

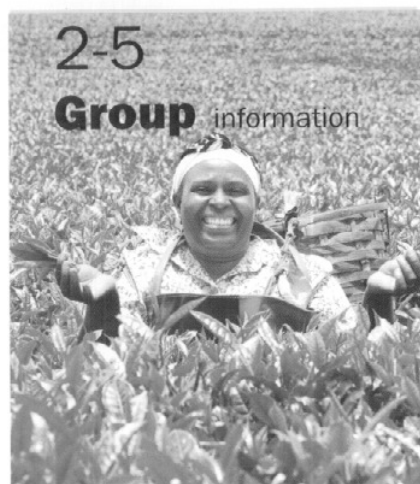
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Group Information

YEAR ENDED 31 DECEMBER 2007

BOARD OF DIRECTORS

- | | |
|-----------------------------|--|
| S. C. Muchiri, EBS | - Chairman |
| J. Riungu | - Vice Chairman |
| J. Sitienei | |
| P. K. Githendu | |
| G. Mburia | |
| R. L. Kimanthi | |
| E.K. Mbogo | |
| G.J.S. Wakasyaka, Rtd Major | |
| M. Malonza | |
| S. Odhiambo (Mrs) | |
| Dr. J. Kahunyo | |
| C. Kabira | |
| W. Ongoro | |
| PS Ministry of Finance | - K.Mwangi (representing PS, Ministry of Finance)
(Retired 14.03.07) |
| | - G. Omino (representing PS, Ministry of Finance)
(Appointed 14.03.07 - Retired 03.10.07) |
| | - J. Murugu (representing PS, Ministry of Finance)
(Appointed 3.10.07) |

Commissioner of Co-operative
Development

- F. Odhiambo, DSM, MBS

MANAGING DIRECTOR

- G. M. Muriuki, OGW

COMPANY SECRETARY

- R. M. Githaiga (Mrs)

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 Kenya Ltd
P O Box 48231-00100,
Tel: 020 3276000
NAIROBI

Co-operative House 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

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

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

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

Kiambu Branch
P O Box 00900-1064
Tel: 066 2720/50592/22352
KIAMBU

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

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

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

Homa Bay Branch
P O Box 40300-406
Tel: 055 30459/60
HOMA BAY

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

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

Group Information

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

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

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

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

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

Mumias Branch
P O Box 50102-90
Tel: 056 641463/641259
MUMIAS

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

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

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

Kericho Branch
P O Box 200200-1742
Tel: 052 30417/6
KERICHO

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

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

University Way Branch
P O Box 60800-00200
Tel: 020 225400/11/211818
NAIROBI

Kakamega Branch
P O Box 595
Tel: 056 31701/3/4/5, 31711
KAKAMEGA

Staff Training Centre
P O Box 15355-00502
Tel: 020891187/890132/891101
LANGATA, NAIROBI

Nairobi Business Centre
P O Box 19555-00202
Tel: 02011614/2711624
NAIROBI

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

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

Group Information

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

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

Migori Branch
P.O. BOX 406-40300,
Tel: 059-20130/20774
HOMA-BAY

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

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

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

Makutano Agency
P O Box 60200-1328
Tel: 064 20421
Meru

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

Various
A list is available at the Bank

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

Maua Branch
P O Box 00300-866,
Tel: 064 21548,21370,21114
MERU

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

Moi Avenue Branch
P.O. BOX 46541-00100,
Tel: 020-2198735/2198736
NAIROBI

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

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

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

Malaba Agency
c/o Bungoma Branch
Tel: 055 540095
Bungoma

AGENCIES

BANKERS

LAWYERS

AUDITORS

Notice of the Annual General Meeting

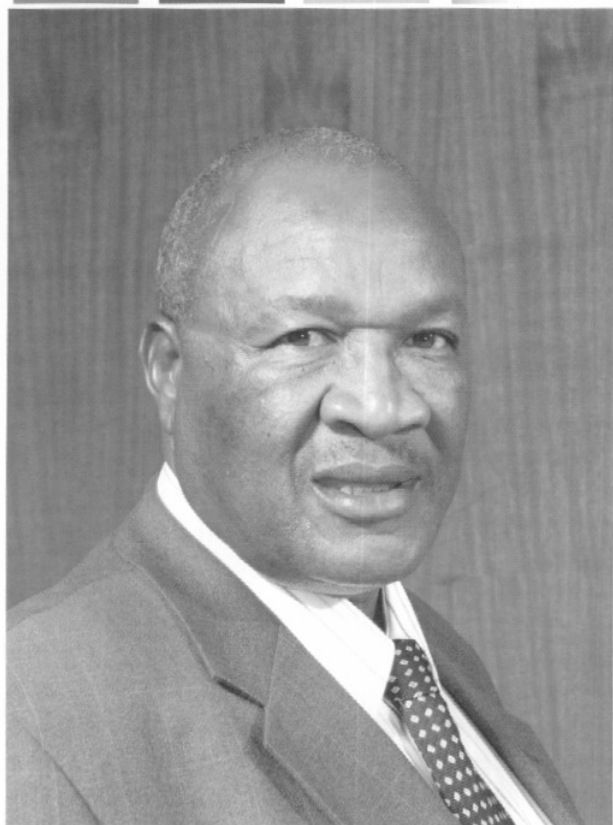
**NOTICE IS HEREBY GIVEN THAT THERE WILL BE AN ANNUAL GENERAL MEETING OF THE
CO-OPERATIVE BANK OF KENYA LIMITED TO BE HELD ON 25TH APRIL 2008 AT 11.00 A.M. AT
THE CO-OPERATIVE BANK MANAGEMENT CENTRE, KAREN**

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 27th April 2007.
5. Consideration and adoption of the Annual Report and Financial Statements for the year ended 31st December 2007 together with the Directors' and Auditor's Reports - (with recommended dividend payment).
6. Confirmation of the Auditors for the next financial year.
7. Strategic Recapitalisation and listing of the Bank.
8. Any other Business for which 15 days notice has been given.

Gideon Muriuki, OGW
Managing Director

March 20, 2008



Chairman's statement

I am very delighted to present to you our Bank's annual report and financial statements for the year ended 31 December 2007. As I wrote this statement to you, I realized that almost three months had passed since the year-end and the Kenyan economy and financial sector were looking different to when we closed the books at 31 December 2007. We have witnessed significant political change following the general elections and the dawn of a new Kenya this year. This changing landscape is meaningful for a Bank such as ours, and many opportunities lie ahead. Our strong balance sheet and capital is dedicated to supporting our people and will finance and support Kenya's reconstruction and recovery efforts.

Financial results 2007

I am very pleased to report that Co-operative Bank delivered another year of record income and profits in 2007, driven by strong organic growth and continued good progress in the Kenyan economy:

- Profit before taxation went up by an impressive 85 per cent to over Kes 2.3 billion (2006: Kes 1.3 billion).

- Total operating income increased by 20 per cent to Kes 8.3 billion (2006: Kes 6.9 billion).
- Customer deposits rose by Kes 6.6 billion to Kes 54.8 billion (2006: Kes 48.2 billion) and
- Your total shareholders' funds grew by 34 per cent to close at Kes 6.5 billion (2006: Kes 4.8 billion).

Owing to the impressive performance, the Board is recommending a final dividend of Kes 8 per share, up from Kes 5 per share in 2006 representing a dividend yield of 8% and an increase of 60%.

Business review

2007 was another strong year for the Co-operative Bank as we continued to make progress on our strategic plan and delivered both good growth and high returns. The growth in profits builds on the momentum established in recent years and compares very favourably to our peers.

We have established a strong track record of driving efficiency improvements and I am pleased that in 2007 we improved our cost-to-income ratio by 13.3 per cent over 2006. We achieved this through our continued commitment to a range of quality improvement programmes such as business process re-engineering, which enable us to enhance the service we deliver to our customers at a lower cost. We continue to extend the bank wide efficiency programme to numerous other areas like training and procurement that is, also, allowing us to structurally reduce our cost base. As we continue to improve our efficiency and effectiveness, we are creating additional capacity for further investment to support our future growth plans.

Our business model is based on building long-lasting relationships with our customers, meeting more of their financial needs and thereby generating sustainable, high quality relationships and business that can sustain our ambitious profit growth targets. Our success is reflected in higher customer satisfaction survey results, rising levels of customer recruitment and a significant increase in sales that we continued to record in 2007. In line with our strategic plan, we are building strong customer relationships that support our future development, improving our product offering and capabilities, enhancing our processing efficiency and maximizing on our human capital. We have made considerable progress across each of the Bank's customer facing divisions.

Co-operatives

To ensure that the Bank gives more focus to the Co-operative movement, that is our core customer segment, the Bank created a Co-operatives Banking Division. This division made excellent progress in our core businesses with the division delivering the Maziwa Loan product for milk farmers, which was hitherto an untapped market in the country. Through deepening existing customer relationships, they again delivered excellent levels of customer satisfaction and served needs of Kenya's co-operative movement beyond banking services, especially through our subsidiary, Co-operative Consultancy Services Limited, that helped revive and turn around numerous SACCO's and co-operative societies.

The Co-operative movement continues to be the backbone of the Kenyan economy with a diverse membership of over seven million Kenyans and a significant deposit base. To ensure SACCO members access their cash from Co-operative Bank ATMs and goods and services from any Visa branded outlets, the Bank implemented a SACCO link card during 2007. The card has been very successful.

Retail

The Retail Banking Division delivered a significant contribution to profit before tax, as its rate of revenue growth accelerated from both their lending book and transaction income. It has made considerable

progress against its key priorities. By enhancing our customer service, re-engineering processes and developing a series of new and innovative products and services, we were able to offer customers compelling reasons to choose Co-operative Bank. The success is reflected, for instance, in increased levels of new current and savings account customer recruitment across the Bank's branch network and a huge asset base that is growing by the day from this Division of the Bank.

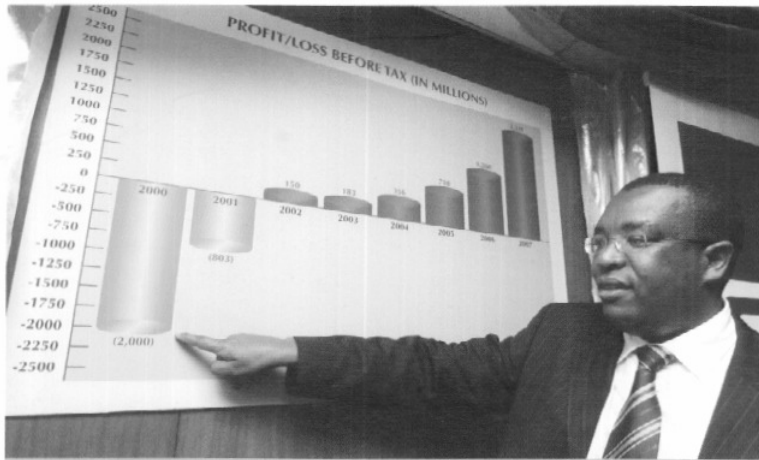
We are continuing to receive external recognition for our achievements and we were especially pleased to be awarded the Second Best Retail Bank of the Year Award in Kenya in 2007.

Corporate and Institutional banking

Our Corporate and Institutional Banking business delivered another excellent performance against targets, with a higher market share in its chosen customer segments, supported by an increase in key customer wins and higher cross-selling income. A specific Department to focus on Government and the Public Sector was established and laid out a welcome focus on this key sector in our economy. New products like asset financing and insurance premium financing were launched in the year under review and continue to be very well received throughout the country. The improvement in deepening customer relationships reflects the success of our strategy of integrating our



The Bank Chairman Mr. S. C. Muchiri receives the coveted best Bank award from His Excellency the president Hon. Mwai Kibaki at the 2007 Nairobi International Trade Fair.



The Managing Director Mr. Gideon Muriuki illustrates the full circle turn around of the Bank from the huge KShs. 2 billion loss in the year 2000 to KShs. 2.3 billion profit in 2007.

products and relationship businesses to meet our customers' needs. We are maintaining our focus on building relationships and this is helping us to sustain strong corporate asset quality performance in this portfolio. Electronic Banking in this Division is an emerging business area through mobile and internet banking and the bank continues to prepare itself to take advantage of its future growth and potential.

As we expected, we have seen signs of stabilisation in the unsecured and secured loan portfolios, which resulted in a reduction in impairments in the year. This reflects our long established focus on lending to customers, where we have better information, and tightening in our credit criteria in previous periods. Our portfolios remain in good shape, with asset quality remaining strong and growing in value.

Treasury services

The Bank's treasury operations recorded a good performance in 2007. The key role of treasury remains to generate a steady flow of high level earnings from trading in money markets instruments while managing our market liquidity. We will continue to strengthen our treasury operations so that we can tap the benefits of a growing economy in tourism, telecommunications, energy and construction. This will, also, ensure that market and liquidity levels are well controlled.

Risk Management

The Bank has continued to recognize the challenges being faced by the banking industry, both local and internationally. We have, therefore, created a robust risk management framework focusing on all areas of risk such as credit risk, operational risk, market risk and strategy risk.

Branches

In tune with our strategic intent to remain a superior national franchise and a reputable financial institution, we have stepped up our drive to refurbish and expand as well as open more branches in strategic locations within the country. During the period under review, we refurbished and expanded Kariobangi, Kisumu, Kericho and Kiambu branches and, also, opened a new branch at Moi Avenue, Nairobi. We will sustain this tempo, leveraging emerging market opportunities in order to continue to deliver superior profits, which will serve as a catalyst in driving our market share appreciation in the future.

Strategy

In the competitive banking services market, and with customers able to exercise choice amongst alternative banking service providers, shareholder and customer value creation are closely linked. Shareholder value is created by attracting and retaining customers and winning a greater share of their banking services business. We have a significant opportunity to leverage our customer relationships to build market share in each of our products. We have significant strengths in our portfolio of high quality liability and asset products, our branches, our multi-channel distribution capability, especially through the co-operative movement, our high levels of customer satisfaction and our knowledge and understanding of our customers. Our growth will come from leveraging these key strengths.

Over the last few years our management team, under the astute leadership of Mr Gideon Muriuki, the Managing Director, has achieved a great deal against its twin objectives: to improve the financial performance of the Bank significantly, and to invest for the future in building strong customer relationships. In this way we will continue to create value for you, our shareholders.

Social responsibility

Alongside our twin objectives, the Bank looks to benefit the broader community. Co-operative Bank of Kenya staff continue to support a wide range of community programmes, giving of their time and energy as well as providing their personal financial resources and time.

Chairman's statement

In 2007, we launched the Co-operative Bank Foundation. We recognize the challenge posed by a growing population and poverty and are committed to making a meaningful contribution to Kenya's education sector. The Foundation is set to increase the number of students it is currently sponsoring. We believe that successful banks benefit from operating in vibrant and well-educated societies and pledge our continued support to the Kenyan people through the Co-operative Bank Foundation.

I am immensely proud of the social responsibility initiatives the Co-operative Bank staff and Foundation continue to engage in. Each of these initiatives go a long way in making a difference to the lives of our fellow Kenyan sisters and brothers in the communities they work in and is in keeping with our business philosophy of being mindful of the communities we work and live in.

People

For me, one of the real delights of my years of service to this great Bank has been the opportunity to get to know so many people at all levels in Co-operative Bank. What I have found is a tremendous 'buzz' around the Bank created by the enthusiasm, the dedication, the professionalism and the desire to succeed of all the staff I have met. An example, of course, is set from the top by our very high calibre senior management team who are so committed to growing our businesses successfully in a high performance culture across the Bank. We operate in a highly complex, ever changing environment and in a challenging and competitive world. It is the continuing and committed endeavours of our staff that enable us to achieve success. On behalf of the Board of Directors and that of my own, I would like to thank the Co-operative Bank staff team most sincerely for their continued commitment and hard work.

Outlook

In summary, 2007 was another strong year for your Bank. We have delivered a good financial performance whilst continuing to build on our strengths and expand our branches to support future profit growth. I believe that we can deliver sustained profitability figures in the coming financial years. We have the management depth to execute our strategy and talent from diverse employees to guide it to excellence. I believe this puts Co-operative Bank in great shape for 2008 and beyond.



Mr. Sam Birech, the General Manager Retail banking presenting Kshs. 5 million cheque to Red Cross being the bank's support to the Internally Displaced persons.

Board

Your Board deserves special commendation for their great commitment and wonderful efforts that have produced our growing success. It is a diverse Board of people rich in wisdom and I offer my sincere appreciation to each of them for their contribution in the year under review.

Conclusion

It only remains for me to humbly thank the Managing Director, Board of Management and staff of your Bank for their continued efforts on our behalf. The Bank continues to deliver only because of your dedication, energy and innovation. It has, once again, been a privilege, a pleasure and an honour to be the Chairman of such a magnificent group of people during the past year.

In closing, I would like to thank the President of the Republic of Kenya His Excellency Hon. Mwai Kibaki, CGH, MP and his government's 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 18, 2008

Taarifa ya Mwenyekiti

Nina furaha tele kuwasilisha kwenu Taarifa ya Mwaka ya hesabu za Benki kwa mwaka uliomalizikia tarehe 31 Disemba 2007. Wakati nilipoandika taarifa hii kwenu, nilitambua kuwa takriban miezi mitatu imepita tangu kumalizika kwa mwaka na kuwa taswira ya uchumi wa Kenya na sekta ya kifedha ilionekana tofauti na ilivyokuwa wakati wa kufunga vitabu vya hesabu mnamo tarehe 31 Disemba 2007. Tumeshuhudia mabadiliko makubwa ya kisiasa baada ya kufanyika uchaguzi mkuu na hatimaye Kenya kupambazukiwa na mwelekeo mpya katika mwaka huu. Mandhari hii mpya ni badiliko jema kwa Benki kama hii yetu, kwa vile kuna fursa chungu nzima huko mbele. Mizania yetu thabiti na rasilimali yetu ni kwa kusudi la kuunga mkono watu wetu na itagharamia na kufadhili katika kuunda Kenya upya na juhudi za kurudisha tena hali ya kawaida.

Matokeo ya hali ya kifedha 2007

Nina furaha kuwaripotia kuwa Benki ya Co-operative, kwa mara nyingine tena, imeleta faida ya kuvunja rekodi katika mwaka wa 2007, hii ikiletwa na ukuaji thabiti na kuendelea kuimarika kwa uchumi wa Kenya:

- Faida kabla ya kulipa kodi ilipanda kwa kiwango cha kupendeza cha asilimia 85 na kufika hadi zaidi ya shilingi bilioni 2.3 (2006: shilingi bilioni 1.3).
- Jumla ya mapato ya shughuli yaliongezeka kwa asilimia 20 na kufika hadi shilingi bilioni 8.3 (2006: shilingi bilioni 6.9).
- Fedha za wateja zilipanda kwa shilingi bilioni 6.6 hadi shilingi bilioni 54.8 (2006: shilingi bilioni 48.2) na
- Jumla ya hazina yenu wenyehisa ilikua kwa asilimia 34 na kufunga katika kiasi cha shilingi bilioni 6.5 (2006: shilingi bilioni 4.8).

Kutokana na matokeo haya ya kupendeza, Bodi inapendekeza mgao wa faida wa mwisho wa shilingi 8 kwa kila hisa, ikiongezeka kutoka shilingi 5 kwa kila hisa ilivyokuwa mwaka wa 2006, hili likiwa ni chumo la asilimia 8 kwa mgao wa faida na ongezeko la asilimia 60.

Kutafakari hali ya biashara

2007 ulikuwa mwaka mwengine thabiti kwa Benki ya

Co-operative wakati ambapo tuliendelea kustawisha mikakati yetu ya kuleta ukuaji mzuri na vile vile faida kubwa. Upataji wa faida nzuri umepatikana kutokana na msukumo ulioasisiwa katika miaka ya hivi karibuni na ni bora ukilinganishwa na wenzi wetu.

Tumeweka mwenendo wenye nguvu wa kupelekea kuimarisha na kudumisha utendakazi bora na nina furaha kuwa mwaka wa 2007 tuliboresha uwiano wetu wa gharama-kwa-mapato kwa asilimia 13.3 zaidi kuliko mwaka wa 2006. Tulitimiza haya kutokana na kuendelea kwetu kujitolea pamoja na mikakati bora ya aina mbali mbali kama vile kubuni upya mfumo wa biashara, ambapo tuliweza kustawisha huduma kwa wateja wetu kwa gharama ya chini. Tunaendelea kueneza mikakati ya utendakazi Moema hadi kwenye maeneo mengine mengi kama vile mafunzo na ununuzi, na vile vile, kutupa fursa kimsingi ya kupunguza gharama. Tunapoendelea kuimarisha utendakazi bora na wenye natija, hapo hapo tunabuni uwezo ziada wa rasilimali ya kuwekeza katika mipango ya ukuaji wa siku zijazo.

Mtindo wa biashara yetu unaegemeza ujengaji wa uhusiano wa kudumu na wateja wetu, kukidhia haja zao za kifedha na hivyo basi kutengeneza uhusiano bora zaidi na wa kudumu na hali ya kibiashara inayokwenda sambamba na hamu yetu kuu na kukuza mapato yetu. Kufaulu kwetu kunasifika kwa mujibu wa matokeo ya uchunguzi wa kutosheleza wateja, ongezeko la idadi ya wateja na pia kukua kunakoonekana dhahiri kwa rekodi za mauzo katika 2007. Kuambatana na mikakati yetu, tunajenga uhusiano wenye nguvu na wateja wetu ili kutilia hima maendeleo yetu katika siku zijazo, kuboresha bidhaa zetu tunazotoa na uwezo wetu, kuboresha utenda kazi bora na utumiaji huduma za wafanyakazi wetu kwa njia nzuri. Tumepiga hatua kubwa katika kila sehemu za Benki ambazo zinakabili wateja.

Ushirika

Ili kuhakikisha kuwa Benki inatazama zaidi mfumo wa vyama vya ushirika, ambayo ndiyo sehemu kubwa ya wateja wetu, Benki ilibuni kitengo maalum cha kushughulikia vyama vya Ushirika. Kitengo hiki kilifanya vizuri sana katika kiini cha biashara zetu ambapo kitengo hiki kilianzisha mpango wa utoaji mkopo kwa wakulima wa maziwa uitwao Maziwa Loan, sekta ya biashara hapa nchini ambayo hapo mbeleni haikuwa imetazamwa. Kupitia kuzingatia zaidi uhusiano bora na wateja ulioko sasa, kwa mara nyingine walionyesha viwango vya juu na vya kuridhisha katika kutosheleza wateja na vile vile mahitaji ya vyama vya Ushirika vya Kenya zaidi ya

huduma za kibenki, hasa kupitia kampuni yetu tanzu ya Co-operative Consultancy Services Limited, iliyosaidia kufufua na kufanikisha vyama vingi vya SACCO na vyama vya Ushirika.

Vyama vya Ushirika bado vinaendelea kuwa uti wa mgongo wa uchumi wa Kenya huku kukiwa na uanachama mkubwa wa zaidi ya wakenya milioni saba na wenye akiba kubwa. Ili kuhakikisha wanachama wa SACCO wanafikia pesa zao kupitia ATMs za Benki ya Co-operative pamoja na bidhaa na huduma kutoka kwa maduka yeyote yenye nembo ya Visa, Benki ilianzisha mpango wa kadi ya Saccolink katika mwaka wa 2007. Kadi hii imefanikiwa sana.

Uuzaji rejareja

Mrengo wa Benki wa uuzaji rejareja ulichangia pakubwa katika faida iliyopatikana kabla ya kulipa kodi, wakati ambapo kiwango chake kilizidisha ukuaji kutokana na ukopeshaji na vile vile mapato ya shughuli. Imepata mafanikio makubwa kushinda matarajio yake ya awali. Kwa kustawisha huduma kwa wateja, kubuni upya kwa mifumo ya utenda kazi na kuendeleza msururu wa bidhaa na huduma mpya zenye ubunifu, tuliweza kuwapatia wateja wetu sababu ya kuvutia ya wao kuchagua Benki ya Co-operative. Ufanisi huu unashuhudiwa, kama vile, katika kuongezeka viwango vya wateja wapya katika akaunti za current na savings kote katika mtanado wa matawi ya Benki na rasilimali kubwa inayoongezeka kila kukicha katika mrengo huu wa shughuli za Benki.

Tunaendelea kutambuliwa na walio nje kwa maendeleo yetu makubwa na ndiyo hasa tulijawa na furaha tulipotunukiwa zawadi ya kuwa Benki ya pili bora nchini Kenya katika nyanja ya uuzaji rejareja katika mwaka wa 2007.

Huduma za Benki kwa Mashirika na Idara

Shughuli zetu za kibenki kwa Mashirika na Idara zilileta matokeo mazuri sana kwa mara nyingine dhiki ya malengo yetu, ikipata fungu kubwa la soko katika sehemu ya wateja wake, ikiungwa mkono na ongezeko la idadi ya wateja muhimu na mapato makubwa kutokana na mauzo. Idara maalum ya kushughulikia Serikali na Sekta ya Mashirika ya Uma ilibuniwa na ilipata karibisho la kutegemewa katika sekta hii muhimu ya uchumi wetu. Bidhaa mpya



Hon. Njeru Ndwiga, Minister for Co-operative Development presenting the SACCO with the highest deposits in the bank award to Mr. J. J. Ojall, CEO Mwalimu SACCO during 2006 Annual General Meeting.

kama vile kugharamia rasilimali na kufidia malipo ya bima zilianzishwa katika kipindi cha mwaka tunaozungumzia na zinapokewa vyema sana kote nchini. Kuboresha na kuongeza uhusiano bora na wateja kumewezesha kufaulu kwa mikakati yetu ya kujumuisha bidhaa zetu na uhusiano wa kibiashara katika kutimiza haja za wateja wetu. Tunadumisha mtazamo huu wa kujenga uhusiano na hii inatusaidia pakubwa katika kuendeleza mrengo huu wa wateja wa mashirika kama rasilimali yenye faida. Biashara ya kibenki kupitia elektroniki katika kitengo hiki ni sehemu muhimu inayochipuzi ya kufanya shughuli za benki kupitia simu za mkono na kupitia mtandao wa internet na Benki inaendelea kujitayarisha vilivyo ili kuchukua fursa ya kujikuza katika mstakabala.

Kama tulivyotarajia, tumeona ishara ya utulivu katika jalada za mikopo isiyo na dhamana na ile yenye dhamana, hali ambayo ilipunguza sana ubatilifu katika mwaka tunaoutazama. Hii inaonyesha kuasisi kwetu kwa tangu mwanzo wa kukopesha wateja, pale ambapo tuna maelezo ya kutosha yanayowahusu, na pia kubana kwetu kwa masharti ya mkopo katika kipindi kilichopita. Majalada yetu ya fedha yako katika hali nzuri, huku hali ya rasilimali yetu ikiwa thabiti na yenye thamani inayokua.

Huduma ya uwekaji hazina

Shughuli za Benki za uwekaji hazina zilirekodi natija nzuri katika 2007. Lengo kubwa la uwekaji hazina likiwa ni kuzalisha mfululizo wa mapato makubwa kutokana na kujihusisha na biashara ya vifaa vya soko la fedha huku tukisimamia kusafirika kwa pesa zetu taslimu katika soko. Bado tutaendelea kufanya thabiti shughuli zetu za uwekaji hazina ili

tuweze kupata faida za uchumi unaoimarika katika nyanja za utalii, mawasiliano, kawi na ujenzi. Hii, pia, itatuhakikishia kuwa viwango vya soko na vya kusafirika kwa pesa vinasimamiwa barabara.

Usimamizi wa dhima

Benki inaendelea kutambua changamoto zinazokabili biashara ya mabanki, hapa nchini na ulimwenguni kwa ujumla. Ndiyo maana, kutokana na hii, tumebuni muundo msingi imara wa usimamizi wa dhima unaolenga maeneo yote ya dhima kama vile dhima ya mkopo, dhima ya shughuli, dhima katika soko na dhima ya mkakati.

Matawi

Ili kuchukuana na mkakati wetu wa kuendelea kuwa na matawi ya kitaifa yenye ubora wa hali ya juu na kuwa shirika la kifedha linaloheshimika, tumeweka juhudi zetu za kuunda upya na kupanua pamoja na kuongeza idadi ya matawi katika sehemu muhimu humu nchini. Katika kipindi tunachozungumzia, tuliunda upya na kupanua matawi ya Kariobangi, Kisumu, Kericho na Kiambu na, vile vile, kufungua tawi jipya la Moi Avenue, Nairobi. Tutadumisha mwendo huu, tukitegemeza fursa ya masoko mapya yanayochipukiza ili kuendelea kuleta faida kubwa, ambayo itakuwa kama kichocheo cha kuongeza fungu letu katika biashara hii kwa siku zijazo. Mkakati

Hali ilivyo katika utoaji huduma za kibenki ni yenye ushindani mkubwa wa kibiashara, na wateja wanakabiliwa na mabanki chungu nzima ya kuchagua, ndiyo maana kuongeza thamani kwa wenyekisi na wateja kuna uhusiano wa karibu.



The Chairman, Mr. Stanley Muchiri and the Managing Director, Mr. Gideon Muriuki giving a cake to the Children during the 2007 Jumbo Junior fun day.



Our customer service enhanced by the spacious newly opened Moi Avenue branch.

Thamani kwa wenyekisi huja kutokana na kuvutia na kuwadumisha wateja na kupata fungu kubwa la biashara zao za huduma za kibenki. Tuna fursa kubwa ya kutumia uhusiano mzuri na wateja wetu kujenga fungu letu katika soko miongoni mwa kila bidhaa zetu tunazotoa. Tuna uwezo wa kufaa katika jalada zetu za hali ya juu za bidhaa za dhima na rasilimali, ambayo ni matawi yetu, njia zetu nyingi za usambazaji, hasa kupitia vyama vya ushirika, kutosheleza kwetu wateja kwa hali ya juu na ujuzi wetu wa kuwaelewa. Ukuaji wetu utatega pakubwa uwezo huu wetu.

Katika miaka iliyopita kundi letu la usimamizi, likiwa chiniya uongozi unaostahili wa Bwana Gideon Muriuki, ambaye ndiye Mkurugenzi Mkuu, limetekeleza mengi ya malengo yetu pacha: ya kuboresha zaidi hali ya kifedha ya Benki, na ya kuwekeza kwa siku zijazo kwa kujenga uhusiani wenye nguvu na wateja. Kwa njia hii tutaweza kuwaongezea thamani ninyi, wenyekisi wetu.

Kuwajibika katika jumuiya

Sambamba na malengo yetu pacha, Benki inatazama hali ya kunufaisha jumuiya yote kwa ujumla. Wafanyakazi wa Benki ya Co-operative wanaendelea kuunga mkono miradi mbali mbali ya kijamii, wakichangia muda wao na nguvu zao pamoja na pesa zao binafsi.

Katika 2007, tulianzisha taasisi ya kufadhili, the Co-operative Bank Foundation. Tunatambua changamoto zinazoletwa na ongezeko kubwa la watu na umasikini na hivyo basi tunajitolea kuchangia pakubwa katika sekta ya elimu ya Kenya. Taasisi hii inatarajia kuongeza idadi ya wanafunzi inayowathamini kwa hivi sasa. Tunaamini kufaulu

kwa mabengi kunatokana na kuendesha shughuli zake katika jumuiya iliyoelimika na hivyo basi sisi tunajitolea kuendelea kuunga mkono wananchi wa Kenya kupitia taasisi hii ya Co-operative Bank Foundation.

Najivunia sana shughuli za uwajibikaji wetu katika jumuiya na mipango inayoendeshwa na wafanyakazi wa Benki ya Co-operative na taasisi ya ufadhili, the Co-operative Bank Foundation. Mipango yote miwili inachangia pakubwa katika kuleta mabadiliko kwenye maisha ya dada na kaka zetu Wakenya miongoni mwa jamii wanamofanya kazi na inachukuana na fikira ya biashara yetu ya kuyajali maslahi ya jamii tunakoendesha shughuli zetu na tunakoishi.

Wafanyakazi wetu

Kwangu mimi, furaha kubwa katika miaka yangu nikitumikia Benki hii adhimu imekuwa ni fursa ya kukutana na kuwajua watu wengi katika viwango mbali mbali katika Benki ya Co-operative. Nilichoona ni 'kuchachawika' kukubwa kwenye



Stima Plaza Branch Manager, Mrs. Joyce Kimondo presents a cheque to the Cerebral Palsy Unit student at Parklands Primary as Francis Ngambi of marketing looks on.

Benki kunakosababishwa na wafanyakazi wenye motisha, wenye kujitolea, waaminifu, wenye ustadi na walio na hamu kuu ya kufaulu miongoni mwa wafanyakazi wote niliokutana nao. Bila shaka, mfano wa kuigwa ukiwa umewekwa na timu ya usimamizi yenye ufahamu wa hali ya juu, ambayo imejitolea kabisa kufaulisha ukuaji wa biashara ya Benki yetu na kuweka desturi kama hiyo kote katika Benki. Tunaendesha shughuli zetu katika hali iliyo ngumu kueleweka, na mandhari yanayobadilika siku zote na ulimwengu wenye ushindani mkubwa wa kibiashara. Ni kutokana na mwenendo wa kujitolea kwa wafanyakazi wetu unaotuwezesha kutimiza ufanisi wetu huu. Kwa niaba ya Bodi ya Wakurugenzi na kwa niaba yangu binafsi, ningependa kushukuru

kwa dhati kundi la wafanyakazi wa Benki ya Co-operative kwa kuendelea kwao kujitolea na juhudi katika kazi zao.

Mtazamo

Kwa ufupi, 2007 ulikuwa mwaka mwingine thabiti kwa Benki yenu. Tumewasilisha matokeo mazuri ya kifedha na hapo hapo tukiendelea kujenga uwezo wetu na kupanua matawi yetu ili kuunga mkono ongezeko la mapato katika mstakabala wetu. Naamini ya kuwa tutaweza kuwasilisha faida maridhawa katika miaka ya kifedha inayokuja. Tuna uwezo wa usimamizi tosha wa kutekeleza mikakati yetu tukiwa vile vile na wafanyakazi aina mbali mbali wenye ustadi kutuelekeza kwenye mafanikio. Naamini hii inaiweka Benki ya Co-operative kwenye hali nzuri zaidi katika mwaka wa 2008 na hata baada ya hapo.

Bodi

Bodi yenu inastahili sifa maalum kutokana na kujitolea kwake kukubwa na juhudi zake za kupendeza zilizopelekea kufaulu huku kwetu. Ni Bodi yenye watu wengi waliojawa na ujuzi na maarifa na ntoa shukrani zangu za dhati kwa kila mmoja wao kwa mchango wao katika kufaulisha mwaka tunaouzungumzia.

Kumalizia

Sasa inabakia mimi kumshukuru kwa unyenyekevu Mkurugenzi Mkuu, Bodi ya Wasimamizi na Wafanyakazi wa Benki yako kwa juhudi zao kwa niaba yetu. Benki inaendelea kuwasilisha mazuri kutokana na kujitolea, juhudi na ubunifu wenu. Kwa mara nyingine tena, imekuwa fadhila, furaha na heshima kuu kwangu kuwa Mwenyekiti wa kundi hili adhimu la watu katika mwaka uliomalizika.

Kutamatisha, ningependa kumshukuru Rais wa Jamhuri ya Kenya Mtukufu Mheshimiwa Mwai Kibaki, CGH, MP na serikali yake kwa kuunga mkono mfumo wa vyama vya Ushirika hapa Kenya.

Mfumo wa vyama vya Ushirika udumu milele.

Benki ya Co-operative idumu milele.

S. C. Muchiri, EBS
Mwenyekiti

Machi 18, 2008

Corporate governance

Introduction

Good corporate governance is an integral part of the Co-operative Bank of Kenya business philosophy. The values espoused in this philosophy govern the way in which the Group operates and interfaces with all its stakeholders. Included in these values are the importance of being a good corporate citizen and integrity. Central to strategy is the belief in individual empowerment and personal accountability.

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 Bank has in place frameworks and 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 adherence to changes in corporate governance requirements.

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. Ten 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:-

Directors' Names	17.1.07	14.3.07	18.4.07	26.4.07	29.5.07	8.8.07	27.8.07	28.8.07	21.11.07	11.12.07	Attendance
S. C. Muchiri	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
J. Riungu	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
G. Muriuki Managing Director	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
F. Odhiambo Commissioner for Co-operatives	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
K. Mwangi Treasury appointee	✓	✓									100%
G. Omino Treasury appointee			✓	✓	✓	✓	✓	✓			100%
J. Murugu Treasury appointee									✓	✓	100%
M. Malonza	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
S. Odhiambo (Mrs.)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
P.K.. Githendu	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
G. Mburia	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Major (Rtd) G. Wakasyaka	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
R. L. Kimanthi	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
W. Ongoro	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Dr. J. Kahunyo	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
C. Kabira	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
E. K. Mbogo	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
J. Sitienei	✓	✓	✓	✓	✓	✓	✓	✓		✓	90%

Role and Function of the Board

The Board has fundamental, strategic, policy and formal matters which it is required to deal with. The roles of the Chairman, the Managing Director and the Board and its governance arrangements, including the schedule of matters specifically reserved to the Board for decision, are reviewed regularly. The matters reserved to the Board for decision include the approval of the annual report and accounts and any other financial statements, the payment of dividends, the long term objectives of the Group, the strategies necessary to achieve these objectives, the Bank's budgets and plans, significant capital expenditure items, significant investments and disposals, the basis of allocation of capital in the Bank and her subsidiaries, the organisation structure of the Bank, the arrangements for ensuring that the Group manages risks effectively, any significant change in accounting policies or practices, the appointment of the Company's main professional advisers and the approval of their fees and the appointment of senior executives within the Bank and related succession planning.

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 also specifies matters 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.

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

The Board has four key committees which assists it 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 feedback process is in form of reported minutes which have to be formally endorsed by the main Board ensuring transparency and full disclosure of the committee activities. The Board committees comprise of the Finance and Risk Board, Staff and Training Board, Audit Board and the Subsidiary Companies Boards (Co-optrust Investment Services Limited and Co-operative Consultancy Services Kenya Limited)

Risk Management

Risk Management is a key focus area within the Bank given the prominence it is being given by the regulator. 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 comprehensive framework and 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. 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

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

duties, the regular reconciliation of accounts and the valuation of assets and positions.

Succession Planning

The Co-operative Bank of Kenya benefits from an extensive pool of people with diverse experience and competence at senior management level. A formal succession planning exercise has been undertaken across the entire Bank. The Board is confident that it should be possible to identify suitable short term and long term replacements from within the Group should the need arise.

Key Management Committees

The Board of Directors is assisted by various 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, namely, Expenditure Management Committee (The Tender Committee), Asset and Liability Committee (ALCO), Business User Committee (BUSCO), the Training User Committee (TUC), amongst others.

Performance Reporting to Stakeholders

The Board has responsibility 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.

Corporate Social Responsibility Report

The Co-operative Bank was founded on the premise of assisting the majority of the population that could not afford banking services from other institutions existing at the time. The Bank has since then demonstrated its commitment and leadership on social, economic and environmental issues which is highly appreciated by the stakeholders. In 2007 the

Bank continued to make significant impact in support to the communities through various initiatives.

➤ Education

The Bank launched the Co-operative Bank Foundation with an initial contribution of Kes 15 million to its programs and the figure is set to increase in 2008. We recognize the challenge posed by a growing population and poverty and are committed to making a meaningful contribution to Kenya's education sector. The Foundation is currently supporting a total of 240 students from all the provinces of Kenya and the number is set to increase every year as more students are taken. We believe that successful banks benefit from operating in vibrant and well-educated societies and pledge our continued support to the Kenyan people through the Co-operative Bank Foundation.

The individual divisions of the Bank have, also, engaged in social responsibility initiatives by visiting different environments where the population is disadvantaged one way or another. Each of these initiatives go a long way in making a difference to the lives of Kenyans.

➤ 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 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.

HIV/AIDS has presented specific challenges to some members of our staff or their families and relatives. To address the 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.

➤ 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 and regulations

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

Going concern

The Directors are satisfied that the Bank has adequate resources to continue to operate for the foreseeable future and is financially sound. For this reason, they continue to adopt the going concern basis in preparing the accounts.

S.C. Muchiri, EBS
Chairman

G. Muriuki, OGW
Managing Director

March 18, 2008

Uongozi wa shirika

Utangulizi

Uongozi wa haathi ya shirika ni kiungo muhimu cha filosofia ya biashara ya Benki ya Co-operative. Thamani iliyowekwa katika fikira hii inasimamia jinsi Kundi linavyoendesha na kuingiliana na washika dau wake wote. Miongoni mwa yanayothaminiwa ni kuwa na uongozi mzuri kama shirika linalosimamiwa kwa uwajibikaji. Kiini cha mpango huu ni imani ya kuwa na uwezo na uwajibikaji wa kibinafsi.

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 Kundi linaendesha shughuli zake za biashara kwa kutumia desturi bora zaidi za uongozi wa shirika. Benki imeweka utaratibu wa kutekeleza kikamilifu kanuni na vipengee vyote vya uongozi bora wa shirika kwa mujibu wa sampuli ya kanuni kielelezo 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 mabenki. Vile vile, kuna mfumo na utaratibu uliowekwa na kukaririwa mara kwa mara kuchukuana na mabadiliko yoyote yale katika mahitaji ya uongozi bora wa shirika.

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 kukitokea maswala muhimu yanayohitaji maamuzi. Mikutano kumi 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:-

Jina la Mkurugenzi	17.1.07	14.3.07	18.4.07	26.4.07	29.5.07	8.8.07	27.8.07	28.8.07	21.11.07	11.12.07	Kuhudhuria
S. C. Muchiri	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
J. Riungu	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
G. Muriuki Mkurugenzi Mkuu	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
F. Odhiambo Kamishna wa Vyama vya Ushirika	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
K. Mwangi Treasury appointee	✓	✓									100%
G. Omino Treasury appointee			✓	✓	✓	✓	✓	✓			100%
J. Murugu Treasury appointee									✓	✓	100%
M. Malonza	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
S. Odhiambo (Mrs.)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
P.K. Githendu	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
G. Mburia	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Major (Rtd) G. Wakasyaka	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
R. L. Kimanthi	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
W. Ongoro	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Dr. J. Kahungu	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
C. Kabira	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
E. K. Mbogo	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
J. Sitienei	✓	✓	✓	✓	✓	✓	✓	✓		✓	90%

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 hicho cha maelezo pia 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 ufao 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 wenyehisa na washika dau wengine na kuhakikisha Benki inatimiza majukumu mengine yote ya wenyehisa na washika dau wengine.

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

Kamati za Bodi

Bodi ina kamati nne muhimu ambazo huisaidia katika kutekeleza majukumu yake. Kamati hizi huenesha shughuli zake chini ya mapatano yaliyofafan-

uliwa wazi yaliyoweka yahusuyo idadi ya kufanyiza, shughuli na majukumu kama yalivyoamriwa na Bodi. Usaidizi kwa Bodi unatolewa kwa njia ya ripoti zinazotunukuliwa 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 ya Fedha na Dhima
- Bodi ya Wafanyikazi na Mafunzo yao
- Bodi ya Kukagua Hesabu
- Bodi ya Kampuni tanzu

Usimamizi wa Dhima

Usimamizi wa dhima unaendelea kuwa eneo linalopewa kipaumbele katika Benki, hasa kwa vile unavyoangaziwa na msimazi wa mabeni. Bodi inatambua kuwa usimamizi wa dhima kuhakikisha kuwa mchanganyo ufao 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 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 wa 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 kutambau njia za kurekebisha na kupendekeza njia za kuboresha mfumo wa usimamizi huo.

Matokeo ya ukaguzi wa idara ya ndani ya ukaguzi huriptiwa mara kwa mara kwa Bodi ya Wakurugenzi kupitia kamati ya Bodi ya Ukaguzi.

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 kendesha 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.

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 wenyekiti habari zozote ambazo zaweza kuathiri kiasi au thamani ya kitega uchumi chao na/au faida yao humo. Ukadiriaji huu umetolewa katika taarifa ya Mwenyekiti na taarifa ya kifedha ya mwaka zilizokaguliwa, hizi zote zikiwa ni sehemu ya taarifa hii.

Ripoti ya uwajibikaji wa shirika katika jumuiya

Benki ya Co-operative ilianzishwa kwa fikira ya kuwasaidia wananchi wengi ambao hawakuweza kumudu huduma za benki zilizokuwa zinatolewa na mabanki yaliyohudumu nchini wakati huo. Tangu wakati huo Benki imedhihirisha kujitolea na kuongoza kwake katika maswala ya kijamii, kiktisadi na ya mazingira, jambo ambalo limewapendeza sana washika dau wake. Katika mwaka wa 2007 Benki iliendelea kupiga hatua katika kuunga mkono maswala ya kijamii kupitia miradi mbali mbali.

➤ Elimu

Benki ilianzisha hazina ya kufadhili ya the Co-operative Bank Foundation na hapo awali ikatoa kitita cha shilingi milioni 15 kufidia mipango ya taasisi hiyo na katika mwaka 2008 kiwango cha msaada kinatarajiwa kuongezeka. Tunatambua changamoto zinazokabili watu wanaoendelea kuongezeka na umaskini hivyo basi Benki inajitolea kuchangia pakubwa katika sekta ya elimu ya Kenya. Hivi sasa taasisi ya ufadhili inasaidia wanafunzi 240 kutoka mikoa yote ya Kenya na kiasi hiki cha ruzuku kinatarajiwa kuongezeka kila mwaka ambapo wanafunzi zaidi watajumuishwa. Tunaamini kuwa benki zinafaulu kutokana na kuendesha shughuli zake katika jumuiya yenye msisimko na iliyoelimika vya kutosha na Benki inaahidi kuendelea kuunga mkono watu wa Kenya kupitia taasisi ya ufadhili ya the Co-operative Bank Foundation.

Vitengo mbali mbali binafsi vya wafanyakazi wa Benki vile vile vimejishughulisha katika kufadhili maswala ya kijamii, kwa kutembelea maeneo tofauti wanakoishi watu wengi wanaokabiliwa na matatizo ya kujimudu kimaisha kwa njia moja au nyingine. Kila moja ya mipango hii imechangia pakubwa katika kuleta mabadiliko katika maisha ya Wakenya.

➤ Maadili ya Biashara na viwango vyake

Benki inathamini ubora, uadilifu, ubunifu na kutosheleza mahitaji ya wateja kwa hivyo inajitolea kuweka viwango vya upeo wa juu vya maadili katika shughuli na maamuzi yake yote. Bodi imeasisi muongozo ulio dhahiri wa maadili kama mambo yanayothaminiwa zaidi na Benki. Viwango hivi vimechuruzika kutoka juu hadi chini miongoni mwa wafanyakazi kupitia njia ya kanuni za maadili katika kijitabu chao cha sheria za kazi. Wafanyakazi wote sharti watii vipengee hivi vya kanuni

Tunaarifu hapa kuwa utekelezaji wa viwango vya upeo wa juu vya maadili katika usimamizi wa dhima na fursa ya kibiashara ni jambo muhimu na litawavutia watu na mashirika wenye fikira kama hii kwetu na hapo basi kutuhakikishia usitawi wa bishara yetu. Taarifa ya kuthibitisha utimizo wa kanuni za maadili hutuwa saina na wafanayakazi wote kila mwaka na wale wapya pindi wajiungapo.

➤ **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 mapato sawa ya kazi. Wafanyikazi wote wanapatiwa mafunzo ya faayo 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.

➤ **Mazingira**

Kiini cha mambo tunayoyathamini ni kuendesha biashara yetu huku tukijali 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 kuzuiya 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.

Kuendelea mbele

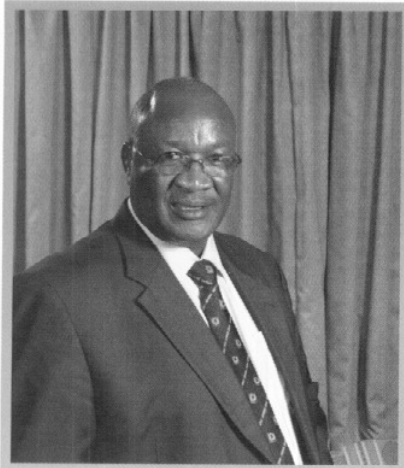
Wakurugenzi wametoshaka ya kuwa Benki ina rasili-mali na uwezo wa kutosha kuendelea mbele na shughuli zake katika siku zijazo na kuwaiko katika hali nzuri ya kifedha. Kwa sababu hii, wanaazimia shughuli zinaendelea mbele kama kawaida kwa minajili ya kutayarisha hesabu hizi.

S. C. Muchiri, EBS
Mwenyekiti

G. Muriuki, OGW
Mkurugenzi Mkuu

Board of directors

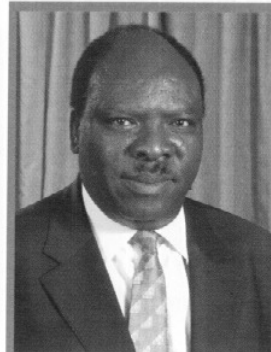
07



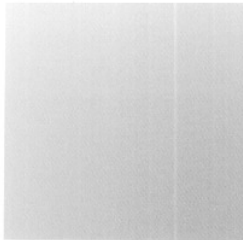
Mr. S C Muchiri, EBS
Chairman



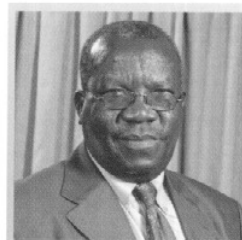
Mr. Gideon Muriuki, OGW
Managing Director



Mr. J. Riungu
Vice Chairman



Mr. G. J. Wakasyaka
Major (Rtd)



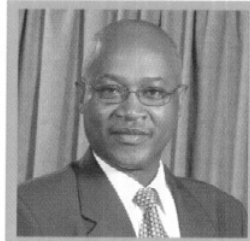
Mr. P. K. Githendu



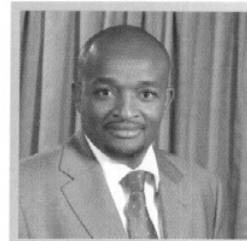
Mr. C. Kabira



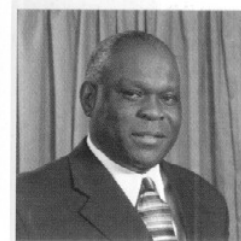
Dr. J. Kahunyo



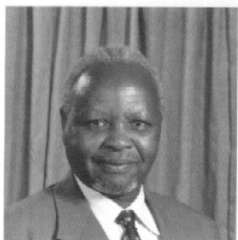
Mr. R. L. Kimanthi



Mr. M. Malonza



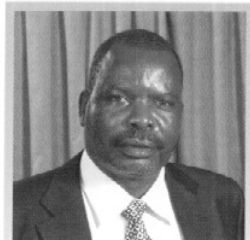
Mr. F. Odhiambo DSM, MBS



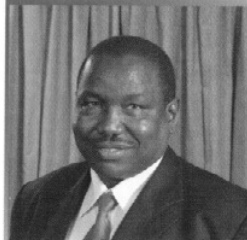
Mr. E. K. Mbogo



Mr. G. Mburia



Mr. W. Ongoro



Mr. J. Sitienei



Mrs. S. Odhiambo



Mr. J. Murugu

Report of the directors

The Directors have the pleasure of submitting their report together with the audited financial statements for the year ended 31 December 2007, 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-operative House Limited, Co-optrust Investment Services Limited and the Co-operative Consultancy Services Kenya Limited have been included in the group financial statements. Co-operative Consultancy Services Kenya 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 32.

Dividend

The directors recommend the payment of a dividend of Kshs. 8.00 per share (2006 – Kshs. 5.00 per share).

Bonus

The directors do not recommend the issuance of bonus shares.

Reserves

The movement in the Group's reserves is shown on page 35 of these financial statements.

Directorate

The Bank has a directorship of 16 board members of whom 13 represent the co-operative movement, 2 represent the Government and a Managing Director. The Board is responsible for all policy decisions within the framework of the Bank's by-laws. It meets regularly to consider loan applications and to determine policy issues for the guidance of management. The Directors who served during the year and to the date of this report are shown on page 2

Human Resources

The Bank has put together a strong management team that has seen tremendous progress in the operational and business restructuring of the Bank.



The synergies from the teamwork and determination to be the best has seen the Bank achieve excellent results 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.

Branches

The Bank has 40 branches and 4 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
J. Murugu

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 18, 2008

Ripoti ya wakurugenzi

Wakurugenzi wana furaha kutoa kwenu ripoti yao ikiambatana na taarifa za kifedha zilizokaguliwa katika kipindi cha mwaka unaomalizikia tarehe 31 Disemba 2007, ambayo inadhihirisha hali ya Kundi na ya shughuli za Benki.

Shughuli muhimu

Benki hutoa huduma za kibenki na huduma nyingine zinazohusiana na ina leseni kuambatana na sheria zinazosimamia mabenki.

Shughuli za kundi kwa ujumla

Matokeo ya shughuli za kampuni tanzu za Benki, Co-operative House Limited, Co-optrust Investment Services Limited na Co-operative Consultancy Services Kenya Limited zimejumuishwa katika taarifa za kifedha za Kundi. Co-operative Consultancy Services Kenya Limited hutoa huduma ya ushauri wa kifedha. Co-optrust Investment Services Limited hujihusisha katika biashara ya usimamizi wa hazina.

Matokeo

Matokeo ya Kundi katika mwaka tunaouzungumzia yanaonyeshwa katika ukurasa 32

Mgao

Wakurugenzi wanapendekeza kulipwa kwa mgao wa faida wa shilingi 8.00 kwa kila hisa (2006 – ilikuwa shilingi 5.00 kwa kila hisa).

Malipo ya ziada

Wakurugenzi hawapendekezi kutolewa kwa malipo ya ziada ya hisa.

Akiba

Mwenendo wa akiba ya Kundi unaonyeshwa katika ukurasa wa 35 wa ripoti hizi za kifedha.

Ukurugenzi

Benki ina wakurugenzi 16 wakiwa wanachama wa Bodi ya ukurugenzi, ambao 13 miongoni mwao wanawakilisha vyama vya ushirika, 2 serikali na Mkurugenzi Mkuu. Jukumu la Bodi ni kutoa maamuzi yote ya kimkakati kama ilivyo chini ya Sheria za Benki. Hukutana mara kwa mara kutafakari juu ya maombi ya mikopo kutoka kwa wateja na kuamua maswala ya kimkakati ya kuongoza usimamizi. Wakurugenzi

waliotumikia katika mwaka tunaouzungumzia na hadi wakati wa kutengeneza ripoti hii, wanaonyeshwa katika ukurasa wa 2

Wafanyakazi

Benki imeunda timu madhubuti ya usimamizi ambayo imeleta maendeleo makubwa katika shughuli za uundaji upya utendakazi wa Benki. Utaratibu huu wa kufanya kazi kama kundi lenye mwelekeo mmoja na dhamira ya kuwa bora zaidi kumepelekea Benki kufikia matokeo bora zaidi kama yalivyoonyeshwa humu. Tunaendelea kubuni mazingira yanayovutia na kudumisha wafanyikazi wenye ujuzi na vile vile kuwafanya wajisikie wanajivunia na wana motisha wa kuwa katika timu, na wana hamu ya kuwatumikia wateja wa Benki, na hivyo basi kufanya Benki kuwa chaguo la wengi.

Matawi

Benki ina matawi 40 na vituo 4 vya uajenti, yaliyosambaa kote nchini na mengi yao yakiwa katika sehemu zenye shughuli nyingi za kibiashara.

Kamati ya ukaguzi hesabu

Kamati ya Benki ya ukaguzi hesabu ni kama wafuatao :-

J. Riungu - Mwenyekiti
Dr. J. Kahungu
J. Murugu

Wakaguzi wa hesabu

Wakaguzi wa hesabu, Ernst & Young, wameonyesha kutaka kwao kuendelea kushikilia wadhifa huo kwa mujibu wa kifungu 25(3) cha Sheria za vyama vya Ushirika. Wakurugenzi wanapendekeza kuchaguliwa kwao tena ikiwa itapitishwa na Benki Kuu ya Kenya chini ya kifungu 24(1) cha Sheria za Mabenki.

Kwa Amri ya Bodi

Gideon Muriuki, OGW
Mkurugenzi Mkuu

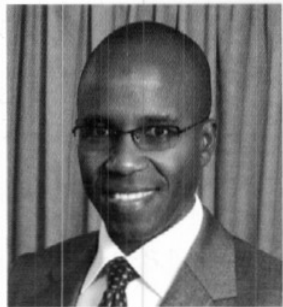
Machi 18, 2008

Board of management

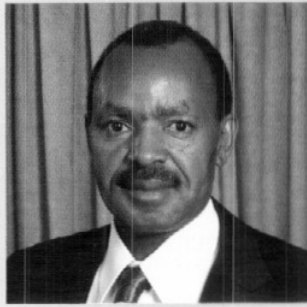
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Mr. Glideon Muriuki, OGW
Managing Director



Mr. S. Birech
General Manager Retail Banking



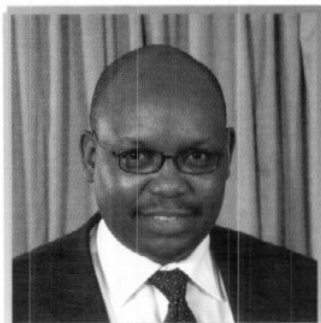
Mr. S. G. Mutungi
General Manager, Operations



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



Mr. Z. Chianda
General Manager Co-operatives Banking



Mr. A. M. Mburu
General Manager Credit Management



Mrs. R. Githaiga
Company Secretary



Mr. G. Ndambuki
General Manager Corporate & Institutional
Banking



Ms. C. Mugadi
Treasurer



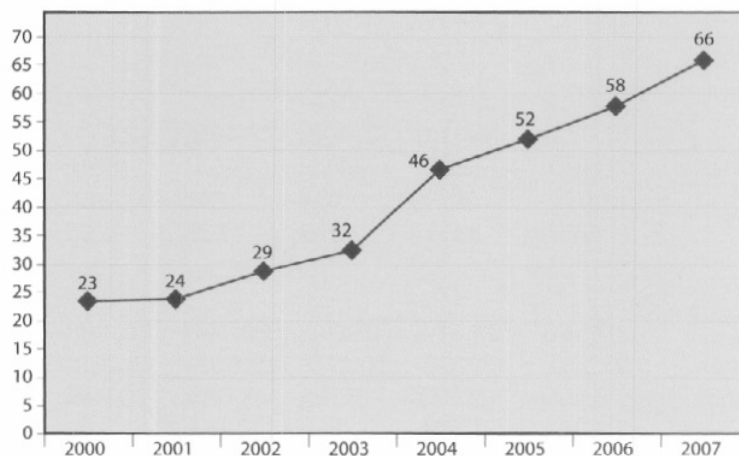
Mrs. W. Welton
Chief Manager, Human Resource
Development

Eight year group review

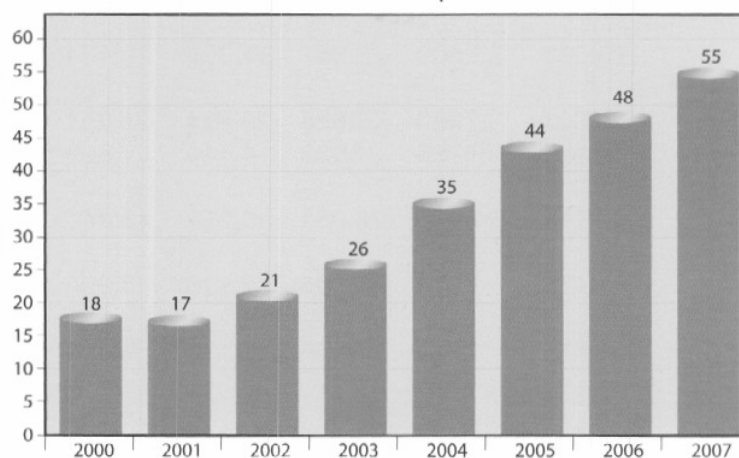
	2000	2001	2002	2003	2004	2005	2006	2007
Shs million								
Operating income	2112	2,055	2924	3,145	4,214	5,299	6,917	8,276
Operating expenses	(2,032)	(2,011)	(2,408)	(2,499)	(2,971)	(3,421)	(4,236)	(5,257)
Provision for Impaired loan	(1,900)	(803)	(411)	(464)	(886)	(1,164)	(1,425)	(700)
Profit(Loss) before tax	(2,071)	(803)	104	181	356	714	1,256	2,319
Net profit(Loss)	(1,593)	(651)	278	155	205	446	867	1,550
Loans and advances to customers (gross)	19,566	23,304	28075	29,790	40,498	44,548	44,692	45,796
Provision for impaired loan	(6,179)	(8,503)	(10,179)	(11,695)	(13,489)	(15,342)	(16,656)	(7,367)
Cash and short term funds	3,199	3,073	3528	3,584	6,344	6,421	8,715	7,799
Government securities	2,215	1,815	3066	5,258	7,449	11,269	15,439	12,945
Property and Equipment	2,200	2,496	2502	2,340	2,341	2,556	2,794	3,149
Other assets	2,587	1,415	1965	3,117	3,291	2,378	2,704	3,387
Total assets	23,588	23,600	28,957	32,394	46,434	51,830	57,688	65,709
Customer deposits	17627	17220	20828	25,814	35,151	43,602	48,183	54,775
Other liabilities	4486	4766	5523	4,444	7,889	4,162	4,671	4,078
Total liabilities	22,113	21,986	26,351	30,258	43,040	47,764	52,854	58,853
Net Assets	1,475	1,614	2,606	2,136	3,394	4,066	4,834	6,856
Shareholders funds	1,475	1,614	2,606	2,136	3,394	4,066	4,834	6,856
Performance ratios								
Return on capital employed	-108%	-40%	11%	7%	6%	11%	18%	23%
Return on assets	-7%	-3%	1%	0.5%	0.4%	0.9%	1.5%	2.4%
Provision charge/ advances	-10%	-3%	-1%	-2%	-2%	-3%	-3%	-2%
Balance sheet ratios								
Gross advances to deposits (%)	111%	135%	135%	115%	115%	102%	93%	84%
Provision/ Gross advances (%)	-32%	-36%	-36%	-39%	-33%	-34%	-37%	-16%
Liquidity ratios	21.22%	21.77%	20.65%	31.30%	27.40%	35.70%	41.40%	33.50%
Others								
Staff numbers	975	885	947	1,083	1,172	1,381	1,531	1,670

Eight year group review

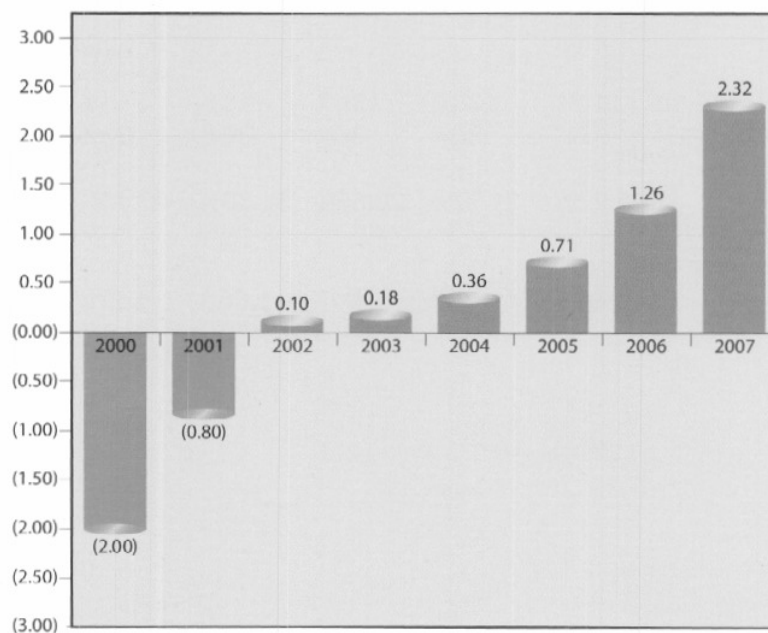
Growth in Total Assets in billions



Growth in Customer deposits in billions



Growth in Profit before tax in billions



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 18, 2008

Report of independent auditors

Report on the Financial Statements

We have audited the financial statements of the Co-operative Bank Limited and its subsidiaries, on pages 31 to 72 which comprise the consolidated and Bank balance sheets as at 31 December 2007, and the consolidated and Bank income statements, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the provisions of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial

statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Bank as of 31 December, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, Kenyan Companies Act and the Co-operative Societies Act.

Report on Other Legal Requirements

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

- i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) In our opinion proper books of account have been kept by the Group and the Bank, so far as appears from our examination of those books;
- iii) The Group's and the Bank's balance sheet and income statement are in agreement with the books of account.

 **ERNST & YOUNG**

Certified Public Accountants
Nairobi

March 18, 2008

Consolidated balance sheet

07

	Note	2007 KShs'000	2006 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	5	6,025,266	5,281,056
Deposits and balances due from banks	6	1,773,418	3,433,908
Trading investments	7	3,278,530	2,114,438
Non trading investments	9	9,703,371	13,325,043
Loans and advances to customers	10(a)	38,044,772	28,036,652
Other assets	11	3,175,731	2,366,386
Intangible assets	12	156,335	141,534
Prepaid lease rentals	13	41,933	42,592
Property and equipment	14(a)	3,107,229	2,793,787
Deferred tax	15	17,620	152,988
TOTAL ASSETS		65,324,205	57,688,384
LIABILITIES			
Deposits and balances due to banks	16	1,422,611	2,279,052
Customer deposits	17(a)	54,775,390	48,182,587
Loans	18	-	283,469
Other borrowings	19	45,658	54,816
Tax payable	20(b)	233,951	334,754
Other liabilities	21	2,386,314	1,719,240
TOTAL LIABILITIES		58,863,924	52,853,918
EQUITY			
Share capital	22	2,856,450	2,660,363
Reserves		2,698,362	1,343,685
Capital grants	24	676,953	697,400
Proposed dividends	25	228,516	133,018
TOTAL EQUITY		6,460,281	4,834,466
TOTAL LIABILITIES & EQUITY		65,324,205	57,688,384

The financial statements were approved by the Board of Directors on March 18, 2008 and signed on its behalf by: -

S.C. Muchiri, EBS - Chairman

G.M. Muriuki, OGW - Managing Director

J. Riungu - Vice Chairman

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

Consolidated

income statement

07

	Note	2007 KShs'000	2006 KShs'000
Interest income	26	5,519,826	4,417,732
Interest expense	27	<u>1,000,432</u>	<u>1,078,849</u>
NET INTEREST INCOME		4,519,394	3,338,883
Commissions		2,909,127	2,508,935
Foreign exchange gain		414,221	299,110
Net gains from disposal of investments		38,556	18,033
Changes in fair value of investments		(12,034)	(76,544)
Amortisation of investments held to maturity		(22,793)	(29,118)
Amortisation of capital grants		20,447	20,448
Other income	28	<u>408,938</u>	<u>837,215</u>
OPERATING INCOME		8,275,856	6,916,962
Operating expenses:-			
Provision for impairment of loans and advances	10c(i)& (ii)	699,891	1,424,644
Other operating expenses	29	<u>5,257,440</u>	<u>4,236,318</u>
OPERATING EXPENSES		5,957,331	5,660,962
PROFIT BEFORE TAXATION	30	2,318,525	1,256,000
Tax charge	20(a)	<u>(768,919)</u>	<u>(389,488)</u>
PROFIT FOR THE YEAR		1,549,606	866,512
Earnings per share (KShs)	31	<u>54.25</u>	<u>32.83</u>

Bank

balance sheet

07

	Note	2007 KShs'000	2006 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	5	6,025,266	5,281,056
Deposits and balances due from other banks	6	1,773,418	3,433,908
Trading investments	7	3,208,908	2,103,638
Non trading investments	9	9,803,371	13,359,411
Loans and advances to customers	10(a)	38,048,002	28,036,921
Other assets	11	3,134,337	2,336,645
Intangible assets	12	156,335	141,534
Prepaid lease rental	13	41,933	42,592
Property and equipment	14(b)	3,102,932	2,789,957
Deferred tax	15	17,650	152,839
TOTAL ASSETS		<u>65,312,152</u>	<u>57,678,501</u>
LIABILITIES			
Deposits and balances due to banks	16	1,422,611	2,279,052
Customer deposits	17(a)	54,775,390	48,200,693
Loans	18	-	283,469
Other borrowings	19	45,658	54,816
Amount due to subsidiary company	8	1,250	3,328
Tax payable	20(b)	234,067	330,607
Other liabilities	21	2,410,471	1,716,736
TOTAL LIABILITIES		<u>58,889,447</u>	<u>52,868,701</u>
EQUITY			
Share capital	22	2,856,450	2,660,363
Reserves	23	2,660,786	1,319,019
Capital grants	24	676,953	697,400
Proposed dividends	25	228,516	133,018
TOTAL EQUITY		<u>6,422,705</u>	<u>4,809,800</u>
TOTAL LIABILITIES & EQUITY		<u>65,312,152</u>	<u>57,678,501</u>

The financial statements were approved by the Board of Directors on March 18, 2008 and signed on its behalf by:-

S. C. Muchiri, EBS - Chairman

G. M. Muriuki, OGW - Managing Director

J. Riungu - Vice Chairman

R. M. Githaiga (Mrs) - Company Secretary

	Note	2007 KShs'000	2006 KShs'000
Interest income	26	5,514,322	4,414,411
Interest expense	27	<u>1,000,432</u>	<u>1,078,849</u>
NET INTEREST INCOME		4,513,890	3,335,562
Commissions		2,847,002	2,458,541
Foreign exchange gain		414,221	299,111
Net gains from disposal of investments		29,888	17,790
Changes in fair value of investments		(12,599)	(76,538)
Amortisation of investments held to maturity		(22,793)	(28,993)
Amortisation of capital grants		20,447	20,447
Other income	28	<u>406,616</u>	<u>831,135</u>
OPERATING INCOME		8,196,672	6,857,055
Provision for impairment of loans and advances	10c (i) & (ii)	699,891	1,424,644
Other operating expenses	29	<u>5,209,120</u>	<u>4,198,980</u>
OPERATING EXPENSES		5,909,011	5,623,624
PROFIT BEFORE TAXATION	30	2,287,661	1,233,431
Tax charge	20(a)	<u>(761,573)</u>	<u>(381,806)</u>
PROFIT FOR THE YEAR		1,526,088	851,625
Earnings per share (KShs)	31	<u>53.43</u>	<u>32.26</u>

Consolidated statement of changes in equity

	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 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	2,660,363	309,761	3,100	522	70	133,018	1,030,232	4,137,066
Balance at 1 January 2007	2,660,363	309,761	3,100	522	70	133,018	1,030,232	4,137,066
Realisation of revaluation surplus	-	(4,368)	-	-	-	-	4,368	-
Net movement in revenue grants for the year	-	-	-	-	-	-	32,277	32,277
Deferred tax	-	1,310	-	-	-	-	-	1,310
Issue of shares	196,087	-	-	-	-	-	-	196,087
Dividends paid	-	-	-	-	-	(133,018)	-	(133,018)
Profit for the year	-	-	-	-	-	-	1,549,606	1,549,606
Proposed dividends	-	-	-	-	-	228,516	(228,516)	-
BALANCE AT 31 DECEMBER 2007	2,856,450	306,703	3,100	522	70	228,516	2,387,967	5,783,328

Consolidated

cash flow statement

07

	Note	2007 KShs'000	2006 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES:-			
Profit before taxation		2,318,525	1,256,000
Adjustments for:			
Depreciation		332,692	281,004
Amortisation of prepaid lease rentals		659	604
Provision for diminution in value of investment		1,580	1,400
Impairment of plant, property and equipment			38,602
Amortisation of intangible assets		55,674	66,511
Amortisation of capital grants		(20,447)	(20,448)
Gain on disposal of property and equipment		4	(1,693)
Foreign exchange gain		(414,221)	(299,110)
Unrealised loss on re-measurement of investments		12,034	76,544
Amortisation of investments held to maturity		22,793	29,118
Cash flows from operating activities before Working capital changes		2,309,293	1,428,532
Advances to customers		(10,008,120)	1,051,917
Other assets		(809,345)	(336,628)
Deposits from customers		6,592,803	4,580,766
Deposits from banks		(856,441)	1,538,677
Other liabilities		656,564	215,392
Central Bank of Kenya cash ratio		(524,124)	(436,836)
Trading investments		(878,058)	839,831
Non-trading investments		1,554,472	(4,784,930)
Cash (used in)/ generated from operating activities		(1,962,956)	4,096,721
Tax paid		(733,045)	(20,179)
Net cash flows from operating activities		(2,696,001)	4,076,542
CASH FLOWS FROM INVESTING ACTIVITIES:-			
Purchase of property & equipment		(646,134)	(560,024)
Purchase of software		(70,475)	(67,802)
Proceeds from disposal of property and equipment		(4)	2,318
Net cash flows used in investing activities:-		(716,613)	(625,508)
CASH FLOWS FROM FINANCING ACTIVITIES:-			
Proceeds on issue of share capital		196,087	41,386
Loans received		-	60,316
Dividends paid		(133,018)	(130,949)
Proceeds from loans		(250,139)	(1,640,192)
Share fractions		-	3
Net cash flows used in financing activities		(187,070)	(1,669,436)
Net movement in cash and cash equivalents		(3,599,684)	1,781,598
Cash and cash equivalents at the beginning of the year		10,280,204	8,199,496
Effects of exchange rate changes		414,221	299,110
Cash and cash equivalents at the end of the year	32	7,094,741	10,280,204

1. GENERAL INFORMATION

Co-operative Bank Limited, a financial institution licensed under the Kenyan Banking Act (Chapter 488) and Co-operative Societies Act, provides banking and related services in various parts of the country.

2. ACCOUNTING POLICIES

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

a) Basis of preparation

The consolidated financial statements are prepared under the historical cost convention as modified by the measurement at fair value of trading and available for sale investment securities. The consolidated financial statements of Co-operative Bank Limited and all its subsidiaries (the 'Group') have been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Consolidation

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries as at 31 December each year. The subsidiaries include Co-optrust Investment Services Limited, Co-operative Consultancy Services Kenya Limited and Co-operative House Limited all wholly owned by the Bank.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

c) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

i) Policy on agency loans

The Group changed the policy of holding agency loan balances in its book, consequently the same are now held in memorandum accounts.

ii) Adoption of new standards

The Group has adopted the following new and amended IFRS interpretations during the year. Adoption of these revised standards did not have any effect on the financial performance or position of the Group. They did, however give rise to additional disclosures. The principal effects of these changes are as follows:

IFRS 7: Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments, the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1: Presentation of Financial Statements

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

The Group has not early adopted the following IFRS and IFRIC interpretations which are effective for financial years beginning 1 January 2009. The Group shall adopt them by due date and this will give rise to additional disclosures, and revisions to accounting policies as follows:

- (i) IAS 1: Presentation of Financial Statements
- (ii) IAS 23: Amendment – Borrowing Costs
- (iii) IFRS 8: Operating Segments
- (iv) IFRIC 11: Group and Treasury Share Transactions

d) Significant accounting estimates and assumptions

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

Estimates and assumptions

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

i) Impairment losses on loans and advances

The Group reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognised in the income statement. In particular, judgement by the directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and may result to future changes in impairment charge.

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

ii) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangibles are tested for impairment annually and at other times when such indicators

exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

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

iii) Fair value of financial instruments

Where the fair values of the financial assets and liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

iv) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is possible that taxable profit will be available against which the losses can be utilised. Significant directors' judgement is required to determine the amount of deferred tax asset that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

e) Recognition of income and expenses

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

i) Interest and similar income and expenses

For all financial instruments measured at amortised cost 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) Fee and commission income

Fee and commission income arises from financial services provided by the Bank. 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.

iii) Dividend income

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

iv) Rental income

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

f) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Any revaluation surplus is credited to the assets revaluation

reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the capital reserve.

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

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

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

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

g) Intangible assets and amortisation

Intangible assets acquired separately are measured on initial recognition at cost. Subsequently amortisation and accumulated impairment losses are netted from the cost. Internally generated intangible assets, excluding capitalized development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or

the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

h) Operating leases

Where:-

i) A group company is the lessee

The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

ii) A group company is the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

i) Bad and doubtful debts

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 income statement. Provisions are computed based on:

i) Central Bank of Kenya Prudential Guidelines

The Group reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognised in the income statement. In particular, judgement by the directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

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

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

ii) International Accounting Standard (IAS) 39

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

The total allowance for recognized financial assets consists of two components: specific counterparty allowances and provisions, and collectively assessed allowances and provisions. The specific counterparty component applies to claims evaluated individually for impairment and is based upon management's best estimate of the present

value of the cash flows which are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial situation and the net realizable value of any underlying collateral or guarantees in the Bank's favour.

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

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

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

j) **Foreign currency transactions**

Transactions in foreign currencies are translated at the rates ruling on the transaction dates. Monetary balances in foreign currencies are translated at the Central Bank of Kenya rates ruling 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. Non monetary items carried at cost are translated using the exchange rate at the date of the transaction, whilst assets carried at fair value are translated at the exchange rate when the fair value was determined.

k) **Financial Instruments**

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end. All regular way and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Held for trading

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or

determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

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

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognised in profit or loss.

Fair value

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

Amortised cost

Held-to-maturity investments and loans and receivables are measured at amortised cost. This is computed using the effective interest method less any allowance for impairment. The

calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

l) Employee benefits

A new defined contribution scheme was established with effect from 1 January 2007 for eligible employees to replace the funded defined benefit plan which was wound up in 2006. The Group contributes to these defined contribution pension scheme for its employees. The Group contributions are charged to the income statement in the year to which they relate. The Group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to KShs 200 per employee per month.

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

m) Taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

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

- (i) where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the

reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- (i) where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset
- (ii) or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (iii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred income tax relating to items recognised directly in equity is recognised in

equity and not in profit or loss. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

n) Grants

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

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

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

o) 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. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

p) 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 deposits and balances due to banks and balances with Central Bank of Kenya. The difference between sale and repurchase price is treated as interest expense using the effective yield method.

q) Impairment of tangible and intangible assets***Assets carried at amortised cost***

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

r) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

s) Customer Deposits

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

t) Deposits from/ to other banks

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

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

u) Foreign exchange forward and spot contracts

Foreign exchange forward and spot contracts are marked to market and are carried at their fair value. Fair values are obtained from discounted cash flow models which are used in the determination of the foreign exchange forward and spot contract rates.

v) 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.

w) 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.

x) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

y) Fiduciary assets

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

3. FINANCIAL RISK MANAGEMENT

Introduction and overview

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

1. Credit risk
2. Liquidity risk
3. Market risks
4. Operational risks.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Risk & Finance Committee, which is responsible for developing and monitoring Bank risk management policies in their specified areas. All Board committees, with exception of Board Audit Committee have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board Audit Committee is responsible for monitoring compliance with the Bank's risk policies and procedures, and for reviewing their adequacy. The Board Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk controls and procedures, the results of which are reported to the Board Audit committee.

(i) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Board's Risk and Finance Committee. A separate Credit Risk Department, reporting to the Board's Risk and Finance Committee, is responsible for oversight of the Bank's credit risk, including:

- a. Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- b. Establishing the authorisation structure for the approval and renewal of credit facilities.
- c. Reviewing and assessing credit risk.

- d. Developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks.
- e. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types.
- f. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement Bank credit policies and procedures, with credit approval authorities delegated from the Board's Risk and Finance Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Exposure to credit risk: Loans and advances to customers

	Note	2007 KShs '000	2006 KShs '000
Carrying amount	10(a)	45,415,007	44,692,548
Gross amount- impaired loans			
Grade 5: Loss category		1,902,196	8,367,107
Grade 4: Doubtful category		<u>3,941,048</u>	<u>5,272,269</u>
Total amount		5,843,244	13,639,376
Allowance for impairment	10(c)	<u>(5,296,711)</u>	<u>(13,561,224)</u>
Carrying amount		<u>546,533</u>	<u>78,152</u>
Collectively assessed for impairment			
Grade 1: Normal		35,309,563	24,909,856
Grade 2: Watch list		<u>1,379,732</u>	<u>2,305,975</u>
Gross amount		36,689,295	27,215,831
Allowance for impairment	10(c)(ii)	<u>(384,701)</u>	<u>(384,701)</u>
Carrying amount		<u>36,304,594</u>	<u>26,831,130</u>
Past due but not impaired			
Grade 3: Substandard		2,882,468	3,837,341
Allowance for impairment	10(c)	<u>(1,685,593)</u>	<u>(2,709,702)</u>
Carrying amount		<u>1,196,875</u>	<u>1,127,639</u>
Net carrying amount		<u>38,048,002</u>	<u>28,036,921</u>

Impaired loans

Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. These loans are graded 4 to 5 in the Bank's internal credit risk grading system.

Past due but not impaired loans

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

Loans with renegotiated terms

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

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually

significant exposures, and collectively homogeneous assets. The second component is in respect of losses that have been incurred but have not been identified in relation to the loan portfolio that is not specifically impaired.

Write-off policy

The Bank writes off a loan balance as and when Board of directors determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Collateral on loans and advances

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

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

Discounted Value of Securities

	2007 KShs '000	2006 KShs '000
Doubtful & Loss categories	1,171,523	1,144,780
Sub-standard Loans category	1,314,931	1,349,122
Normal & Watch categories	2,355,134	2,243,265
Total	4,841,588	4,737,167

Settlement Risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash or other assets as contractually agreed.

Settlement limits from part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Risk Management.

(ii) Liquidity risk

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

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Board Risk & Finance Committee.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers.

Details of the reported Bank ratio of net liquid

assets to deposits and customers at the reporting date and during the reporting year were as follows:

	2007	2006
At 31 December	33.5 %	41.4%
Average for the year	37.2 %	39.4%
Maximum for the year	42.5 %	45.7%
Minimum for the year	33.3 %	30.4%

(iii) Market risk

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

Management of market risk

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

Exposure to market risk – trading portfolios

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

Exposure to interest rate risk – non trading portfolios

The principal risk to which held to maturity portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re pricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day to day monitoring activities.

(iv) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes,

personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business units.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

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

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

Risk Management is charged with the role of

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

4. CAPITAL MANAGEMENT

Regulatory capital

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

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

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

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

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

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

Tier I Capital

	2007	2006
	KShs'000	KShs'000
Ordinary share capital	2,856,450	2,660,363
Retained earnings	2,354,079	1,009,793
Other reserves	676,952	697,400
Less: Investments in equity of other institutions	<u>(5,720)</u>	<u>(7,000)</u>
At 31 December	<u>5,881,761</u>	<u>4,360,556</u>

Tier II Capital

Revaluation reserves	76,677	77,441
Term subordinated debt	<u>45,659</u>	<u>338,286</u>
At 31 December	<u>122,336</u>	<u>415,727</u>
Total regulatory capital	<u>6,004,097</u>	<u>4,776,283</u>
Total risk weighted assets	<u>41,269,105</u>	<u>32,498,623</u>
Total capital to risk assets ratio	14.5%	14.6%
Minimum total capital to risk assets ratio	12.0%	12.0%

5. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	GROUP		BANK	
	2007	2006	2007	2006
	KShs'000	KShs'000	KShs'000	KShs'000
Cash on hand	2,405,929	2,196,647	2,405,929	2,196,647
Central Bank of Kenya	<u>3,619,337</u>	<u>3,084,409</u>	<u>3,619,337</u>	<u>3,084,409</u>
	<u>6,025,266</u>	<u>5,281,056</u>	<u>6,025,266</u>	<u>5,281,056</u>

6. DEPOSITS AND BALANCES DUE FROM BANKS

	GROUP		BANK	
	2007	2006	2007	2006
	KShs'000	KShs'000	KShs'000	KShs'000
Commercial banks	34,719	287,840	34,719	287,840
Foreign banks	<u>1,738,699</u>	<u>3,146,068</u>	<u>1,738,699</u>	<u>3,146,068</u>
	<u>1,773,418</u>	<u>3,433,908</u>	<u>1,773,418</u>	<u>3,433,908</u>

7. TRADING INVESTMENTS

	GROUP		BANK	
	2007	2006	2007	2006
	KShs'000	KShs'000	KShs'000	KShs'000
Treasury bonds maturing within 91 days of balance sheet date	298,067	-	298,014	-
Treasury bonds maturing after 91 days of balance sheet date	<u>2,980,463</u>	<u>2,114,438</u>	<u>2,910,894</u>	<u>2,103,638</u>
	<u>3,278,530</u>	<u>2,114,438</u>	<u>3,208,908</u>	<u>2,103,638</u>

8. AMOUNT DUE TO SUBSIDIARY COMPANY

	BANK	
	2007	2006
	KShs'000	KShs'000
Co-op Consultancy Services Kenya Limited	<u>1,250</u>	<u>3,328</u>

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

9. NON TRADING INVESTMENTS

	GROUP		BANK	
	2007 KShs'000	2006 KShs'000	2007 KShs'000	2006 KShs'000
a) Held to maturity investments				
Government treasury bills	1,483,800	4,427,729	1,483,800	4,427,729
Treasury bonds maturing within 91 days of the balance sheet date	1,002,273	101,471	1,002,273	101,471
Treasury bonds maturing after 91 days of the balance sheet date	<u>7,180,479</u>	<u>8,717,744</u>	<u>7,180,479</u>	<u>8,692,112</u>
	<u>9,666,552</u>	<u>13,246,944</u>	<u>9,666,552</u>	<u>13,221,312</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
980,000 'B' ordinary shares of KShs 20 each	-	19,600	19,600	19,600
Co-op Consultancy Services Kenya Ltd 100%	-	-	40,000	40,000
Co-optrust Investment Services Ltd 100%	-	-	<u>20,000</u>	<u>20,000</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	2,700	2,400	2,700	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 KShs100 each	8	8	8	8
Kenya National Housing Co-operative Union Ltd:-				
1 share of KShs 1,000	1	1	1	1
Menno Plaza Limited 12.39%	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>
	<u>45,399</u>	<u>45,099</u>	<u>45,399</u>	<u>45,099</u>
Less: Provision for diminution in value of investment in Consolidated Bank of Kenya Ltd	<u>(8,580)</u>	<u>(7,000)</u>	<u>(8,580)</u>	<u>(7,000)</u>
	<u>36,819</u>	<u>38,099</u>	<u>36,819</u>	<u>38,099</u>
Total equity investments	<u>36,819</u>	<u>78,099</u>	<u>136,819</u>	<u>138,099</u>
Total non trading investments	<u>9,703,371</u>	<u>13,325,043</u>	<u>9,803,371</u>	<u>13,359,411</u>

The weighted average effective interest rate on held to maturity investments as at 31 December 2007 was 9.54% (2006-8.1%).

- 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 Limited are wholly owned subsidiaries.

Included under available for sale investments are unquoted equity investments, which are carried at cost amounting to KShs 36.9 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.

10. LOANS AND ADVANCES TO CUSTOMERS

	GROUP		BANK	
	2007	2006	2007	2006
	KShs'000	KShs'000	KShs'000	KShs'000
a) Net loans and advances				
Overdrafts	1,771,429	1,952,233	1,774,659	1,952,502
Commercial loans	40,820,073	39,262,839	40,820,073	39,262,839
Government/Donor funded loan schemes	1,410,662	2,024,695	1,410,662	2,024,695
Credit card balances	433,330	857,693	433,330	857,693
Micro enterprises	976,283	594,819	976,283	594,819
Gross loans and advances	45,411,777	44,692,279	45,415,007	44,692,548
Provision for impairment of loans and advances (note 10c)	(7,367,005)	(16,655,627)	(7,367,005)	(16,655,627)
	<u>38,044,772</u>	<u>28,036,652</u>	<u>38,048,002</u>	<u>28,036,921</u>
b) Sectoral analysis:-				
Agriculture	3,771,812	5,001,239	3,771,812	5,001,239
Manufacturing	1,001,901	622,602	1,001,901	622,602
Construction	2,831,570	7,581,418	2,831,571	7,581,418
Service	22,476,282	19,185,520	22,476,282	19,185,789
Other	15,330,212	12,301,500	15,333,441	12,301,500
	<u>45,411,777</u>	<u>44,692,279</u>	<u>45,415,007</u>	<u>44,692,548</u>
c) Provision for impairment of loans and advances				
(i) Specific provisions:				
Balance at 1 January	16,270,926	15,074,593	16,270,926	15,074,593
Specific provisions made during the year	699,891	1,424,644	699,891	1,424,644
Interest not recognised as (expense)/income	414,138	(208,502)	414,138	(208,502)
Specific provisions written off	(10,402,651)	(19,809)	(10,402,651)	(19,809)
Balance at 31 December	<u>6,982,304</u>	<u>16,270,926</u>	<u>6,982,304</u>	<u>16,270,926</u>
(ii) General Provisions:				
Balance at 31 December	<u>384,701</u>	<u>384,701</u>	<u>384,701</u>	<u>384,701</u>
	<u>7,367,005</u>	<u>16,655,627</u>	<u>7,367,005</u>	<u>16,655,627</u>
d) The Bank continues to carry classified doubtful debts and delinquent accounts on its books even after making allowances for impairment in accordance with IAS 39. Interest is accrued on these accounts for contractual/litigation purposes only and accordingly not taken to income. The value of such accounts/loans at year end was KShs 8.3 billion (2006 KShs: 17.47 billion).				
e) The weighted average effective interest rate at 31 December 2007 on loans and advances was 8.97% (2006 – 9.75%).				

11. OTHER ASSETS

	GROUP		BANK	
	2007	2006	2007	2006
	KShs'000	KShs'000	KShs'000	KShs'000
Interest receivable	565,595	291,453	565,595	291,453
Deposits with default financial Institutions	43,052	43,052	43,052	43,052
Deferred clearing	1,341,237	1,497,652	1,341,237	1,497,652
Sundry debtors and prepayments	<u>1,268,899</u>	<u>577,281</u>	<u>1,227,505</u>	<u>547,540</u>
	3,218,783	2,409,438	3,177,389	2,379,697
Provision for deposits with default financial institutions	<u>(43,052)</u>	<u>(43,052)</u>	<u>(43,052)</u>	<u>(43,052)</u>
	<u>3,175,731</u>	<u>2,366,386</u>	<u>3,134,337</u>	<u>2,336,645</u>

12. INTANGIBLE ASSETS

	GROUP		BANK	
	2007	2006	2007	2006
	KShs'000	KShs'000	KShs'000	KShs'000
Software in use by the group companies:				
Cost at 1 January	659,101	427,139	643,639	411,677
Transfers	-	164,160	-	164,160
Additions	<u>70,475</u>	<u>67,802</u>	<u>70,475</u>	<u>67,802</u>
Cost at 31 December	<u>729,576</u>	<u>659,101</u>	<u>714,114</u>	<u>643,639</u>
Accumulated amortisation at 1 January	517,567	289,312	502,105	273,850
Transfers	-	161,744	-	161,744
Amortisation for the year	<u>55,674</u>	<u>66,511</u>	<u>55,674</u>	<u>66,511</u>
Accumulated amortisation at 31 December	<u>573,241</u>	<u>517,567</u>	<u>557,779</u>	<u>502,105</u>
Net book value at 31 December	<u>156,335</u>	<u>141,534</u>	<u>156,335</u>	<u>141,534</u>

13. PREPAID LEASE RENTALS

	GROUP AND BANK	
	2007	2006
	KShs'000	KShs'000
Cost		
At 1 January and 31 December	<u>55,568</u>	<u>55,568</u>
Amortisation:		
At 1 January	(12,976)	(12,372)
Charge for the year	<u>(659)</u>	<u>(604)</u>
At 31 December	(13,635)	(12,976)
Net book value at 31 December	<u>41,933</u>	<u>42,592</u>

Prepaid lease rentals relate to the cost of leasehold land

14(a) PROPERTY AND EQUIPMENT-GROUP

	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 2007	1,759,087	450,997	97,990	480,968	113,276	704,362	1,417,512	5,024,192
Additions	-	340,893	15,632	96,020	14,843	6,240	172,670	646,298
Disposals	-	-	-	(164)	-	-	-	(164)
Reclassification	-	(453,295)	-	-	-	453,295	-	-
At 31 December 2007	<u>1,759,087</u>	<u>338,595</u>	<u>113,622</u>	<u>576,824</u>	<u>128,119</u>	<u>1,163,897</u>	<u>1,590,182</u>	<u>5,670,326</u>
Comprising:								
Cost	1,287,912	338,595	113,622	576,824	128,119	1,163,897	1,590,182	5,199,151
Valuation	<u>471,175</u>	-	-	-	-	-	-	<u>471,175</u>
	<u>1,759,087</u>	<u>338,595</u>	<u>113,622</u>	<u>576,824</u>	<u>128,119</u>	<u>1,163,897</u>	<u>1,590,182</u>	<u>5,670,326</u>
DEPRECIATION								
At 1 January 2007	243,939	-	79,106	367,662	87,079	452,367	1,000,252	2,230,405
Charge for the year	42,591	-	8,114	43,334	10,804	75,510	152,500	332,853
Disposals	-	-	-	-	-	-	-	-
Reclassification	-	-	-	(161)	-	-	-	(161)
Impairment	-	-	-	-	-	-	-	-
At 31 December 2007	<u>286,530</u>	-	<u>87,220</u>	<u>410,835</u>	<u>97,883</u>	<u>527,877</u>	<u>1,152,752</u>	<u>2,563,097</u>
NET BOOK VALUE								
At 31 December 2007	<u>1,472,557</u>	<u>338,595</u>	<u>26,402</u>	<u>165,989</u>	<u>30,236</u>	<u>636,020</u>	<u>437,430</u>	<u>3,107,229</u>

- i. Capital work-in-progress represents ongoing construction work at the various branches of the Bank.
- ii. Buildings were revalued in February 1996 by Gatheru, Irungu and Mugo Professional Valuers on the basis of open market value. The resulting surplus on revaluation was transferred to capital reserve (Note 24).
- iii. Freehold land and buildings includes an amount of KShs 55,426,467 (2006-KShs 55,426,467) against which no depreciation has been charged, as these are pieces of land.
- iv. No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs2,070,247,524 (2006-KShs1,495,286,649), 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 388,560,810 (2006-KShs 231,472,145). Included in these fully depreciated assets is KShs 4,156,602 representing idle assets in the process of being disposed.
- v. The management carries out an impairment review and the resultant impairment loss recognised in the income statement.

14(a) PROPERTY AND EQUIPMENT-GROUP

	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	65,186	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)	(164,160)
Impairment	-	(31,372)	21,684	(57,683)	-	(13,480)	(52,062)	(132,913)
Write offs	-	-	-	-	-	-	-	-
At 31 December 2006	<u>1,759,087</u>	<u>450,997</u>	<u>97,990</u>	<u>480,968</u>	<u>113,276</u>	<u>704,362</u>	<u>1,417,512</u>	<u>5,024,192</u>
Comprising:								
Cost	1,287,912	450,997	97,990	480,968	113,276	704,362	1,417,512	4,553,017
Valuation	<u>471,175</u>	-	-	-	-	-	-	<u>471,175</u>
	<u>1,759,087</u>	<u>450,997</u>	<u>97,990</u>	<u>480,968</u>	<u>113,276</u>	<u>704,362</u>	<u>1,417,512</u>	<u>5,024,192</u>
DEPRECIATION								
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)	(161,744)
Impairment	<u>(2,157)</u>	-	<u>24,636</u>	<u>(50,791)</u>	<u>(1,430)</u>	<u>(11,223)</u>	<u>(53,346)</u>	<u>(94,311)</u>
At 31 December 2006	<u>243,939</u>	-	<u>79,106</u>	<u>367,662</u>	<u>87,079</u>	<u>452,367</u>	<u>1,000,252</u>	<u>2,230,405</u>
NET BOOK VALUE								
At 31 December 2006	<u>1,515,148</u>	<u>450,997</u>	<u>18,884</u>	<u>113,306</u>	<u>26,197</u>	<u>251,995</u>	<u>417,260</u>	<u>2,793,787</u>

14(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 2007	1,759,087	450,997	97,989	479,595	110,993	704,362	1,415,292	5,018,315
Additions	-	340,893	15,633	95,407	14,843	6,240	171,639	644,655
Disposals	-	-	-	(164)	-	-	-	(164)
Reclassification	-	(453,295)	-	-	-	453,295	-	-
At 31 December 2007	<u>1,759,087</u>	<u>338,595</u>	<u>113,622</u>	<u>574,838</u>	<u>125,836</u>	<u>1,163,897</u>	<u>1,586,931</u>	<u>5,662,806</u>
Comprising:								
Cost	1,287,912	338,595	113,622	574,838	125,836	1,163,897	1,586,931	5,191,631
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>338,595</u>	<u>113,622</u>	<u>574,838</u>	<u>125,836</u>	<u>1,163,897</u>	<u>1,586,931</u>	<u>5,662,806</u>
DEPRECIATION								
At 1 January 2007	243,939	-	79,106	366,909	86,927	452,367	999,110	2,228,358
Charge for the year	42,591	-	8,114	43,073	10,348	75,510	152,041	331,677
Disposals	-	-	-	(161)	-	-	-	(161)
Reclassification	-	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-	-
At 31 December 2007	<u>286,530</u>	<u>-</u>	<u>87,220</u>	<u>409,821</u>	<u>97,275</u>	<u>527,877</u>	<u>1,151,151</u>	<u>2,559,874</u>
NET BOOK VALUE								
At 31 December 2007	<u>1,472,557</u>	<u>338,595</u>	<u>26,402</u>	<u>165,017</u>	<u>28,561</u>	<u>636,020</u>	<u>435,780</u>	<u>3,102,932</u>

14(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)	-	-	-	(132,990)
At 31 December 2006	<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>
Comprising:								
Cost	1,287,912	450,997	97,989	479,595	110,993	704,362	1,415,292	4,547,140
Valuation	<u>471,175</u>	-	-	-	-	-	-	<u>471,175</u>
	<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	<u>(2,157)</u>	-	<u>24,636</u>	<u>(50,806)</u>	<u>(1,430)</u>	<u>(11,223)</u>	<u>(53,346)</u>	<u>(94,326)</u>
At 31 December 2006	<u>243,939</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>
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>

15. DEFERRED TAX

Deferred tax movement and balances are analysed as follows:

	2007 KShs'000	Dealt with in income statement KShs'000	Dealt with in equity KShs'000	2006 KShs'000
GROUP				
Loan losses disallowed for tax purposes	(115,410)	-	-	(115,410)
Revaluation surplus	91,619	-	(1,310)	92,929
Accelerated depreciation over wear and tear	(12,529)	72,037	-	(84,566)
Provisions and other deferred tax assets	18,700	64,641	-	(45,941)
	<u>(17,620)</u>	<u>136,678</u>	<u>(1,310)</u>	<u>(152,988)</u>
BANK				
Loan losses disallowed for tax purposes	(115,410)	-	-	(115,410)
Revaluation surplus	91,619	-	(1,310)	92,929
Accelerated depreciation over wear and tear	(12,529)	71,886	-	(84,340)
Provisions and other deferred tax assets	18,670	64,614	-	(46,018)
	<u>(17,650)</u>	<u>136,500</u>	<u>(1,310)</u>	<u>(152,839)</u>

16. DEPOSITS AND BALANCES DUE TO BANKS

	GROUP 2007 KShs'000	BANK 2006 KShs'000
Payable within 30 days	1,405,054	2,279,052
Payable after 30 days but within 1 year	17,557	-
	<u>1,422,611</u>	<u>2,279,052</u>

17. CUSTOMER DEPOSITS

	GROUP		BANK	
	2007 KShs'000	2006 KShs'000	2007 KShs'000	2006 KShs'000
a) Call deposits	308,732	3,327,940	308,732	3,327,940
Fixed deposits	13,746,938	7,723,601	13,746,938	7,723,601
Transaction accounts	21,225,925	17,112,113	21,225,925	17,130,219
Savings accounts	134,845	-	134,845	-
Current accounts	16,696,678	16,589,425	16,696,678	16,589,425
Foreign currency deposits	2,662,272	3,429,508	2,662,272	3,429,508
	<u>54,775,390</u>	<u>48,182,587</u>	<u>54,775,390</u>	<u>48,200,693</u>

During the year, a clause was introduced in the Banking Act prohibiting charges on Savings accounts. Consequently accounts styled Savings but with transactional features were classified as transaction accounts.

17 CUSTOMER DEPOSITS (continued)

	GROUP		BANK	
	2007 KShs'000	2006 KShs'000	2007 KShs'000	2006 KShs'000
b) From government and parastatals:-				
Payable on demand	1,539,585	3,215,907	1,539,585	3,215,907
Payable within 30 days	232,142	1,833,892	232,142	1,833,892
Payable after 30 days but within 1 year	1,958,969	2,216,497	1,958,969	2,216,497
	<u>3,730,696</u>	<u>7,266,296</u>	<u>3,730,696</u>	<u>7,266,296</u>
From private sector and individuals:-				
Payable on demand	39,045,292	17,808,040	39,045,292	17,808,040
Payable within 30 days	3,061,495	1,575,266	3,061,495	1,593,372
Payable after 30 days but within 1 year	8,937,907	21,532,985	8,937,907	21,532,985
	<u>51,044,694</u>	<u>40,916,291</u>	<u>51,044,694</u>	<u>40,934,397</u>
	<u>54,775,390</u>	<u>48,182,587</u>	<u>54,775,390</u>	<u>48,200,693</u>

Included in customers' deposits is an amount of KShs 11.2 million (2006-KShs 4 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 1.82% (2006 - 2.6%).

18. LOANS

GROUP AND BANK	
2007	2006
KShs'000	KShs'000

Integrated Agricultural Development Project:-		
• Loan	-	30,183
• Transportation Fund	-	86
• Union Transport Phase II	-	1,000
• Loan II	-	12,000
United States Agency for International Development		
• Crop Production	-	26,296
• New Seasonal Credit Scheme	-	112,333
Smallholder Coffee Improvement:-		
• Project Phase I	-	-
• Project Phase II	-	-
Ministry of Co-operative Development:-		
• Cotton Processing and Marketing	-	15,369
• Special Rural Development Project Loan	-	615
Swedish International Development Authority Technical Assistance Loan	-	9,606
Netherland Poultry Development Project Loan	-	4,481
Machakos Integrated Agricultural Development Project	-	8,789
Kreditanstalt Fuer Wiederaufbau General Loan	-	21,793
Ministry of Agriculture:-		
International Coffee Organisation Dairy Development Project Loan	-	788
Kreditanstalt Fuer Wiederaufbau:-		
• Mitunguu Irrigation Scheme	-	394
• Taita Horticulture	-	3,597
Danish International Development Agency:-		
Farm Input Supplies Scheme (FISS)	-	6,139
International Fund for Agricultural Development:-		
Eastern Province Horticultural and Traditional Food Crops project	-	30,000
	-	283,469
Repayable within one year	-	283,469
Repayable after one year	-	-
	-	283,469

During the year, the Bank changed the accounting policy on all funds held on agency basis. These funds are received for onward lending to customers with default risk being on the principal lender. The loans have therefore been removed from the balance sheet as the Bank does not own the loan asset.

19. OTHER BORROWINGS

A loan agreement was entered into on 25 November 2003 between the European Investment Bank and Co-operative 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 co-operative societies on a performance related basis. At year end, an amount of Kenya Shillings equivalent 45.66 million (2006 KShs 54.8m) was outstanding.

20. TAXATION

	GROUP		BANK	
	2007 KShs'000	2006 KShs'000	2007 KShs'000	2006 KShs'000
a) Income statement:-				
Current tax at 30% (2006 - 30%) on the taxable profit for the year	594,281	352,560	587,424	345,169
Over-provision in previous years	37,960	(37,650)	37,650	(37,650)
Deferred tax	<u>136,678</u>	<u>74,578</u>	<u>136,499</u>	<u>74,287</u>
Tax charge	<u>768,919</u>	<u>389,488</u>	<u>761,573</u>	<u>381,806</u>
b) Balance sheet:-				
Balance brought forward	334,754	1,658	330,607	2,124
Charge for the year	594,281	352,560	587,424	345,169
Over-provision in previous years	37,960	715	37,650	772
Paid during the year	<u>(733,044)</u>	<u>(20,179)</u>	<u>(721,614)</u>	<u>(17,458)</u>
	<u>233,951</u>	<u>334,754</u>	<u>234,067</u>	<u>330,607</u>
c) Reconciliation of taxation expense to tax based on accounting profit:-				
Accounting profit	<u>2,318,525</u>	<u>1,256,000</u>	<u>2,287,661</u>	<u>1,233,431</u>
Tax applicable rate of 30 % (2006- 30%)	695,558	376,800	686,298	370,029
Over-provision in previous years	-	(37,650)	-	(37,650)
Tax effect of items not eligible for tax	<u>73,361</u>	<u>50,338</u>	<u>75,275</u>	<u>49,427</u>
	<u>768,919</u>	<u>389,488</u>	<u>761,573</u>	<u>381,806</u>

21. OTHER LIABILITIES

	GROUP		BANK	
	2007 KShs'000	2006 KShs'000	2007 KShs'000	2006 KShs'000
Interest payable	4,123	27,160	4,123	27,160
Sundry creditors and accruals	2,101,170	1,076,091	2,093,844	1,510,410
Other creditors	<u>281,021</u>	<u>615,989</u>	<u>312,504</u>	<u>179,166</u>
	<u>2,386,314</u>	<u>1,719,240</u>	<u>2,410,471</u>	<u>1,716,736</u>

22. SHARE CAPITAL

	GROUP AND BANK	
	2007 KShs'000	2006 KShs'000
Authorised:-		
An unlimited number of shares of KShs100 each.	-	-
Issue of new shares : class A		
Issued and fully paid:-		
Class A Shares	2,232,243	2,229,788
B Shares	624,207	430,575
Share transfers:-		
Class B Shares transferred to Class A	-	1,196
Transfers from Class A to B	-	(1,196)
	<u>2,856,450</u>	<u>2,660,363</u>

22. SHARE CAPITAL (Continued)

Share capital information:

- i) The authorised share capital of the Bank is unlimited on the 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.

23. RESERVES**BANK**

	2007	2006
	KShs'000	KShs'000
Capital reserve	306,703	309,761
General reserve	3,100	3,100
Share transfer fund	522	522
Share fractions	70	70
Revenue reserves	<u>2,350,391</u>	<u>1,005,566</u>
	<u>2,660,786</u>	<u>1,319,019</u>
The movement in revenue reserves is shown below.		
At 1 January	1,005,566	272,549
Profit for the year	1,549,606	851,625
Realisation of revaluation surplus	4,368	4,368
Net movement in revenue grants	19,367	10,042
Proposed dividends	<u>(228,516)</u>	<u>(133,018)</u>
	<u>2,350,391</u>	<u>1,005,566</u>

The movement in Group reserve accounts are as shown on page 35.

Capital Reserve

The capital reserve is used to record increases in the fair value of land and buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

General Reserve

This is a reserve to cater for unforeseeable risks and future losses.

Revenue Reserve

This reserve includes both the capitalised portion of interest from grant loans and accumulated profits.

Share Transfer Fund

Reserves created to cater for refunds to co-operative societies which wind up their operations.

Share Fractions

This relates to purchases of share portions that mostly arise from monthly standing orders from existing member societies.

24. CAPITAL GRANTS**GROUP AND BANK**

	2007	2006
	KShs'000	KShs'000
Fair value of grant receipts		
Fair value at 1 January and 31 December	<u>697,400</u>	<u>717,848</u>
Grant net of amortisation at 1 January	697,400	717,848
Amortisation for the year	<u>(20,447)</u>	<u>(20,448)</u>
At 31 December	<u>676,953</u>	<u>697,400</u>

Capital grants relate to 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 following the August, 1998 bomb blast.

25. PROPOSED DIVIDENDS**GROUP AND BANK**

	2007	2006
	KShs'000	KShs'000
Final dividends - proposed	<u>228,516</u>	<u>133,018</u>
Dividend per share (KShs)	<u>8</u>	<u>5</u>

- (i) A final dividend of KShs 8 per share totalling KShs 228 million has been proposed and the amount shown as a separate component of equity at 31 December 2007. 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 weighted average number of shares in issue during the year.

26. INTEREST INCOME**GROUP****BANK**

	2007	2006	2007	2006
	KShs'000	KShs'000	KShs'000	KShs'000
Loans and advances	4,191,866	3,156,439	4,191,100	3,156,365
Government securities	1,285,586	1,228,790	1,285,849	1,225,543
Deposits and placements with banks	<u>42,374</u>	<u>32,503</u>	<u>37,373</u>	<u>32,503</u>
	<u>5,519,826</u>	<u>4,417,732</u>	<u>5,514,322</u>	<u>4,414,411</u>

27. INTEREST EXPENSE**GROUP AND BANK**

	2007	2006
	KShs'000	KShs'000
Short call deposits	242,640	335,931
Fixed deposits	494,657	561,529
Savings accounts	158,377	127,131
Interbank borrowings	55,998	36,816
Government loans	<u>48,760</u>	<u>17,442</u>
	<u>1,000,432</u>	<u>1,078,849</u>

28. OTHER INCOME

	GROUP		BANK	
	2007	2006	2007	2006
	KShs'000	KShs'000	KShs'000	KShs'000
Gains on disposal of property and equipment	(4)	1,693	(4)	1,693
Rental income (net)	45,695	43,032	45,695	43,032
Miscellaneous	363,247	139,416	360,925	133,336
Provision writeback:				
Specific	-	653,074	-	653,074
	<u>408,938</u>	<u>837,215</u>	<u>406,616</u>	<u>831,135</u>

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. These services give rise to the risk that the Group will be accused of maladministration or under-performance. The income from trust activities was KShs 47,900,060 (2006: 47,224,142).

29. OTHER OPERATING EXPENSES

	GROUP		BANK	
	2007	2006	2007	2006
	KShs'000	KShs'000	KShs'000	KShs'000
Staff costs	2,417,756	1,910,226	2,394,659	1,895,220
Contribution to staff retirement benefit scheme	200,888	187,142	198,868	185,611
Directors' emoluments	55,678	55,773	48,074	47,711
Depreciation on property and equipment	332,854	281,004	331,675	280,349
Amortisation of leasehold land	659	604	659	604
Amortisation of intangible assets	55,674	66,511	55,674	66,511
Auditors' remuneration	7,550	6,865	6,600	5,990
Contribution to Deposit Protection Fund	70,421	60,298	70,421	60,298
Other administrative expenses	1,505,914	876,191	1,502,190	865,701
Other operating expenses	<u>610,046</u>	<u>791,704</u>	<u>600,300</u>	<u>790,985</u>
	<u>5,257,440</u>	<u>4,236,318</u>	<u>5,209,120</u>	<u>4,198,980</u>

30. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging:-

	GROUP		BANK	
	2007 KShs'000	2006 KShs'000	2007 KShs'000	2006 KShs'000
Staff costs	2,419,383	1,910,226	2,394,659	1,895,220
Directors' emoluments	55,678	55,773	48,074	47,711
Depreciation on property and equipment	332,854	281,004	331,675	280,349
Amortisation of leasehold land	659	604	659	604
Amortisation of intangible assets	55,674	66,511	55,674	66,511
Auditors' remuneration	7,550	6,865	6,600	5,990
Impairment of loans and advances	699,891	1,424,644	699,891	1,424,644
Contribution to Deposit Protection Fund	70,421	60,298	70,421	60,298
Contribution to staff retirement benefit scheme	200,888	187,142	198,868	185,611
and after crediting:-				
Foreign exchange gains	414,221	299,110	414,221	299,110
Gains on disposal of property and equipment	(4)	1,693	(4)	1,693
Net rental income	45,695	43,032	45,695	43,032
Amortisation of capital grants	20,447	20,448	20,447	20,448
Provisions write back on loans and advances	-	653,074	-	653,074

31. 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.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no potentially dilutive shares outstanding at the respective balance sheet dates. Diluted earnings per share is therefore the same as basic earnings per share.

32. CASH AND CASH EQUIVALENTS

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

	GROUP	
	2007 KShs'000	2006 KShs'000
Cash on hand	2,405,929	2,196,647
Cash with Central Bank of Kenya	3,619,337	3,084,409
Deposits and balances due from banks	1,773,418	3,433,908
Government securities and other investments maturing within 91 days	2,784,141	4,529,200
	10,582,825	13,244,164
Less CBK cash ratio	(3,488,084)	(2,963,960)
	7,094,741	10,280,204

33. 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	
	2007	2006
	KShs'000	KShs'000
Directors	128,847	63,789
Employees	<u>1,769,491</u>	<u>1,512,306</u>
	<u>1,898,338</u>	<u>1,576,095</u>

The weighted average interest on loans to related parties during the year was 4% (2006 – 3.94%)

(b) Inter-company balances:-

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

	BANK	
	2007	2006
	KShs'000	KShs'000
Due to:-		
Deposits from subsidiary companies	-	18,106
Other balances	<u>1,250</u>	<u>3,328</u>
	<u>1,250</u>	<u>21,434</u>

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

(c) Compensation of key management personnel

	GROUP AND BANK	
	2007	2006
	KShs'000	KShs'000
Directors	<u>55,678</u>	<u>55,773</u>
Senior managers	<u>232,538</u>	<u>219,889</u>

(d) Co-operative Bank Foundation

The Foundation is a registered trust established to assist bright needy students from the co-operative movement in paying school fees. During the year the Bank donated KShs 15 Million (2006-nil) to start off this Foundation.

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

This is a defined contribution scheme and provides, under the rules of the scheme, retirement benefits for the staff of Co-operative Bank of Kenya Limited and its subsidiaries. Under the terms of their appointment, Co-optrust Investment Services Limited is responsible for the investment of funds. The Scheme was converted to a Defined Contribution Scheme with effect from 1 January 2007. The Group contributed KShs 200,888,234 (2006: KShs:198,868,087).

Notes to the financial statements

34. 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	1-3 months	3-12 months	1-5 years	Over 5 years	Non interest bearing	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cash and balances with Central Bank of Kenya	-	-	-	-	-	6,025,266	6,025,266
Deposits and balances due from other banks	1,773,418	-	-	-	-	-	1,773,418
Trading investments	400,000	894,500	1,249,370	-	734,660	-	3,278,530
Non trading investments	1,100,000	251,750	272,450	7,032,793	1,046,378	-	9,703,371
Loans and advances to customers	3,923,477	926,434	4,110,455	24,450,745	4,633,661	-	38,044,772
Tax recoverable	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	3,175,731	3,175,731
Intangible assets	-	-	-	-	-	156,335	156,335
Prepaid lease rentals	-	-	-	-	-	41,933	41,933
Property and equipment	-	-	-	-	-	3,107,229	3,107,229
Deferred tax	-	-	-	-	-	17,620	17,620
Total assets	7,196,895	2,072,684	5,632,275	31,483,538	6,414,699	12,524,114	65,324,205
LIABILITIES							
Deposits and balances due to banks	1,422,611	-	-	-	-	-	1,422,611
Customer deposits	41,558,300	7,728,467	3,826,568	-	1,662,055	-	54,775,390
Loans	-	-	-	-	45,657	-	45,657
Tax payable	-	-	-	-	-	233,951	233,951
Other liabilities	-	-	-	-	-	2,375,805	2,375,805
Share capital	-	-	-	-	-	2,856,450	2,856,450
Reserves	-	-	-	-	-	2,708,872	2,708,872
Capital grants	-	-	-	-	-	676,953	676,953
Proposed dividends	-	-	-	-	-	228,516	228,516
Total liabilities	42,980,911	7,728,467	3,826,568	-	1,707,712	9,080,547	65,324,205
Interest sensitivity gap at 31 December 2007	35,784,016	5,655,783	1,805,707	(31,483,538)	(4,706,987)	(3,443,548)	-
Interest sensitivity gap at 31 December 2006	(33,065,142)	(2,958,152)	4,139,688	22,015,332	5,097,621	3,889,883	-

35. 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 2007 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	6,025,266	-	-	-	-	6,025,266
Deposits and balances due from banks	1,773,418	-	-	-	-	1,773,418
Trading investments	400,000	894,500	1,249,370	-	734,660	3,278,530
Non trading investments	1,100,000	251,750	272,450	7,032,793	1,046,378	9,703,371
Loans and advances to customers	3,923,477	926,434	4,110,455	24,450,745	4,633,661	38,044,772
Other assets	1,988,113	-	1,187,618	-	-	3,175,731
Tax recoverable	-	-	-	-	-	-
Intangible assets	-	-	-	156,335	-	156,335
Prepaid lease rentals	-	-	663	2,653	38,617	41,933
Property and equipment	-	-	-	-	3,107,229	3,107,229
Deferred tax	-	-	-	17,620	-	17,620
Total Assets	15,210,274	2,072,684	6,820,556	31,660,146	9,560,545	65,324,205
LIABILITIES						
Deposits and balances due to banks	1,422,611	-	-	-	-	1,422,611
Customers' deposits	41,558,300	7,728,467	3,826,568	-	1,662,055	54,775,390
Loans-	-	-	-	-	-	-
Other Loans/Borrowed Funds	-	-	-	-	45,657	45,657
Tax payable	-	-	-	-	233,951	233,951
Other liabilities	2,375,805	-	-	-	-	2,375,805
Share capital	-	-	-	-	2,856,450	2,856,450
Reserves	-	-	-	-	2,708,872	2,708,872
Capital grants	-	-	-	-	676,953	676,953
Proposed dividends	-	-	-	-	228,516	228,516
Total liabilities	45,356,716	7,728,467	3,826,568	-	8,412,454	65,324,205
Net liquidity gap at 31 December 2007	(30,146,442)	(5,655,783)	2,993,988	31,660,146	1,148,089	-
Net Liquidity gap at 31 December 2006	(27,245,953)	(2,957,860)	5,130,133	22,312,501	2,761,179	-

36. FOREIGN CURRENCY EXPOSURE**THE BANK**

CURRENCY TYPE	USD	GBP	EURO	JPY	ZAR	OTHERS	TOTAL
EXCHANGE RATE	63.55	125.8258	91.5787	0.5565	9.0964		
Foreign Currency Assets:	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000
Cash and balances with banks abroad	1,198,693	195,890	204,007	380	2,998	9,292	1,611,260
Loan and advances	1,235,849	(923)	2,640	-	3	-	1,237,570
Other foreign assets	20,624	(724)	(14,165)	275	(555)	(2,266)	3,189
Off balance sheet items	<u>1,272</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,272</u>
Total Foreign Assets	<u>2,456,438</u>	<u>194,243</u>	<u>192,482</u>	<u>655</u>	<u>2,446</u>	<u>7,027</u>	<u>2,853,290</u>
Foreign Currency Liabilities:							
Deposits	2,443,070	193,688	186,796	655	2,419	7,035	2,833,664
Loans and advances	-	-	-	-	-	-	-
Other foreign liabilities	4,707	70	6,571	-	-	18	11,366
Off-balance sheet items	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Foreign liabilities	<u>2,447,777</u>	<u>193,758</u>	<u>193,367</u>	<u>655</u>	<u>2,419</u>	<u>7,053</u>	<u>2,845,029</u>
Net Exposure at 31 December 2007	<u>8,661</u>	<u>485</u>	<u>(884)</u>	<u>-</u>	<u>27</u>	<u>(26)</u>	<u>8,261</u>
Net Exposure at 31 December 2006	<u>5,472</u>	<u>3,807</u>	<u>613</u>	<u>(62)</u>	<u>733</u>	<u>(1,183)</u>	<u>9,380</u>

37. SENSITIVITY ANALYSIS

The Group uses models to assess the impact of possible changes in market risks. These risks include interest rate risk and foreign exchange risk. The Board has established limits on exposure gaps, these limits are used to ensure risk positions are effectively managed. The ranges of reasonably possible alternative assumptions are established by application of professional judgement to an analysis of the data available to support each assumption. There were no changes from the previous period in the methods and assumptions used in computing the exposures.

(i) Interest rate risk

Interest rate risk is the risk of loss resulting from changes in interest rates, including changes in the shape of yield curves. The Group bases its analysis on the interest sensitivity gap (Note 34). The sensitivity computations assume that financial assets maintain a constant rate of return from one year to the next. The effect on profit due to reasonable possible changes in interest rates, with all other variables held constant, is as follows:

	GROUP	
	2007	2006
	KShs'000	KShs'000
Effect on profit before tax of a +3% change in interest rates	92,976	105,027
Effect on profit before tax of a -3% change in interest rates	(72,315)	(81,688)

(ii) Currency risk

Currency risk is the risk of loss resulting from changes in exchange rates. The Group bases its analysis on the interest sensitivity gap (Note 36). The Group has assets and liabilities in various currencies; however, the most significant exposure arises from assets denominated in the US dollar. The following table demonstrates the sensitivity to reasonably possible change in the KShs/ US dollar exchange rate, with all other variables held constant, of the Group's profit before tax.

	GROUP	
	2007	2006
	KShs'000	KShs'000
Effect on profit before tax of a +5% change in exchange rates	478	302
Effect on profit before tax of a -5% change in exchange rates	(302)	(300)

38. OPERATING LEASE COMMITMENTS

As Lessee

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

	GROUP AND BANK	
	2007	2006
	KShs'000	KShs'000
Within One year	656	656
Between 2 and 5 years	2,625	2,625
Over 5 years	<u>41,341</u>	<u>41,998</u>
	<u>44,622</u>	<u>45,279</u>

Lease commitments relate to lease rentals payable by the group for its leasehold properties.

39. COMMITMENTS

- i) Capital: Authorised and contracted for
- ii) Capital: Authorised and not contracted for
- iii) Loans committed but not disbursed at year end

GROUP AND BANK

2007	2006
KShs'000	KShs'000
<u>56,558</u>	<u>44,200</u>
<u>1,114,282</u>	<u>814,433</u>
<u>636,547</u>	<u>850,104</u>

40. CONTINGENT LIABILITIES

- a) Letters of credit, guarantees and other engagements entered into on behalf of customers

<u>2,064,074</u>	<u>3,472,713</u>
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- b) Pending legal suits: -

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) There are other legal suits against the Group by third parties and customers. If the court rules against the Group then the probable liability of KShs 82,851,987 will crystallise. However, the group has lodged counter claims against these suits.

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

41. COMPARATIVES

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

42. INCORPORATION

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

43. CURRENCY

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