>	<u>3,100</u>	<u>522</u>	<u>67</u>	<u>130,949</u>	<u>282,328</u>	<u>3,348,762</u>
Balance at 1 January 2006	2,618,977	312,819	3,100	522	67	130,949	282,328	3,348,762
Realisation of revaluation surplus	-	(4,368)	-	-	-	-	4,368	-
Net movement in revenue grants for the year	-	-	-	-	-	-	10,042	10,042
Deferred tax	-	1,310	-	-	-	-	-	1,310
Issue of shares	41,386	-	-	-	3	-	-	41,389
Dividends paid	-	-	-	-	-	(130,949)	-	(130,949)
Profit for the year	-	-	-	-	-	-	866,512	866,512
Proposed dividends	-	-	-	-	-	133,018	(133,018)	-
BALANCE AT 31 DECEMBER 2006	<u>2,660,363</u>	<u>309,761</u>	<u>3,100</u>	<u>522</u>	<u>70</u>	<u>133,018</u>	<u>1,030,232</u>	<u>4,137,066</u>

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 KShs'000	2005 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES:-			
Profit before taxation		1,256,000	714,001
Adjustments for:			
Depreciation		281,004	325,945
Amortisation of prepaid lease rentals		604	716
Provision for diminution in value of investment		1,400	1,400
Impairment of plant, property and equipment		38,602	-
Amortisation of intangible assets		66,511	83,361
Amortisation of capital grants		(20,448)	(28,217)
Gain on sale of fixed assets		(1,693)	(2,131)
Foreign exchange gain		(299,110)	(196,713)
Unrealised loss on re-measurement of investments		76,544	30,016
Amortisation of investments held to maturity		29,118	35,288
Dividend income		-	(116)
Cash flows from operating activities before working capital changes		1,428,532	963,550
Advances to customers		1,051,917	(2,079,855)
Other assets		(336,628)	514,701
Deposits from customers		4,580,766	8,172,261
Deposits from banking institutions		1,538,677	(3,564,260)
Other liabilities		215,392	318,443
Central Bank of Kenya cash ratio		(436,836)	(464,073)
Trading investments		839,831	269,866
Non-trading investments		(4,784,930)	177,900
Cash generated by operating activities		4,096,721	4,308,533
Tax paid		(20,179)	(3,902)
Net cash flow from operating activities		4,076,542	4,304,631
CASH FLOWS FROM INVESTING ACTIVITIES:-			
Purchase of property & equipment		(560,024)	(548,528)
Purchase of software		(67,802)	(65,452)
Proceeds from disposal of property and equipment		2,318	4,336
Dividends received		-	116
Net cash flow from investing activities:-		(625,508)	(609,528)
CASH FLOWS FROM FINANCING ACTIVITIES:-			
Proceeds on issue of share capital		41,386	333,930
Loans received		60,316	-
Dividends paid		(130,949)	(91,402)
Proceeds from loans		(1,640,192)	(235,500)
Share fractions		3	4
Net cash flow from financing activities		(1,669,436)	7,032
Net movement in cash and cash equivalents		1,781,598	3,702,135
Cash and cash equivalents at the beginning of the year		8,199,496	4,300,648
Foreign exchange gain		299,110	196,713
Cash and cash equivalents at the end of the year	29	10,280,204	8,199,496

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

1. 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) Recognition of income and expenses

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

i) Interest and similar income and expenses

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial instruments, interest income or expense is recognised at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recognised as interest income or expense.

Interest income is recognised in the income statement for all interest bearing instruments on an accrual basis taking into account the effective yield on the asset. 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

ii) Dividend income

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.

iii) Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party is recognised on completion of the underlying transaction.

iv) Rental income

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

1. ACCOUNTING POLICIES (continued)

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.

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.

In addition to specific allowances against individual significant loans and advances, the Group makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration such factors as any deterioration in industry, technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

A general provision is made at the rate of 1% of loans and advances classified under normal and 3% for watch categories as per the Central Bank of 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) Financial Instruments

i) Loans and advances to customers

Loans and advances to customers are financial assets with fixed or determinable payments and are not quoted in an active market. After initial measurement at cost, loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate.

ii) Investments held for trading

Investments held for trading are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Investments held for trading are initially recognised at cost and subsequently re-measured at fair value based on quoted bid prices or dealer price quotations, without any deduction for transaction costs. All related realised and unrealised gains and losses are included in the income statement. Interest earned whilst holding held for trading investments is reported as interest income.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

1. ACCOUNTING POLICIES (continued)

iii) Held to maturity investments

Held to maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Group has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation and losses arising from impairment of such investments are recognised in the income statement.

iv) Available for sale investments

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity, or changes in interest rates, exchange rates or equity prices are classified as available for sale and are initially recognised at cost. Available for sale investments are subsequently re-measured at fair value, based on quoted bid prices or amount derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of securities classified as available for sale are recognised directly in equity until the asset is de-recognised, at which time the cumulative gains or losses previously recognised in equity shall be recognised in the income statement.

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 Kenya Limited and Co-operative Consultancy Services Kenya Limited, both wholly owned subsidiaries of the Bank, have been incorporated in the Group financial statements.

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

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

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

k) Employee benefits

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

1. ACCOUNTING POLICIES (continued)

l) Taxation

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

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

m) Grants

Grants related to property and equipment are 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) are 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.

p) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its financial assets, tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amounts of the asset is estimated and an impairment loss is recognised in the income statement whenever the carrying amount of the asset exceeds its recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, the Directors estimate the recoverable amount of the cash-generated unit to which the asset belongs.

q) Guarantees, acceptances and letters of credit

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

r) Dividends

Dividends are charged to equity in the year in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

2. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
Cash on hand	2,196,647	1,372,319	2,196,647	1,372,319
Central Bank of Kenya	3,084,409	3,214,298	3,084,409	3,214,298
	<u>5,281,056</u>	<u>4,586,617</u>	<u>5,281,056</u>	<u>4,586,617</u>

3. DEPOSITS AND BALANCES DUE FROM BANKS

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
Commercial banks	287,840	788,889	287,840	788,889
Foreign banks	3,146,068	1,044,953	3,146,068	1,044,953
	<u>3,433,908</u>	<u>1,833,842</u>	<u>3,433,908</u>	<u>1,833,842</u>

4. TRADING INVESTMENTS

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
Treasury bonds maturing after 91 days of the balance sheet date	2,114,438	3,030,813	2,103,638	3,030,175

5 (a) AMOUNTS DUE FROM SUBSIDIARY COMPANY

	BANK	
	2006	2005
	KShs'000	KShs'000
Co-optrust Investments Services Limited	-	3,755

Interest is not charged on amounts from group companies

(b) AMOUNTS DUE TO SUBSIDIARY COMPANY

	BANK	
	2006	2005
	KShs'000	KShs'000
Co-op Consultancy Services Limited	<u>3,328</u>	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

6. NON TRADING INVESTMENTS

	GROUP		BANK	
	2006 KShs'000	2005 KShs'000	2006 KShs'000	2005 KShs'000
a) Held to maturity investments				
Government treasury bills	4,427,729	4,216,178	4,427,729	4,216,178
Treasury bonds maturing within 91 days of the balance sheet date	101,471	89,983	101,471	89,983
Treasury bonds maturing after 91 days of the balance sheet date	<u>8,717,744</u>	<u>3,931,415</u>	<u>8,692,112</u>	<u>3,930,334</u>
	<u>13,246,944</u>	<u>8,237,576</u>	<u>13,221,312</u>	<u>8,236,495</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	40,000
Co-op Trust Investment Services Ltd 100%	-	-	20,000	20,000
	<u>40,000</u>	<u>40,000</u>	<u>100,000</u>	<u>100,000</u>
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%	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>
	45,099	45,099	45,099	45,099
Less: Provision for diminution in value of investment in Consolidated Bank of Kenya Ltd	<u>(7,000)</u>	<u>(5,600)</u>	<u>(7,000)</u>	<u>(5,600)</u>
	<u>38,099</u>	<u>39,499</u>	<u>38,099</u>	<u>39,499</u>
Total equity investments	<u>78,099</u>	<u>79,499</u>	<u>138,099</u>	<u>139,499</u>
Total non trading investments	<u>13,325,043</u>	<u>8,317,075</u>	<u>13,359,411</u>	<u>8,375,994</u>

The weighted average effective interest rate on held to maturity investments as at 31 December 2006 was 8.1% (2005-8.1%)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

6. NON TRADING INVESTMENTS (continued)

iii) Co-operative House Limited is a non-trading, wholly owned subsidiary of the Bank. Co-operative, Consultancy Services Kenya Limited and Co-opTrust Investment Services Kenya 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 the determination of fair value. In the opinion of the directors, the above investments would, if sold, realise not less than the amounts at which they are stated.

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	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
a) Net loans and advances				
Overdrafts	1,952,233	2,611,361	1,952,502	2,611,361
Commercial loans	39,262,839	38,110,985	39,262,839	38,110,985
Government/Donor funded loan schemes	2,024,695	2,709,142	2,024,695	2,709,142
Credit card balances	857,693	669,071	857,693	669,071
Micro enterprises	594,819	447,304	594,819	447,304
Gross loans and advances	44,692,279	44,547,863	44,692,548	44,547,863
Provision for impairment of loans and advances (note 7c)	(16,655,627)	(15,459,294)	(16,655,627)	(15,459,294)
	<u>28,036,652</u>	<u>29,088,569</u>	<u>28,036,921</u>	<u>29,088,569</u>
b) Sectoral analysis:-				
Agriculture	5,001,239	7,740,361	5,001,239	7,740,361
Manufacturing	622,602	158,557	622,602	158,557
Construction	7,581,418	8,866,938	7,581,418	8,866,938
Service	19,185,520	13,502,082	19,185,789	13,502,082
Other	12,301,500	14,279,925	12,301,500	14,279,925
	<u>44,692,279</u>	<u>44,547,863</u>	<u>44,692,548</u>	<u>44,547,863</u>
c) Provision for impairment of loans and advances				
(i) Specific provisions:				
Balance at 1 January	15,074,593	12,969,446	15,074,593	12,969,446
Specific provisions made during the year	1,424,644	1,163,557	1,424,644	1,163,557
Interest not recognised as income/(expenses)	(208,502)	996,642	(208,502)	996,642
Specific provisions written back	(19,809)	(55,052)	(19,809)	(55,052)
Balance as at 31 December	<u>16,270,926</u>	<u>15,074,593</u>	<u>16,270,926</u>	<u>15,074,593</u>
(ii) General Provisions:				
Balance at 1 January	384,701	519,611	384,701	519,611
General provisions written back	-	(134,910)	-	(134,910)
Balance at 31 December	<u>384,701</u>	<u>384,701</u>	<u>384,701</u>	<u>384,701</u>
	<u>16,655,627</u>	<u>15,459,294</u>	<u>16,655,627</u>	<u>15,459,294</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

7. ADVANCES TO CUSTOMERS (continued)

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 17.47 billion (2005 KShs. 17.78 billion).

e)The weighted average effective interest rate at 31 December 2006 on loans and advances was 9.75% (2005 – 10.37%)

8. OTHER ASSETS

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
Interest receivable	291,453	235,960	291,453	235,960
Deposits with default financial institutions	43,052	43,052	43,052	43,052
Deferred clearing	1,497,652	1,196,747	1,497,652	1,196,747
Sundry debtors and prepayments	577,281	579,161	547,540	523,875
	<u>2,409,438</u>	<u>2,054,920</u>	<u>2,379,697</u>	<u>1,999,634</u>
Provision for deposits with default financial institutions	(43,052)	(43,052)	(43,052)	(43,052)
	<u>2,366,386</u>	<u>2,011,868</u>	<u>2,336,645</u>	<u>1,956,582</u>

9. INTANGIBLE ASSETS

Software in use by the group companies:

Cost at 1 January	427,139	357,127	411,677	341,665
Transfers	164,160	4,560	164,160	4,560
Additions	<u>67,802</u>	<u>65,452</u>	<u>67,802</u>	<u>65,452</u>
Cost at 31 December	<u>659,101</u>	<u>427,139</u>	<u>643,639</u>	<u>411,677</u>
Accumulated amortisation at 1 January	289,312	204,127	273,850	189,689
Transfers	161,744	1,824	161,744	1,824
Amortisation for the year	<u>66,511</u>	<u>83,361</u>	<u>66,511</u>	<u>82,337</u>
Accumulated amortisation at 31 December	<u>517,567</u>	<u>289,312</u>	<u>502,105</u>	<u>273,850</u>
Net book value at 31 December	<u>141,534</u>	<u>137,827</u>	<u>141,534</u>	<u>137,827</u>

10. PREPAID LEASE RENTALS

	GROUP AND BANK	
	2006	2005
	KShs'000	KShs'000
Cost		
At 1 January and 31 December	<u>55,568</u>	<u>55,568</u>
Amortisation:		
At 1 January	(12,372)	(11,656)
Charge for the year	<u>(604)</u>	<u>(716)</u>
At 31 December	<u>(12,976)</u>	<u>(12,372)</u>
Net book value at 31 December	<u>42,592</u>	<u>43,196</u>

Prepaid lease rentals relate to the cost of leasehold land.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

11(a) PROPERTY AND EQUIPMENT-GROUP

	Freehold land & buildings	Capital work-in-progress	Office machinery	Furniture & equipment	Motor vehicles	Fixtures	Computers	Total
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
At 1 January 2006	1,759,087	225,491	65,186	479,355	116,869	714,933	1,412,695	4,773,616
Additions	-	256,878	11,120	59,296	8,782	2,909	221,039	560,024
Disposals	-	-	-	-	(12,375)	-	-	(12,375)
Reclassification	-	-	-	-	-	-	-	(164,160)
Impairment	-	(31,372)	21,684	(57,683)	-	(13,480)	(52,062)	(132,913)
At 31 December 2006	1,759,087	450,997	97,990	480,968	113,276	704,362	1,417,512	5,024,192
Comprising:								
Cost	1,287,912	450,997	97,990	480,968	113,276	704,362	1,417,512	4,553,017
Valuation	471,175	-	-	-	-	-	-	471,175
DEPRECIATION	1,759,087	450,997	97,990	480,968	113,276	704,362	1,417,512	5,024,192
At 1 January 2006	203,329	-	47,023	382,556	85,445	413,065	1,085,788	2,217,206
Charge for the year	42,767	-	7,447	35,897	14,814	50,525	129,554	281,004
Disposals	-	-	-	-	(11,750)	-	-	(11,750)
Reclassification	-	-	-	-	-	-	-	(161,744)
Impairment	(2,157)	-	24,636	(50,791)	(1,430)	(11,223)	(53,346)	(94,311)
At 31 December 2006	243,939	-	79,106	367,662	87,079	452,367	1,000,252	2,230,405
NET BOOK VALUE	1,515,148	450,997	18,884	113,306	26,197	251,995	417,260	2,793,787
At 31 December 2006	1,515,148	450,997	18,884	113,306	26,197	251,995	417,260	2,793,787

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

ii. Buildings were revalued in February 1996 by Gathuru, 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 (2005-KShs 55,426,467) against which no depreciation has been charged, as these are not in use.

iv. No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 1,495,286,649 (2005-KShs 1,208,945,160), 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. 231,472,145 (2005-KShs. 221,217,971). Included in these fully depreciated assets is KShs 4,156,602 representing idle assets in the process of being disposed.

v. During the year, the group carried out a physical verification of its property and equipment. As a result computer software previously classified as computers were

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

reclassified to intangible assets. The management also carried out an impairment review and the resultant impairment loss recognised in the income statement. Fully depreciated assets no longer in use were written off.

11(a) PROPERTY AND EQUIPMENT-GROUP(Continued)

	Freehold land & buildings 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	<u>1,759,087</u>	<u>225,491</u>	<u>65,186</u>	<u>479,355</u>	<u>116,869</u>	<u>714,933</u>	<u>1,412,695</u>	<u>4,773,616</u>
Comprising:								
Cost	1,287,912	225,491	65,186	479,355	116,869	714,933	1,412,695	4,302,441
Valuation	<u>471,175</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>471,175</u>
	<u>1,759,087</u>	<u>225,491</u>	<u>65,186</u>	<u>479,355</u>	<u>116,869</u>	<u>714,933</u>	<u>1,412,695</u>	<u>4,773,616</u>
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	<u>203,329</u>	<u>-</u>	<u>47,023</u>	<u>382,556</u>	<u>85,445</u>	<u>413,065</u>	<u>1,085,788</u>	<u>2,217,206</u>
NET BOOK VALUE								
At 31 December 2005	<u>1,555,758</u>	<u>225,491</u>	<u>18,163</u>	<u>96,799</u>	<u>31,424</u>	<u>301,868</u>	<u>326,907</u>	<u>2,556,410</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

11(b) PROPERTY AND EQUIPMENT-BANK

	Freehold land & buildings 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 2006	1,759,087	225,491	65,185	478,316	116,871	714,933	1,411,102	4,770,985
Additions	-	256,878	11,120	59,039	6,497	2,909	220,412	556,855
Disposals	-	-	-	-	(12,375)	-	-	(12,375)
Reclassification	-	-	-	-	-	-	(164,160)	(164,160)
Impairment	-	(31,372)	21,684	(57,760)	-	(13,480)	(52,062)	(132,990)
	<u>1,759,087</u>	<u>450,997</u>	<u>97,989</u>	<u>479,595</u>	<u>110,993</u>	<u>704,362</u>	<u>1,415,292</u>	<u>5,018,315</u>
At 31 December 2006								
Comprising:								
Cost	1,287,912	450,997	97,989	479,595	110,993	704,362	1,415,292	4,547,140
Valuation	471,175	-	-	-	-	-	-	471,175
	<u>1,759,087</u>	<u>450,997</u>	<u>97,989</u>	<u>479,595</u>	<u>110,993</u>	<u>704,362</u>	<u>1,415,292</u>	<u>5,018,315</u>
DEPRECIATION								
At 1 January 2006	203,329	-	47,023	382,032	85,445	413,065	1,084,935	2,215,829
Charge for the year	42,767	-	7,447	35,683	14,662	50,525	129,265	280,349
Disposals	-	-	-	-	(11,750)	-	-	(11,750)
Reclassification	-	-	-	-	-	-	(161,744)	(161,744)
Impairment	(2,157)	-	24,636	(50,806)	(1,430)	(11,223)	(53,346)	(94,326)
	<u>243,939</u>	<u>-</u>	<u>79,106</u>	<u>366,909</u>	<u>86,927</u>	<u>452,367</u>	<u>999,110</u>	<u>2,228,358</u>
At 31 December 2006								
NET BOOK VALUE								
At 31 December 2006	<u>1,515,148</u>	<u>450,997</u>	<u>18,883</u>	<u>112,686</u>	<u>24,066</u>	<u>251,995</u>	<u>416,182</u>	<u>2,789,957</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

11(b) PROPERTY AND EQUIPMENT-BANK (Continued)

	Freehold land & buildings 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	<u>1,759,087</u>	<u>225,491</u>	<u>65,185</u>	<u>478,316</u>	<u>116,871</u>	<u>714,933</u>	<u>1,411,102</u>	<u>4,770,985</u>
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
	<u>1,759,087</u>	<u>225,491</u>	<u>65,185</u>	<u>478,316</u>	<u>116,871</u>	<u>714,933</u>	<u>1,411,102</u>	<u>4,770,985</u>
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	<u>203,329</u>	<u>-</u>	<u>47,023</u>	<u>382,032</u>	<u>85,445</u>	<u>413,065</u>	<u>1,084,935</u>	<u>2,215,829</u>
NET BOOK VALUE								
At 31 December 2005	<u>1,555,758</u>	<u>225,491</u>	<u>18,162</u>	<u>96,284</u>	<u>31,426</u>	<u>301,868</u>	<u>326,167</u>	<u>2,555,156</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

12. DEFERRED TAX

Deferred tax movement and balances are analysed as follows:

GROUP	2006 KShs'000	Dealt with in income statement KShs'000	Dealt with in equity KShs'000	2005 KShs'000
Tax losses carried forward	-	129,016	-	(129,016)
Loan losses disallowed for tax purposes	(115,410)	-	-	(115,410)
Revaluation surplus	92,929	(28,541)	(1,310)	122,780
Accelerated depreciation over wear and tear	(84,566)	321	-	(84,887)
Provisions and other deferred tax assets	<u>(45,941)</u>	<u>(26,218)</u>	<u>-</u>	<u>(19,723)</u>
	<u>(152,988)</u>	<u>74,578</u>	<u>(1,310)</u>	<u>(226,256)</u>
BANK				
Tax losses carried forward	-	129,016	-	(129,016)
Loan losses disallowed for tax purposes	(115,410)	-	-	(115,410)
Revaluation surplus	92,929	(28,541)	(1,310)	122,780
Accelerated depreciation over wear and tear	(84,340)	86	-	(84,426)
Provisions and other deferred tax assets	<u>(46,018)</u>	<u>(26,274)</u>	<u>-</u>	<u>(19,744)</u>
	<u>(152,839)</u>	<u>74,287</u>	<u>(1,310)</u>	<u>(225,816)</u>

13 DEPOSITS AND BALANCES DUE TO BANKS

	GROUP AND BANK	
	2006 KShs'000	2005 KShs'000
Payable within 30 days	2,279,052	62,399
Payable after 30 days but within 1 year	-	677,976
	<u>2,279,052</u>	<u>740,375</u>

14 CUSTOMER DEPOSITS

	GROUP		BANK	
	2006 KShs'000	2005 KShs'000	2006 KShs'000	2005 KShs'000
a) Call deposits	3,327,940	3,666,811	3,327,940	3,666,811
Fixed deposits	7,723,601	14,401,624	7,723,601	14,401,624
Savings accounts	17,112,113	13,983,839	17,130,219	13,983,839
Current accounts	16,589,425	10,628,804	16,589,425	10,644,491
Foreign currency deposits	3,429,508	920,743	3,429,508	920,743
	<u>48,182,587</u>	<u>43,601,821</u>	<u>48,200,693</u>	<u>43,617,508</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

14 CUSTOMER DEPOSITS (continued)

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
b) From government and parastatals:-				
Payable on demand	3,215,907	1,929,621	3,215,907	1,929,621
Payable within 30 days	1,833,892	1,861,538	1,833,892	1,861,538
Payable after 30 days but within 1 year	<u>2,216,497</u>	<u>6,176,472</u>	<u>2,216,497</u>	<u>6,176,472</u>
	<u>7,266,296</u>	<u>9,967,631</u>	<u>7,266,296</u>	<u>9,967,631</u>
From private sector and individuals:-				
Payable on demand	17,808,040	9,310,723	17,808,040	9,326,410
Payable within 30 days	1,575,266	15,694,582	1,593,372	15,694,582
Payable after 30 days but within 1 year	<u>21,532,985</u>	<u>8,628,885</u>	<u>21,532,985</u>	<u>8,628,885</u>
	<u>40,916,291</u>	<u>33,634,190</u>	<u>40,934,397</u>	<u>33,649,877</u>
	<u>48,182,587</u>	<u>43,601,821</u>	<u>48,200,693</u>	<u>43,617,508</u>

Included in customers' deposits is an amount of KShs 4,031 million (2005-KShs 1,270 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 2.6% (2005 – 3.20%).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

15. LOANS

	GROUP AND BANK	
	2006	2005
	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
Smallholder Coffee Improvement:-		
• Project Phase I	-	291,678
• Project Phase II	-	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	30,000	24,500
	<u>283,469</u>	<u>1,918,161</u>
Repayable within one year	283,469	1,017,490
Repayable after one year	-	900,671
	<u>283,469</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.

16. OTHER BORROWINGS

A loan agreement was entered into on 25 November 2003 between the European Investment Bank and Cooperative Bank for a total of 2,000,000 Euros, which was to be disbursed on demand at a fixed interest rate of 5.8% per annum to be on lent to a number of SACCOs on a performance related basis. A total amount of 689,800 Euros was received during the year. At year end, an amount of Kenya Shillings equivalent 54.8million was outstanding.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

17. TAXATION

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
a) Income statement:-				
Current tax at 30% (2005 - 30%) on the taxable profit for the year	352,560	15,529	345,169	13,238
Over-provision in previous years	(37,650)	-	(37,650)	-
Deferred tax	<u>74,578</u>	<u>252,338</u>	<u>74,287</u>	<u>252,447</u>
Tax charge	<u>389,488</u>	<u>267,867</u>	<u>381,806</u>	<u>265,685</u>
b) Balance sheet:-				
Balance brought forward	1,658	(9,969)	2,124	(11,055)
Charge for the year	352,560	15,529	345,169	13,238
Under-provision in previous years	715	-	772	-
Paid during the year	<u>(20,179)</u>	<u>(3,902)</u>	<u>(17,458)</u>	<u>(59)</u>
	<u>334,754</u>	<u>1,658</u>	<u>330,607</u>	<u>2,124</u>
c) Reconciliation of taxation expense to tax based on accounting profit:-				
Accounting profit	<u>1,256,000</u>	<u>714,001</u>	<u>1,233,431</u>	<u>705,645</u>
Tax applicable rate of 30 % (2005-30%)	376,800	214,200	370,029	211,694
Over-provision in previous years	(37,650)	-	(37,650)	-
Tax effect of items noteligible for tax	<u>50,338</u>	<u>53,667</u>	<u>49,427</u>	<u>53,991</u>
	<u>389,488</u>	<u>267,867</u>	<u>381,806</u>	<u>265,685</u>
18. OTHER LIABILITIES				
Interest payable	27,160	616,674	27,160	616,674
Sundry creditors and accruals	1,076,091	544,463	1,076,091	544,463
Other creditors	<u>615,989</u>	<u>342,711</u>	<u>613,485</u>	<u>341,394</u>
	<u>1,719,240</u>	<u>1,503,848</u>	<u>1,716,736</u>	<u>1,502,531</u>

19. SHARE CAPITAL

Authorised:-

An unlimited number of shares
of KShs.100 each.

Issue of new shares : class A

Issued and fully paid:-

Class A Shares

B Shares

Share transfers:-

Class B Shares transferred to Class A

Transfers from Class A to B

GROUP AND BANK

2006 2005

KShs'000 KShs'000

-	-
41,386	333,929
2,188,402	1,853,371
430,575	431,677
1,196	1,102
<u>(1,196)</u>	<u>(1,102)</u>
<u>2,660,363</u>	<u>2,618,977</u>

GO BANK **NOTES TO THE FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 31 DECEMBER 2006

19. SHARE CAPITAL (Continued)

Share capital information:

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

20. RESERVES

	BANK	
	2006	2005
	KShs'000	KShs'000
Capital reserve	309,761	312,819
General reserve	3,100	3,100
Share transfer fund	522	522
Share fractions	70	66
Revenue reserves	<u>1,005,566</u>	<u>272,549</u>
	<u>1,319,019</u>	<u>589,056</u>
The movement in revenue reserves is shown below.		
At 1 January	272,549	(51,635)
Profit for the year	851,625	439,960
Realisation of revaluation surplus	4,368	4,368
Net movement in revenue grants	10,042	10,805
Proposed dividends	<u>(133,018)</u>	<u>(130,949)</u>
	<u>1,005,566</u>	<u>272,549</u>

The movement in other reserve accounts are as shown on page 44.

21. CAPITAL GRANTS

	GROUP AND BANK	
	2006	2005
	KShs'000	KShs'000
Fair value of grant receipts		
Fair value at 1 January and 31 December	<u>717,848</u>	<u>746,065</u>
Grant net of amortisation at 1 January	717,848	746,065
Amortisation for the year	<u>(20,448)</u>	<u>(28,217)</u>
At 31 December	<u>697,400</u>	<u>717,848</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 2004, in respect of the Bank's Micro Finance Project and rehabilitation work on Co-operative House financed by USAID.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

22. PROPOSED DIVIDENDS

GROUP AND BANK
2006 2005
KShs'000 KShs'000

Final dividends - proposed	133,018	130,949
Dividend per share (KShs)	<u>5</u>	<u>5</u>

- (i) A final dividend of KShs. 5 per share totalling KShs 133 million has been proposed and the amount shown as a separate component of equity at 31 December 2006. 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	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
Loans and advances	3,156,439	3,393,542	3,156,365	3,393,542
Government securities	1,228,790	793,740	1,225,543	792,392
Deposits and placements with banks	<u>32,503</u>	<u>54,107</u>	<u>32,503</u>	<u>54,107</u>
	<u>4,417,732</u>	<u>4,241,389</u>	<u>4,414,411</u>	<u>4,240,041</u>

24. INTEREST EXPENSE

GROUP AND BANK
2006 2005
KShs'000 KShs'000

Short call deposits	335,931	233,638
Fixed deposits	561,529	1,069,482
Savings accounts	127,131	109,301
Interbank borrowings	36,816	51,474
Government loans	<u>17,442</u>	<u>34,925</u>
	<u>1,078,849</u>	<u>1,498,820</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

25. OTHER INCOME

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
Dividend income	-	116	-	116
Gains on disposal of property and equipment	1,693	2,131	1,693	2,131
Rental income (net)	43,032	44,128	43,032	44,128
Miscellaneous	139,416	34,352	133,336	34,352
Provision writeback:				
Specific	653,074	55,052	653,074	55,052
General	-	134,910	-	134,910
	<u>837,215</u>	<u>270,689</u>	<u>831,135</u>	<u>270,689</u>

During the year, the Bank recovered KShs 633m on loans previously provided for.

26. OTHER OPERATING EXPENSES

Staff costs	1,910,226	1,317,622	1,895,220	1,305,530
Contribution to staff retirement benefit scheme	187,142	129,415	185,611	128,289
Directors' emoluments	55,773	49,794	47,711	43,305
Depreciation on property and equipment	281,004	325,945	280,349	325,466
Amortisation of leasehold land	604	716	604	716
Amortisation of intangible assets	66,511	83,361	66,511	82,337
Auditors' remuneration	6,865	6,865	5,990	5,990
Contribution to Deposit Protection Fund	60,298	47,704	60,298	47,704
Other administrative expenses	876,191	666,635	865,701	659,277
Other operating expenses	<u>791,704</u>	<u>793,168</u>	<u>790,985</u>	<u>791,055</u>
	<u>4,236,318</u>	<u>3,421,225</u>	<u>4,198,980</u>	<u>3,389,669</u>

27. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging:-

Staff costs	1,910,226	1,317,622	1,895,220	1,305,530
Directors' emoluments	55,773	49,794	47,711	43,305
Depreciation on property and equipment	281,044	325,945	280,349	325,466
Amortisation of leasehold land	604	716	604	716
Amortisation of intangible assets	66,511	83,361	66,511	82,338
Auditors' remuneration	6,865	6,865	5,990	5,990
Impairment of loans and advances	1,424,644	1,163,557	1,424,644	1,163,557
Contribution to Deposit Protection Fund	60,298	47,707	60,298	47,707
Contribution to staff retirement benefit scheme	<u>187,142</u>	<u>129,415</u>	<u>185,611</u>	<u>128,289</u>
and after crediting:-				
Foreign exchange gains	299,110	196,713	299,110	196,713
Gains on disposal of property and equipment	1,693	2,131	1,693	2,131
Net rental income	43,032	44,128	43,032	44,128
Dividend income	-	116	-	116
Amortisation of capital grants	20,448	28,217	20,448	28,217
Provision write back on loans and advances	<u>653,074</u>	<u>189,962</u>	<u>653,074</u>	<u>189,962</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

28. EARNINGS PER SHARE

The calculation of earnings per share for the Group and the Bank is based on the year's profit after tax 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 amounts:-

	GROUP	
	2006	2005
	KShs'000	KShs'000
Cash on hand	2,196,647	1,372,319
Cash with Central Bank of Kenya	3,084,409	3,214,298
Deposits and balances due from banks	3,433,908	1,833,842
Government securities and other investments maturing within 91 days	<u>4,529,200</u>	<u>4,306,161</u>
	13,244,164	10,726,620
Less CBK cash ratio	<u>(2,963,960)</u>	<u>(2,527,124)</u>
	<u>10,280,204</u>	<u>8,199,496</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	
	2006	2005
	KShs'000	KShs'000
Directors	63,789	44,069
Employees	1,512,306	1,244,493
	<u>1,576,095</u>	<u>1,288,562</u>

The weighted average interest on loans to related parties during the year was 3.94% (2005 – 3.89%)

(b) Inter-company balances:-

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

	BANK	
	2006	2005
	KShs'000	KShs'000
Due from:-		
Balances due from subsidiary companies (note 5a)	<u>-</u>	<u>3,755</u>
Due to:-		
Deposits from subsidiary companies	18,106	15,688
Other balances (note 5b)	<u>3,328</u>	<u>-</u>
	<u>21,434</u>	<u>15,688</u>

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

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.

ASSETS	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Non interest bearing KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	-	-	-	-	-	5,281,056	5,281,056
Deposits and balances due from banks	3,146,068	287,840	-	-	-	-	3,433,908
Trading investments	-	-	511,050	880,158	723,230	-	2,114,438
Non trading investments	1,169,700	2,376,300	2,345,350	5,636,505	1,797,188	-	13,325,043
Loans and advances to customers	4,462,797	362,200	3,174,236	16,935,724	3,101,695	-	28,036,652
Tax recoverable	-	-	-	-	-	292	292
Other assets	-	-	-	-	-	2,366,386	2,366,386
Intangible assets	-	-	-	-	-	141,534	141,534
Prepaid lease rentals	-	-	-	-	-	42,592	42,592
Property and equipment	-	-	-	-	-	2,793,787	2,793,787
Deferred tax	-	-	-	-	-	152,988	152,988
Total assets	<u>8,778,565</u>	<u>3,026,340</u>	<u>6,030,636</u>	<u>23,452,387</u>	<u>5,622,113</u>	<u>10,778,635</u>	<u>57,688,676</u>
LIABILITIES							
Deposits and balances due to banks	2,279,052	-	-	-	-	-	2,279,052
Customer deposits	39,564,655	5,984,492	1,010,178	1,437,055	186,207	-	48,182,587
Loans	-	-	-	-	283,469	-	283,469
Other borrowed funds	-	-	-	-	54,816	-	54,816
Tax payable	-	-	-	-	-	335,046	335,046
Other liabilities	-	-	-	-	-	1,719,240	1,719,240
Share capital	-	-	-	-	-	2,660,363	2,660,363
Reserves	-	-	-	-	-	1,343,685	1,343,685
Capital grants	-	-	-	-	-	697,400	697,400
Proposed dividends	-	-	-	-	-	133,018	133,018
Total liabilities	<u>41,843,707</u>	<u>5,984,492</u>	<u>1,010,178</u>	<u>1,437,055</u>	<u>524,492</u>	<u>6,888,752</u>	<u>57,688,676</u>
Interest sensitivity gap at 31 December 2006	(33,065,142)	(2,958,152)	5,020,458	22,015,332	5,097,621	3,889,883	-
Interest sensitivity gap at 31 December 2005	(16,853,556)	(4,881,158)	2,084,140	8,399,287	7,329,502	3,921,502	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

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 2006 to the contractual maturity dates.

ASSETS	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cash and balances with Central Bank of Kenya	5,281,056	-	-	-	-	5,281,056
Deposits and balances due from banks	3,146,068	287,840	-	-	-	3,433,908
Trading investments	-	-	511,050	880,158	723,230	2,114,438
Non trading investments	1,169,700	2,376,300	2,345,350	5,636,505	1,797,188	13,325,043
Loans and advances to customers	4,462,797	362,200	3,174,236	16,935,724	3,101,695	28,036,652
Other assets	2,257,373	-	109,013	-	-	2,366,386
Tax recoverable	-	292	-	-	-	292
Intangible assets	-	-	-	141,534	-	141,534
Prepaid lease rentals	-	-	662	2,647	39,283	42,592
Property and equipment	-	-	-	-	2,793,787	2,793,787
Deferred tax	-	-	-	152,988	-	152,988
Total Assets	16,316,994	3,026,632	6,140,311	23,749,556	8,455,183	57,688,676
LIABILITIES						
Deposits and balances due to banks	2,279,052	-	-	-	-	2,279,052
Customers' deposits	39,564,655	5,984,492	1,010,178	1,437,055	186,207	48,182,587
Loans	-	-	-	-	283,469	283,469
Other Loans/Borrowed Funds	-	-	-	-	54,816	54,816
Tax payable	-	-	-	-	335,046	335,046
Other liabilities	1,719,240	-	-	-	-	1,719,240
Share capital	-	-	-	-	2,660,363	2,660,363
Reserves	-	-	-	-	1,343,685	1,343,685
Capital grants	-	-	-	-	697,400	697,400
Proposed dividends	-	-	-	-	133,018	133,018
Total liabilities	43,562,947	5,984,492	1,010,178	1,437,055	5,694,004	57,688,676
Net liquidity gap at 31 December 2006	(27,245,953)	(2,957,860)	5,130,133	22,312,501	2,761,179	-
Net Liquidity gap at 31 December 2005	(12,405,925)	(4,881,158)	2,484,023	8,765,914	6,037,146	-



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

33. FOREIGN CURRENCY EXPOSURE

THE BANK

CURRENCY TYPE EXCHANGE RATE	USD 69.6000	GBP 136.6422	EURO 91.7902	JPY 0.5852	ZAR 9.9575	OTHERS	TOTAL
Foreign Currency Assets:	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000
Cash and balances with banks abroad	2,671,064	220,443	405,841	625	5,866	25,390	3,329,229
Loan and advances	567,341	17	2,697	-	1	-	570,056
Other foreign assets	1,994,611	177,318	651,171	19,242	3	734	2,843,079
Off balance sheet items	(273,769)	(68,166)	-	-	(3,977)	1	(345,911)
Total Foreign Assets	4,959,247	329,612	1,059,709	19,867	1,893	26,125	6,396,453
Foreign Currency Liabilities:							
Deposits	1,680,930	64,468	198,484	687	1,125	21,875	1,967,569
Other foreign liabilities	3,272,845	261,337	860,612	19,242	35	5,433	4,419,504
Total Foreign liabilities	4,953,775	325,805	1,059,096	19,929	1,160	27,308	6,387,073
Net Exposure at 31 December 2006	5,472	3,807	613	(62)	733	(1,183)	9,380
Net Exposure at 31 December 2005	(8,317)	487	24	169	(112)	1,290	24,666

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

34. COFFEE DEBT WRITE OFF

During the current financial year, the Government of Kenya (GOK) settled the coffee debts owed by the farmers to the Bank as at 28 February 2005 amounting to KShs 5.2 billion. The amount was settled in form of Treasury Bonds worth KShs 3.2 billion and the balance offset against unremitted loans to the GOK.

35. SEGMENT INFORMATION

The Bank's main business is banking which 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	
	2006 KShs'000	2005 KShs'000
i) Capital: Authorised and contracted for	<u>44,200</u>	<u>63,185</u>
ii) Loans committed, not disbursed at year end	<u>850,104</u>	<u>1,094,304</u>

37. CONTINGENT LIABILITIES

- | | | |
|--|------------------|------------------|
| a) Letters of credit, guarantees and other engagements entered into on behalf of customers | <u>3,472,713</u> | <u>1,735,448</u> |
|--|------------------|------------------|
- b) Pending legal suits: -
- (i) One of the customers has sued the Bank for failure to write off a debt contrary to the Government's request and for failing to award 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) In the year 2003, former employees who left the bank in 1999 sued the Bank for wrongful dismissal. 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.
 - (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 to 1999. The Bank filed a defence denying any allegations of fraud. The matter has been referred by Court to 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 to 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.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

38. COMPARATIVES

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

39. INCORPORATION

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

40. CURRENCY

These financial statements are presented in Kenya Shillings (KShs), and are rounded to the nearest KShs.1000.

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. 50 billion and an asset base of over Kshs. 57 billion, we rank as one of the largest banks in Kenya.
4. That we offer branch-less centralised banking as all our 38 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 Organisations 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 centre 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, America 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 sacco's.

