2012 ANNUAL REPORT & FINANCIAL STATEMENTS

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This is the
Kingdom Bank through
which God will bless
His people of Kenya.

Board of Directors Resolution.
August 2004.

"Kupitia Msamaria Women's Loan, nilianzisha mradi ulionipa ajira."

Mrs. Agnes Odhiambo
Msamaria Loan Customer

CO-OPERATIVE BANK
We are you

REGISTERED OFFICE AND HEAD OFFICE

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

SUBSIDIARIES

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

Co-op Consultancy & Insurance Agency Ltd
P.O. Box 48231 - 00100
Tel: 020 3276000
NAIROBI

Kingdom Securities Ltd
P.O. Box 48231 - 00100
Tel: 020 3276000
NAIROBI

COMPANY SECRETARY

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

SHARES REGISTRAR

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

LAWYERS

Various
A list is available at the Bank

AUDITOR

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

Funding small businesses

Dr. Gideon Muriuki, MBS, Group Managing Director and C.E.O of the Co-operative Bank with Mr. Oumar Seydi, Director IFC, Eastern and Southern Africa. The bank was signing a USD 65 Million credit line for on lending to Kenyan small businesses.

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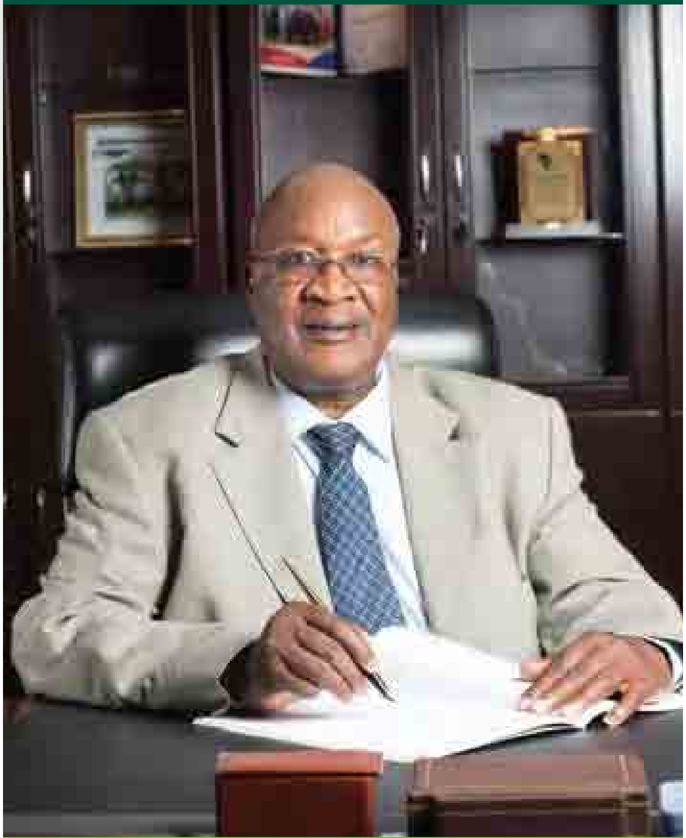

Stanley C. Muchiri, EBS
Mwenyekiti, Co-operative Bank

> "In line with the new Constitution and devolved system of Government, we performed a strategic positioning of our footprints and opened 20 branches in 2012 with plans for more in the succeeding year."

Dear Shareholders,

It is my pleasure to present to you the Annual Report and Audited Financial Statements of Co-operative Bank Group for the year ended December 31, 2012.

Economic and Business Environment

The year 2012 will be remembered as a period of significant turbulence for the Kenyan economy. Coming on the heels of a remarkable recovery in 2011, the first quarter of the year showed robust performance but the rest of the year was marked by declines in key indicators and a high interest rate regime.

Domestic inflation stood at a high of 15.10% in January 2012 reducing to a single digit level of 4.45% as at December 2012 mainly due to reduced prices of basic foodstuffs and energy prices. At the same time, the local currency depreciated from KShs. 84.9 to the US dollar at the beginning of the year t o KShs. 86 to the US Dollar at the close of the year. The Treasury responded by borrowing $600 million from the foreign Market which was issued in dollar denominated syndicated loan as a stepping stone to stabilise the Shilling.

In response to these trends, the Monetary Policy Committee increased the Central Bank Rate (CBR) to 18% through a series of revisions particularly in the first quarter of the year. Over time the rate eased to from 13.5% to 11% to 9.5% at the close of 2012. The CBR changes had a direct impact on short term interest rates as reflected in the 91 Day Treasury bill rate which reduced from 20.614% in January 2012 to 18.95% at the end of December 2012. The main challenge to Banks was to immediately cascade the benefits to customers without a siginificant improvement in other key macroeconomic indicates hence interest rates have remained relatively high.

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

The net effect of these economic outcomes was an increase in GDP growth rate from 4.3 % in 2011 to 4.7% (estimated) in 2012. However, this fell short of the 5.1% forecast projected by Treasury full year 2012.

Banking Sector Developments

The banking sector continued to exhibit resilience in the face of a challenging operating environment. In response to the Central Bank Rate increase, banks adjusted their base rates upwards in the second, third and fourth quarters of the year to levels above 20%, which were last seen in the early 2000s.

The Co-operative Bank undertook to cushion its existing customers from the rate increases for as long as possible before finally adjusting the rates in line with market conditions in the second quarter.

The Banking Sector continued to be driven by innovations such as mobile banking and agency banking which offer exciting new channels for serving customers and extending outreach to the Kenyan population. Many Banks have therefore invested heavily in technology to optimise revenues from this sector.

Sector players continued to grow apace as the benefits of branch expansions undertaken in 2011 and early 2012 began to bear fruit. The confidence to invest in expanding branch and ATM networks was rewarded with strong earnings driven by commission based revenues as the number of customers continued to grow across the industry.

Bank's Performance

The Bank has delivered exemplary results in 2012 Financial Year, an improvement on the previous year's financial results. The Group reported a remarkable Profit before Tax of KShs. 9.97 billion for the year ended December 31, 2012. This represented a 57% increase in profits before tax compared to KShs. 6.36 billion recorded in the year 2011. This was achieved through prudent execution of our growth strategies resulting in increased revenues.

In line with the new Constitution and devolved system of Government, we performed a strategic positioning of our footprints and opened 20 branches in 2012 with plans for more in the succeeding year. The expansions target strategic locations based on their profiles and business potential from our chosen market segments.

The establishment of Co-operative Bank of Southern Sudan as a joint venture with the Government of South Sudan is at an advanced stage with the first branch set to be opened in May 2013. This will deepen the Co-operative Movement in the country and form the stepping stone of our penetration in the market.

Your Bank continues to be feted locally, being the second runners up in Corporate Social Investment in the 2012 FiRe Awards, demonstrating our commitment to sound corporate social practices and excellence in financial reporting.

Dividends

In view of the bank's good performance, the Board of Directors is recommending an enhanced dividend of Ksh 0.50 in 2012 up from the KShs. 0.40 per share paid in 2011. This is in line with our strategy of deepening stakeholder value.

Corporate Social Responsibility

The Bank has continued to play its corporate social responsibility role through various activities. The Co-operative Bank Foundation targets bright but needy student and has been paying full secondary school fees for over 1,404 students and 56 students per year in the Universities both local and abroad. The top students are selected from all over the country.

The students sponsored through University are chosen from a pool of secondary sponsored students who perform exemplary well.

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

The Bank takes full cognizance of the wider society in making lives of these young Kenyans meaningful and focussed.

Future Outlook

The Bank is well positioned to thrive under the new constitutional dispensation and the new Government following the peaceful elections we held in 2013. With the key flagship infrastructure and other development projects, such as oil and gas reserves, Konza Techno City, Lappsset, Airports and Seaports among others we expected great business opportunities in all market segments and look forward to growing our market share.

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

Acknowledgement

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

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

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

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

Yours faithfully,

Stanley C. Muchiri, EBS,
Group Chairman

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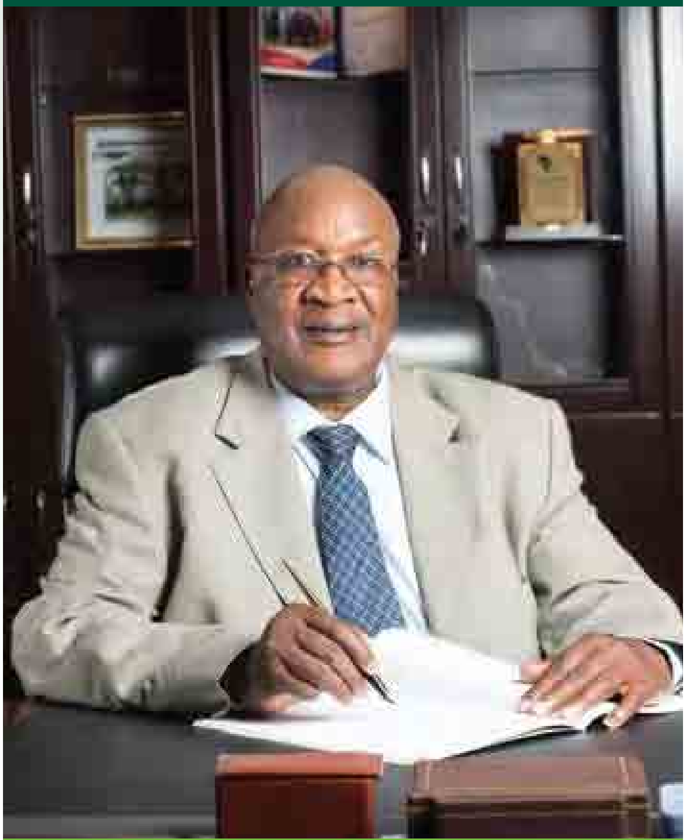

Stanley C. Muchiri, EBS
Mwenyekiti, Co-operative Bank

> "Kufuatana na katiba mpya ya nchi ambayo imeanzisha mfumo wa serikali za County, Co-operative Bank imeweka mikakati mipya ya utendakazi katika mfumo huu wa serikali za County."

Wapendwa Wanahisa

Nina furaha kubwa kuwasilisha kwenu Ripoti ya Mwaka ya Co-operative Bank pamoja na Taarifa iliyokaguliwa ya Fedha.

Mazingira ya uchumi na biashara

Mwaka wa 2012 utakumbukwa kama mwaka ambao uchumi wa Kenya ulikumbwa na matatizo mengi. Kwa miezi mitatu ya kwanza, hali ya uchumi ilionekana kuwa ya kuridhisha, sawa na ilivyokuwa mwaka wa 2011. Lakini kutoka mwezi wa nne hadi mwisho wa mwaka, hali hii iliendelea kuzoroteka kutokana na sababu kadhaa za ki-uchumi, pamoja na ongezeko la kiwango cha riba.

Mfumuko wa bei mwezi wa Januari 2012 ulikuwa wa kiwango cha juu kilichofikia asili mia 15 nukta 1. Hata hivyo, kufikia mwisho wa Disemba 2012, mfumuko wa bei ulikuwa umepungua hadi kiwango cha chini cha asili mia 4 nukta 45 kufuatana na kupungua kwa bei ya vyakula na mafuta. Jambo lingine ambalo lilichangia hali mbaya ya mazingira ya uchumi na biashara lilikuwa ni kushuka kwa thamani ya shilingi kutoka shilingi 84 nukta 9 kwa dola mwanzo wa mwaka, hadi shilingi 86 kwa dola mwisho wa mwaka. Wizara ya fedha ilibidi kukopa dola milioni 600 kutoka kwa soko la fedha za kigeni ili kusawazisha thamani ya shilingi.

Kukabili hali hii ya kutatanisha katika mazingira ya uchumi na biashara, kamati ya serikali inayoshughulikia sera za fedha (Monetary Policy Committee) iliamua kuongeza kiwango cha riba ya Benki Kuu hadi asili mia 18. Hatua hizi zilichukuliwa wakati wa miezi 3 ya kwanza ya mwaka. Mwaka ulivyoendelea kuisha, kiwango hiki cha riba kilishuka kutoka asili mia 13 nukta 5 hadi asili mia 11 na hata kufikia asili mia 9 nukta 5 mwisho wa 2012. Mabadiliko haya ya kiwango cha riba yalishuhudiwa pia katika kushuka kwa riba ya Treasury Bills kutoka asili mia 20 nukta 614 mwezi wa January 2012 hadi asili mia 18 nukta 95 mwisho wa Disemba 2012. Changamoto kubwa kwa benki za kibiashara lilikuwa ni vipi wataweza kupunguza riba kwa mikopo ya wateja wao wakati bado kuna sera zingine za kifedha ambazo zilikuwa hazijashughulikiwa. Kwa sababu hiyo, viwango vya riba vimebaki kuwa ni vya juu.

Sekta ya uchumi inayohusika na uzalishaji wa bidhaa na huduma ilikumbwa na hali isiyoelezeka mwaka mzima. Upande wa viwanda, kulikuwa na ongezeko la gharama za kawi na vitega uchumi kutoka ng'ambo na ikiwa pia ni wakati ambako uwezo wa Wakenya wa kununua bidhaa na huduma ulikuwa unazidi kupungua. Sekta ya ujenzi ilikuwa inafanya vizuri kutokana na miradi mingi ya ujenzi ambayo ilikuwa inaendelezwa na serikali na ongezeko la ujenzi wa nyumba kwa jumla. Sekta za kilimo, biashara, mawasiliano na biashara ndogo na za wastani zilikua kwa unyonge mwaka mzima.

Shida mhizi zote za kiuchumi zilifanya pato la nchi (GDP) kukua kwa kiwango kidogo kutoka asili mia 4 nukta 3 mwaka wa 2011 hadi asili mia 4 nukta 7 mwaka wa 2012, kikiwa ni chini ya kiwango kilichokadiriwa cha asili mia 5 nukta 1 kwa mwaka wa 2012.

Maendeleo ya Sekta ya Benki

Sekta ya benki iliendelea kujikakamua katika mazingira magumu ya kufanyia biashara. Kutoka mwezi wa nne hadi mwisho wa mwaka, ikiwa ni baada ya Benki Kuu kuongeza viwango vyake vya riba, benki za kibiashara ilibidi nazo ziongeze riba kwa wateja wao kwa kiwango kisichozidi asili mia 20. Kiwango cha riba kinachozidi asili mia 20 kilishuhudiwa tu wakati wa miaka ya 2000. Co-operative Bank, hataa hivyo, ilijaribu iwezavyo kutopandisha riba kwa wateja wake ingawa baadaye nayo pia ikabidi kufuata nyayo na kuongeza riba kama zilivyofanya benki zingine za biashara.

Sekta ya benki iliendelea kufaidika na uzinduzi wa technologia mpya kama zile za kutuma na kupokea pesa kupitia kwa simu za mkono na kuwa ma-ajenti karibu na wateja. Jambo hili limesaidia benki nyingi kuongeza pato lao kutoka kwa wateja ambao wamezidi kuongezeka kote nchini. Kwa sasa, benki nyingi zimetumia pesa nyingi kugharamia technologia hizi ambazo zinawawezesha kuongeza mapato yao kutoka kwa sekta hii.

Wafanya biashara katika sekta hii wanazidi kuongezeka kulingana na vile matawi mapya tuliyoyafungua mwaka wa 2011 na mapema mwaka jana yanavyowafaidi. Imani yetu ya kuanzisha mtandao wa matawi mapya na mashini za ATM, imetujalia faida kubwa kutoka na wateja ambao wameendelea kuongezeka.

Utendakazi wa benki yetu

Mwaka jana, 2012, ulikuwa ni bora zaidi kwetu kibiashara kuliko mwaka wa 2011. Kufikia Disemba 31 2012, Co-operative Bank Group ilikuwa imepata faida kubwa ya shilingi billion 9 nukta 97, kabla ya kukatwa kodi. Hili lilikuwa ni ongezekko la asili mia 57 la faida, kabla ya kukatwa kodi, ukilinganisha na faida tuliyopata mwaka wa 2011 ya shilingi billion 6 nukta 36. Ongezeko hili la faida liliwezekana kwa kufuatia kikamilifu mikakati ya utendakazi tuliyoweka ili kujihakikishia pato kubwa katika shughuli zetu za kibiashara.

Kufuatana na katiba mpya ya nchi ambayo imeanzisha mfumo wa serikali za County, Co-operative Bank imeweka mikakati mipya ya utendakazi katika mfumo huu wa serikali za County. Tuliweza kufungua matawi mapya 20 mwaka 2012 na tunatarajia kufungua mengine mwaka huu kulingana na mwongozo ambao tumeuweka wa kufungua matawi katika sehemu ambazo zimefanyiwa utafiti na kuthibitishwa zina biashara ya kutosha kufunguliwa kwa tawi jipya.

Shughuli za kuanzisha Co-operative Bank ya South Sudan ambayo inamilikiwa kwa pamoja na Co-opperative Bank na serikali ya South Sudan ni karibu zimekamilika na tawi la kwanza la benki hii linatazamiwa kufunguliwa mwezi wa Mai 2013. Kuanzishwa kwa benki hii kunatarajiwa kuongeza ufahamu wa manufaa ya vyama vya ushirika kwa wananchi wa South Sudan na itakuwa ni kivukio chetu cha kuingia na kufanya biashara South Sudan.

Humu nchini, Co-operative Bank imeendelea kupongezwa kwa kuchukua nafasi ya pili katika tuzo la mwaka wa 2012 la FiRe Awards kama shirika linaloshughulikia vyema mahitaji ya jamii pana katika sehemu inapofanyia biashara.

Gawio

Kufuatana na faida nzuri ambayo benki ilipata, Halmashauri yenu ya Co-operative Bank Group imependekeza gawio la kiwango cha senti 50 kwa kila hisa ambacho ni cha juu kuliko kile kilichotolewa mwaka 2011 cha senti 40 kwa hisa.

Uwajibikaji wetu kwa jamii

Benki yetu imeendelea kutimiza wajibu wake kwa jamii kupitia shughuli tofauti tofauti. Wakfu wa Co-operative Bank umewasaidia wanafunzi 1,404 kwa kuwalipia karo zao zote za shule za upili. Wakfu huu pia unawasaidia wanafunzi 56 kila mwaka ambao wako katika vyuo vikuu humu nchini na ng'ambo. Wanaosaidiwa katika vyuo vikuu ni kati ya wale waliosaidiwa wa shule za upili ambao wamefanya vizuri zaidi. Hili ni thibitisho la vile benki yetu inavyofahamu na kuthamini umuhimu wa msingi mzuri wa maisha kwa vijana wote wa Kenya.

Mtazamo wa hali ya baadaye

Co-operative Bank imeweka mikakati ya kuiwezesha kukabiliana na kufaulu katika hali ya kutatanisha ya ki-uchumi ambayo inatarajiwa kukumba nchi yetu siku zijazo kutoka na hali mbaya ya uchumi duniani ambayo imeletwa na ongezeko la bei ya mafuta na ukosefu wa amani katika mataifa ya Mashariki ya Kati. Tunatarajia ushindani mkubwa katika sehemu zote za biashara yetu. Hata hivyo tuna imani kwamba miaka inayofuata tutaweza kukuza nafasi yetu katika biashara hii kwa kiasi kikubwa.

Uhusiano mkubwa tulio nao na vyama vya ushirika utabaki kuwa msingi wa juhudi za Co-operative Bank za kuendeleza na kuboresha huduma zetu kwa wananchi wa Kenya.

Shukrani

Kwa niaba ya Halmashauri ya Wakurugenzi, ningependa kuwatolea shukrani zisizo na kifani kwa wateja wetu wote ambao wameendelea kutumia huduma zetu na kutuunga mkono miaka hii yote. Pia nawashukura washiriki wetu kibiashara na wengine wengi ambao walitupatia huduma tofauti tofauti kwa kuendelea kufanya kazi pamoja nasi na kutuwezesha kufikia malengo yetu ya biashara mwaka uliopita wa 2012.

Natoa pia shukrani zangu nyingi kwa mameneja na wafanya kazi wetu wote kwa vile walivyojitolea kazini kuhakikisha kwamba yote tuliyopanga yametekelezwa vilivyo ingawa hali ya mazinginra ya kibiashara ilikuwa ni ngumu na ya ushindani mwingi mwaka wote. Kwa wenzangu katika Halmashauri ya Wakurugenzi, nawapa heko kwa kazi nzuri mliyofanya na hasa mlivyoniunga mkono na vile mmeendelea kujitolea kuhakikisha kwamba benki yetu imefikia upeo wa juu zaidi wa huduma kwa wateja wetu.

Nina shukrani nyingi kwa wenye hisa wetu kwa vile mmeendelea kuunga benki yenu mkono katika harakati za kuiwezesha kukua kwa ukubwa na huduma. Nina imani kwamba kwa kufuatilia malengo yetu, juhudi zetu zitaweza kuongeza mapato ya hisa zenu katika miaka inayokuja.

Mwisho, natambua na kuishukuru Serikali ya Kenya, Benki Kuu, Capital Markets Authority, Nairobi Securities Exchange na Retirement Benefits Authority kwa mchango wao katika kuhakikisha kuna mazingira bora ya biashara na vile walivyoshirikiana nasi mwaka jana - wakituongoza na kutushauri vilivyo.

Ni mimi wenu,

Stanley C. Muchiri, EBS,
Group Chairman

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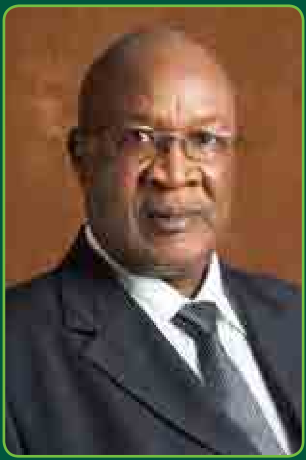


Stanley C. Muchiri, (66), EBS, Group Chairman

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

Julius Riungu, (64), Vice Chairman

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

Dr. Gideon Muriuki, MBS, (48), Group Managing Director & CEO

Appointed Managing Director in 2001 and has presided over the Bank's turnaround from a massive loss position of KShs. 2.3 billion in the year 2001, to a profit before tax of KShs. 9.9 billion in 2012. Joined the Bank in 1996 as a Senior Corporate Manager then became Director, Corporate and Institutional Banking in 1999 before his appointment as Managing Director in 2001 with a clear mandate to return the Bank into profitable trading. Holds a Bachelor of Science degree in Mathematics, is a Fellow of the Kenya Institute of Bankers and was awarded an Honorary Doctorate in Business Management in year 2011. He has over 23 years experience in banking and finance.

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

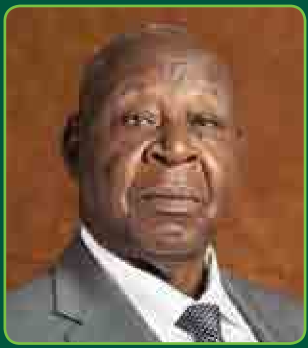
He was decorated in 2005 with the award of Order of the Grand Warrior (OGW) and in 2011 with the award of The Moran of the Order of the Burning Spear (MBS) in recognition of his successful turn around of the Bank and exemplary service to the nation. He is also a recipient of a decoration of Chevalier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

Julius Sitienei, (58), Director

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

Major (Rtd) Gabriel J. S. Wakasyaka, (70), Director

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



Macloud Malonza, (42), Director

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

Richard L. Kimanthi, (56), Director

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

John K. Murugu, OGW, (62), (Representing Permanent Secretary, Treasury), Director

Joined in 2008 as an appointee representing the Permanent Secretary to the Treasury. He has 25 years banking experience at the Central Bank of Kenya where he rose to be Director of Banking Supervision. He joined the Treasury in 2004 where he is Director of Debt Management Department. He holds Bachelor of Education, Master of Arts in Economics and is an Associate of Chartered Institute of Bankers, U.K. In recognition for his contribution at the Central Bank and the Treasury, he was bestowed by His Excellency The President, an award of Order of the Grand Warrior of Kenya (OGW) on 12th December 2008. He has previously served as alternate to the Permanent Secretary to the Treasury in the Boards of Kenya Commercial Bank Ltd and IDB Capital Ltd.

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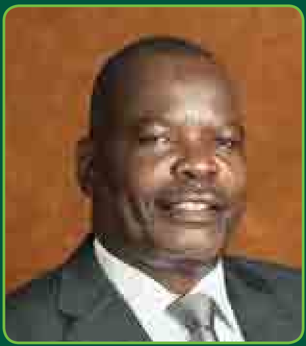


Wilfred Ongoro, (58), Director

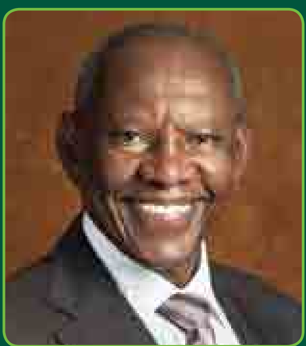
Joined in 2006. He is an educationist with over 20 years experience and has served the co-operative movement in various positions. He is currently the Chairman of one of the largest Teachers Sacco's in Kenya. He is a Director of Co-op Holdings Co-operative Society Limited.

Rose Simani (Mrs), (54), Director, Independent

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

Fredrick F. Odhiambo, (59), MBS, Commissioner for Co-operatives Development and Marketing, Director

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



Donald K. Kibera, (65), Director, Independent

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

Rosemary Majala Githaiga (Mrs), (49), Company Secretary

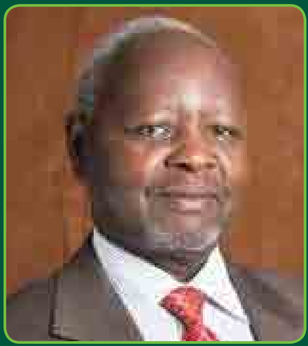
Has over 24 years experience as a lawyer and prior to joining Co-op Bank in 1996, worked for Hamilton Harrison & Mathews Advocates. She is an Advocate of the High Court of Kenya, a member of the Institute of Certified Public Secretaries CPS(K) and an Associate Member of the Chartered Institute of Arbitrators. As the Company Secretary of the Co-op Bank Group, she has responsibility for overall provision of legal counsel and company secretarial services, fraud prevention and investigations and information security. She is also the Trust Secretary for the Co-operative Bank Foundation, the corporate social responsibility vehicle of the bank. She is also a Director of CIC Insurance Group Limited.

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

Dr. James M. Kahunyo, (58), Director

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

Elijah K. Mbogo, (69), Director

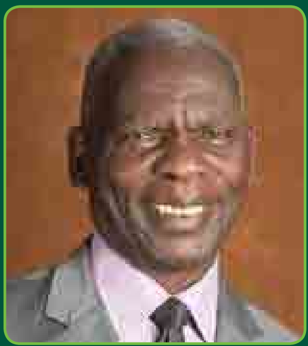


Joined the boards of the subsidiaries in 2009. He is a businessman having also had a career in accounting, and has vast experience in the management of co-operatives, particularly in Aembu Farmers Co-operative Society Limited. He has previously served as Director – Kenya Planters Cooperative Union Limited.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

Patrick K. Githendu, (59), Director

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

Cyrus N. Kabira, (70), Director



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

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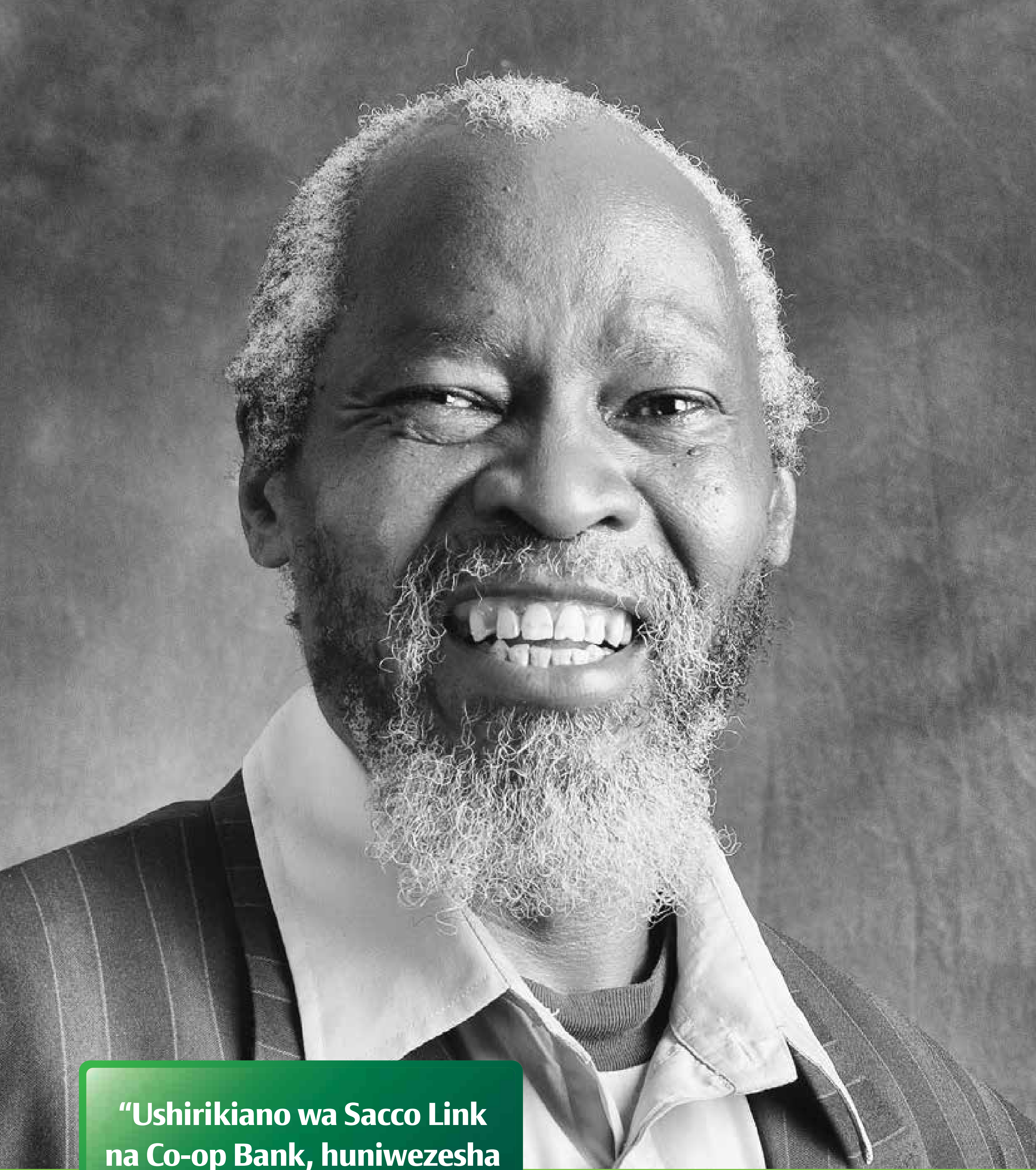
Scholastica Odhiambo (Mrs), (52), Director

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

Godfrey K. Mburia, (56), Director

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



"Ushirikiano wa Sacco Link na Co-op Bank, huniwezesha kupata pesa zangu za Sacco nikiwa mahali popote."

Mr. Mathenge Kimathi
Sacco Link Card Holder

CO-OPERATIVE BANK
We are you

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Dr. Gideon Muriuki, MBS
Group Managing Director & CEO

"Our good performance is thus a clear indication of our commitment to increase shareholders return. The board of directors has therefore recommended an improved dividend of 50 cents per share."

The year 2012 was difficult at the beginning, characterized by a difficult macro-economic environment before easing towards the end of the year. Domestic inflation had risen to a high of 15.1% in January 2012 before closing the year at a low of 4.45% owing to reduced prices of foodstuffs and energy prices. Interest rates had earlier risen significant but continued to decline in later half of the year attracting lending. The Monetary Policy Committee (MPC) initially increased the Central Bank Rate (CBR) to a high of 18% before progressively bringing it down to 9%.

Despite the volatile economic environment the bank was able to continue growth and sustainability by aligning to the county governance structure opening 20 more branches to a total of 119 branches, 500 ATM's and 5,000 operational agents.

With the recently witnessed most peaceful elections in Kenya in a long time, a new constitutional dispensation and radical judicial reforms, Kenya is on a threshold of economic take off. The bank will thus continue with its growth momentum as supported by conducive environment.

Financial Performance

I am delighted to report an impressive profit before tax of KShs. 9.97 billion for the Group for the year ended December 2012. This represents a commendable 57% growth compared to KShs. 6.36 billion recorded in the year 2011. The good performance has been achieved despite the difficult macroeconomic environment characterized by high interest rates, weakening of the shilling and eventual tightening of the monetary policy.

Our customer deposits grew by 14% to KShs. 162.3 billion from KShs. 146.2 billion in the year 2011. This was as a result of an aggressive customer growth campaign and a strong presence in the institutional and government banking sectors. The customer growth campaign resulted in growth of our customer base by 39% to over 3.2 million customers. The growth in the customer base further led to increased transaction volumes and thus increased fees and commission income.

Loans and advances registered a 9% growth from KShs. 109.4 to KShs. 119.1 in 2012. In line with prudent credit risk management and growth of our loan book, we increased our provisions for bad and doubtful debts by 11% to KShs. 1 billion.

Total operating income surged from KShs. 18.34 billion in 2011 to KShs. 23.76 billion, a 30% growth. This was backed by growth in net interest income which increased by 34% from KShs. 11.89 billion to KShs. 15.95 billion. Fees and commissions grew by 19% from KShs. 5.44 billion in 2011 to KShs. 6.5 billion in 2012.

Total operating expenses increased by a modest 17% to KShs. 14.2 Billion. We managed this as a result of cost management initiatives which included staff rationalization where we utilized the exiting staff compliment for the 20 new branches opened in the year 2012.

Using our successful financial deepening and business diversification model, we are now a one stop shop by providing insurance services, fund management and stock brokerage services. They have positively contributed to the banks good performance. Co-optrust investment services ltd, the largest locally owned fund Management Company made a profit before tax of KShs. 56.4 Million in the year 2012. Our investment in CIC Insurance group Ltd contributed over KShs. 382.7 Million to our profits. Kingdom securities Ltd registered a profit of KShs. 17.55 Million.

Our good performance is thus a clear indication of our commitment to increase shareholders return. The board of directors has therefore recommended an improved dividend of 50 cents per share.

Business Development

The Bank has over time built a strong foundation, created by a presence across various business lines and employed specific strategies which will deliver sustainable value to its shareholders now and in the future. We have aligned our business to the country financial needs and we are focused on meeting customers' needs and expectations. In line with the constitution and new county government, we have performed a strategic positioning of our outlets and identified a need for additional 57 branches. Seven were opened in the year 2011, twenty in the year 2012 and the rest will be opened in the year 2013. The expansions target specific locations based on their profiles and business potential. Implementation of the county banking structure will ensure the bank sustains its growth momentum by offering increased and efficient financial services thorough country wide presence.

The co-operative movement continues to be one of our core market segments. We continue retailing banking services through FOSA's to over 8 million member of this unique model. We have deepened our outreach through provision of wholesale financial services to over 460 Sacco FOSA outlets that reach out to millions of unbanked Kenyans in the rural areas. Through this model the bank has recently issued over 516,000 Sacco link cards.

To grow our transaction based income, we continued to increase our outreach through our agency banking platform "Co-op Kwa Jirani". It entails cash deposit taking, cash withdrawals, school fees payments, utility payments, mini-statements and other banking services. We now have a network of over 5000 operational agents spread through the counties. The impact has been increase transaction volumes and commission incomes. We endeavor to operationalize over 10,000 agents by the end of 2013. We also invested in our ATM network and are now accessible in 492 service points. An additional 30 auto banking centers were opened during the year. Our Auto banking centers have deposit taking capabilities and an account opening desk thus providing our customers with 24 hours banking services.

The Co-operative bank appreciates the importance of ICT in efficient service delivery. In this regard we have recently implemented the new core banking software Bank Fusion Universal Banking at a cost over KShs. 2.5 billion. With the new system the bank will accrue immense efficiency and optimization. The new system has given the bank an opportunity to enhance other periphery systems for better decision making and performance management.

Our expansion in the East African Region will ensure that our success story of partnering with the Co-operative movement in Kenya is spread in the region. Establishment of the Co-operative bank of Southern Sudan is at an advanced stage with the first branch set to open in June 2013. A shareholding structure of 51:49 by The Co-operative bank of Kenya and the Government of Southern Sudan respectively is under implementation. Key staffs have been appointed to drive business in this region in line with our universal banking model.

Human Capital

At the Co-operative Bank, human capital is the most valuable asset. Professionalism and loyalty of our staff in all areas of the bank continue to be the most critical element guaranteeing the ongoing success of the Bank.

We continue to develop our staff through local and overseas training, skills enrichment and leadership building. We also encourage our staff to commit themselves to continuous learning in both professional and personal endeavors. In this regard we have e-learning and also offer interest free study loans for use in their preferred learning or certification program. Training remains a key target for each staff.

In line with best practices, the bank has invested in performance management systems that stimulate improved performance and reward high achievers for their contribution.

In Conclusion

The strong team effort of all staff enabled us to have a successful year. I applaud and thank all staff for the excellent customer service, effective cost control initiatives and prudent credit risk management. Our management team remains committed to initiatives set forth to ensure the long term growth of the bank.

I would also like to sincerely thank all our customers and business partners for their support in the year 2012. We look forward to doing business with you in the year 2013.

I take this opportunity to express my gratitude to the Groups Chairman, MR. S C Muchiri and the board of directors for the unwavering support, oversight and guidance that they have given to the "Kingdom Bank". I commend their commitment to the long term growth of the Bank.

Thank you and May God richly bless you.

Yours faithfully,

Dr. Gideon Muriuki, MBS

Group Managing Director & CEO

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Dr. Gideon Muriuki, MBS
Group Managing Director & CEO

> "Matokeo haya bora ni kielelezo cha kujitolea kwetu kuhakikisha wanahisa wanapokea mgawo bora zaidi kwa hisa zao. Kufuatana na hilo, Halmashauri ya Wakurugenzi imependekeza mgawo wa senti 50 kwa kila hisa."

Mwanzoni, mwaka wa 2012 ulionekana kuwa wa hali ngumu kibiashara na katika mazingira yanayothibiti kukua kwa kiwango cha uchumi wa nchi. Hali hii ilibadilika na kuboreka baadaye mwakani.

Mfumuko wa bei uliokuweko mwezi wa Januari 2012 ulikuwa ni wa kiwango cha juu cha asilimia 15 nukta 1, ingawa kufikia mwisho wa mwaka ulikuwa umepungua kufikia asilimia 4 nukta 45 kutokana na kuteremka kwa bei za vyakula na nishati. Mapema mwakani, viwango vya riba vilikuwa pia vimeongezeka sana, ingawa, navyo viliendelea kushuka mwaka ulivyoendelea kuisha na kuwezesha mikopo kuanza kupeanwa tena kwa wingi. Wakati huo huo, kamati inayoshughulikia sera za fedha (Monetary Policy Committee) ilipandisha kwa kiwango kikubwa riba cha Benki Kuu hadi asilimia 18. Kiwango hicho, hali kadhalika, kiliendelea kupunguzwa pole pole hadi asilimia 9 kufikia mwisho wa mwaka.

Mbali na heka heka nyingi za kiuchumi, benki yetu iliendelea kukua na kujiimarika ndani ya mfumo mpya wa serikali za kaunti. Tumefungua matawi mapya 20 ambayo yamefanya jumla ya matawi yetu kufikia 119, mashini 500 za ATM na ma-ajenti 5000.

Uchaguzi mkuu wa amani uliofanyika mwezi Machi mwaka huu; msisimuko wa utawala chini ya katiba mpya; na marekebisho makubwa katika mahakama vimeifikisha Kenya katika upeo wa kuweza kukuza uchumi wake kwa kiwango kikubwa na haraka zaidi. Co-operative Bank itaendelea kudumisha jitihada za kupanua huduma zake katika mazingira haya yanayovutia sana kiuchumi.

Utendakazi Kifedha

Ninayo furaha kuwatangazia kwamba, kufikia mwisho wa Disemba 2012, Co-operative Bank ilikuwa imepata faida ya shilingi billioni 9 nukta 97, kabla ya kukatwa kodi. Hili ni ongezeko la asilimia 57 ukilinganisha na faida ya billion 6 nukta 36 mwaka wa 2011, ingawa wakati huu kulikuwa na changamoto nyingi za kiuchumi ambazo ni pamoja na ongezeko la riba, kupungua kwa thamani ya shillingi na sera ngumu za kifedha.

Kiwango cha akiba za wateja kiliongezeka kwa asilimia 14 na kufikia shilingi bilioni 162 nukta 3 kutoka bilioni 146 nukta 2 mwaka wa 2011. Hii ilitokana na kampeni kali tuliyofanya kuimarisha idadi ya wateja na kupanua biashara yetu katika mashirika ya serikali. Idadi yetu ya wateja iliongezeka kwa kiwango cha asilimia 39 na kufikia wateja milioni 3 nukta 2 na kusababisha kuongezeka kwa huduma na pato linatokana na huduma kwa wateja.

Mwaka wa 2012, mikopo ya aina zote iliongezeka kwa kiwango cha asilimia 9 na kufikia shilingi billion 119 nukta 1 kutoka kwa kiwango cha shilingi billioni 109 nukta 4 mwaka wa 2011. Kutokana na hatua zilizochukuliwa kupunguza athari za mikopo, benki yetu iliweza kuongeza kiwango cha madeni yasiyolipika kwa asilimia 11 na kufikia shilingi billioni 1.

Mapato ya uendeshaji biashara yaliongezeka kwa asilimia 30 kutoka shilingi bilion 18 nukta 34 mwaka wa 2011 hadi bilion 23 nukta 76 mwaka wa 2012 ambayo yanalingana kwa karibu na yale ya asilimia 34 ya pato la riba ambalo liliongezeka kutoka shilingi billion 11 nukta 89 hadi shilingi billioni 15 nukta 95. Pato la pesa wanazotozwa wateja kwa huduma mbali mbali liliongezeka kwa asilimia 19 kutoka shilingi bilion 5 nukta 4 mwaka wa 2011 hadi shilingi bilion 6 nukta 5 mwaka wa 2012.

Gharama za uendeshaji biashara ziliongezeka kwa kiwango kidogo cha asilimia 17 na kufikia shilingi bilioni 14 nukta 2. Ongezeko hili ndogo la gharama lilitokana na hatua zilizochukuliwa na benki kuthibiti gharama za utendakazi. Hatua hizo zillikuwa ni pamoja na ile ya kufungua matawi 20 mapya mwaka 2012 bila ya kuajiri mfanyakazi ye yote mpya.

Kampuni zinazomilikiwa na Co-operative Bank zimewezesha huduma anazohitaji mteja kuweza kupeanwa kwa pamoja, mahali pamoja; huduma kama vile kununua hisa, bima na hata kuwekezea pesa katika mipango ambayo ni salama na yenye kutoa faida nzuri. Kampuni hizi zimechangia kwa ukubwa faida nzuri ambayo Co-operative Bank imeendelea kupata. Cooptrust Investment Ltd, ambayo ni moja ya hizo, ndiyo kampuni kubwa zaidi ya humu nchini inayojihusisha na shughuli za uwekezaji. Mwaka jana ilipata faida ya shilingi milioni 56 nukta 4, kabla ya kukatwa kodi. Nyingine ni CIC Insurance Group Ltd ambayo ilichangia faida kwa kiwango cha shilingi milioni 382 nukta 7, kabla ya kukatwa kodi. Kingdom Securities Ltd. ambayo pia inamilikiwa na Co-op Bank, hali kadhalika iliongeza shilingi million 17 nukta 55 katika faida yetu ya mwaka wa 2012.

Matokeo haya bora ni kielelezo cha kujitolea kwetu kuhakikisha wanahisa wanapokea mgawo bora zaidi kwa hisa zao. Kufuatana na hilo, Halmashauri ya Wakurugenzi imependekeza mgawo wa senti 50 kwa kila hisa, kiwango ambacho kimepita kile cha mwaka wa 2011 cha senti 40 kwa hisa.

Vile tunavyoendeleza biashara

Kwa muda mrefu sasa, Co-operative Bank imeweza kujiwekea msingi bora wa ki-biashara kwa kujishirikisha na kampuni zingine ambazo zinachangia na kudumisha mapato yake na kuwahakikishia wawekezaji mgawo mzuri. Biashara yetu imelenga kuyatimiza mahitaji na matarajio ya kifedha ya wateja wetu na Wakenya wote kwa jumla. Kulingana na Katiba Mpya na kuweko kwa mfumo wa serikali za Kaunti, Co-operative Bank imetayarisha mpangilio wa kibiashara ambao umetambua umuhimu wa kuwa na matawi mengi, na ambao umeleta kufunguliwa kwa matawi mengine mapya 57. Saba ya haya yalifunguliwa mwaka wa 2011 na mengine ishirini mwaka wa 2012. Yaliyobaki yatafunguliwa mwaka wa 2013. Upanuzi wetu wa huduma kupitia kwa matawi mapya kumelenga sehemu za Kaunti ambazo zimetafitiwa na kuonyesha zina biashara za kutosha matawi hayo. Ubuniwaji wa huduma hizi utahakikisha Co-operative Bank inadumisha ukuaji wake ki-biashara kwa kutoa huduma zote za kifedha chini ya mtandao unaounganisha Kaunti zote nchini.

Vyama vya ushirika vimeendelea kuwa watumiaji wakubwa zaidi wa huduma zetu. Hii ndio sababu wanachama milioni 8 wa shirika la FOSA sasa wanafaidi huduma zetu. Tumeongeza shughuli zetu za kuwafikia wateja wapya kupitia pesa za jumla tulizopatia mashirika 460 ya FOSA na ambazo zimelengwa kupeanwa kama mikopo kwa mamilioni ya wananchi ambao kwa kawaida hawapati huduma za benki. Na Co-operative Bank tayari imetoa kadi 516,000 za kuwawezesha wanachama wa Sacco kutumia mtandao wetu wa ATM moja kwa moja.

Ili kuongeza pato letu linalotokana na malipo ya huduma kwa wateja, sasa tumeanza kuzisongeza huduma hizi karibu na wateja kupitia kwa ma-ajenti wa 'Coop Kwa Jirani'. Hizi ni pamoja na huduma ya kutoa na kuweka pesa, kulipa karo za shule, malipo ya bili za maji na stima, kupata stakabathi fupi inayoonyesha hali ya muda ya akaunti yako, na zingine zaidi vile utakavyoshauriwa. Hadi sasa, ma-ajenti 5000 wamo katika mtandao wetu ambao umetambaa Kaunti zote nchini na ambao umeongeza wingi wa pato letu linalotokana na huduma hizo. Tumepanga kuwa na ma-ajenti 10,000 kufikia mwisho wa 2013. Mtandao wetu wa ATM sasa una mashini 492 kote nchini. Vituo 30 ambako mteja anaweza kujihudumia mwenyewe, bila ya kumtegemea mfanyakazi wa benki, vilianzishwa mwaka wa 2012. Katika vituo hivi, mteja anaweza kutoa, kujiwekea pesa na kufungua akaunti wakati wo wote wa siku.

Co-operative Bank inatambua umuhimu wa teknologia katika uimarishaji wa huduma. Technologia mpya ya Bank Fusion Universal Banking imeanza kutumika katika Co-op Bank hivi karibuni na imegharimu shilingi billion 2 nukta 5. Matumizi ya technologia hii utainua hali ya utendakazi wetu na kutuwezesha kutumia technologia zingine za kando zitakazotusaidia kufanya maamuzi muhimu ya kibiashara na utendakazi.

Upanuzi wa huduma zetu kote Afrika Mashariki utanufaisha Co-operative Bank kutokana na ujuzi mwingi ambao imeupata katika uhusiano wa kibiashara kati yake na vyama vya ushirika nchini Kenya. Uanzilishi wa Co-opertative Bank of South Sudani sasa umekamilika na tawi la kwana linatarajiwa kufunguliwa mwezi wa Mei, 2013. Umiliki wa hisa wa 51 kwa 49 kati ya Co-operative Bank of Kenya na Serikali ya South Sudani tayari unatekelezwa. Wafanyakazi muhimu wameajiriwa na watafanya kazi wakitumia technologia sawa na ile inayotumiwa Kenya.

Kazi ni watu

Katika Co-operative Bank, wafanyakazi ndio rasilimali yetu muhimu zaidi. Ujuzi na uaminifu wao katika kila idara ndicho kinaifanya Co-operative Bank kuendelea kufaulu - leo na hata kesho. Tunawasaidia wafanyakazi wetu kuboresha utendakazi wao kwa kuongeza ujuzi na maarifa ya kazi kupitia kwa tasisi za elimu za humu nchini au ng'ambo. Tumejitolea kukuza taluma zao kikazi na kibinafsi kwa kuwaruhusu kutumia mtandao ofisini zao Co-operative Bank.

Wafanyakazi wetu pia wanashauriwa kuendelea kujiongezea alimu wakati wote maishani. Kuwasaidia wale ambao wameamua kufanya hivyo, Coop Bank huwapatia wafanyakazi mikopo isiyotozwa riba kulipia masomo hayo. Juhudi za kujiongezea elimu na ujuzi ni lengo la kila mfanyakazi wetu. Sawa na inavyofanyika mahali pengi, Cooperative Bank hutumia njia za kisasa kuupima utendakazi wa muajiriwa ili kuwasaidia walio wanyonge kuujua na kuurekebisha unyonge wao, na walio washupavu kupongezwa na kuzawadiwa kwa kazi yao nzuri.

Mwisho

Nawashukuru na kuwapongeza wafanyakazi wetu kwa kushikana na kufanya kazi kama timu moja jambo ambalo limetuwezesha kuwa na mwaka mzuri sana kibiashara. Nawashukuru kwa kuwapa wateja wetu huduma za hali ya juu na vile mlivyojizatiti kupunguza gharama za utendakazi na madhara ya mikopo. Mameneja wenu wote wamejitolea kuzingatia sera zinazohakikishia Co-operative Bank kuendelea kukua kwa miaka mingi ijayo.

Shukurani nyingi pia nazitoa kwa wateja wetu wote na washirki wetu kibiashara kwa kutuunga mkono vilivyo mwaka wote wa 2012. Tunaamini tutazidi kufanya kazi pamoja mwaka wa 2013.

Ningependa pia kumshukuru Mwenyekiti wetu Bwana S.C. Muchiri na Halmashauri ya Wakrugenzi kwa uongozi wao bora katika shughuli zetu zote. Nawapa heko kwa kujitolea na kwa juhudi zenu za kuikuza na kuidumisha Kingdom Bank.

Asanteni na Mungu awabariki.

Dr. Gideon Muriuki, MBS

Group Managing Director & CEO

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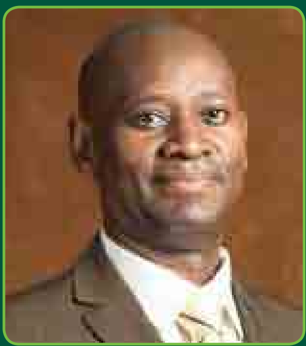
Dr. Gideon Muriuki, MBS, (48), Group Managing Director & CEO

Appointed Managing Director in 2001. Joined the bank in 1996 as a Senior Corporate Manager then Director, Corporate and Institutional Banking in 1999. Holds a Bachelor of Science degree in Mathematics, is a Fellow of the Kenya Institute of Bankers and was awarded an Honorary Doctorate in Business Management. He has over 23 years experience in banking and finance. He is also the Managing Director of Co-optrust Investment Services Limited and Co-op Consultancy & Insurance Agency Ltd – both subsidiaries of the Bank. He is a Director of Kingdom Securities Limited, Vice-President Africa – International Co-operative Banking Alliance (ICBA), Executive Committee Member of the Kenya Bankers Association and Chairman, Governing Council of the Africa International University.

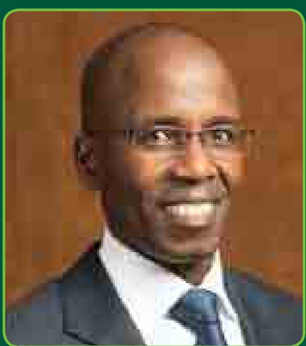


Zachary Chianda, (55), Director, Operations Division

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

Rosemary Majala Githaiga (Mrs), (49), Company Secretary

Has over 24 years experience as a lawyer and prior to joining Co-op Bank in 1996, worked for Hamilton Harrison & Mathews Advocates. She is an Advocate of the High Court of Kenya, a member of the Institute of Certified Public Secretaries CPS(K) and an Associate Member of the Chartered Institute of Arbitrators. As the Company Secretary of the Co-op Bank Group, she has responsibility for overall provision of legal counsel and company secretarial services, fraud prevention and investigations and information security. She is also the Trust Secretary for the Co-operative Bank Foundation, the corporate social responsibility vehicle of the bank. She is also a Director of CIC Insurance Group Limited.



Samuel Birech, (49), Director, Retail Banking Division

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

Weda Welton, (55), Director, Human Resources Division

Has over 30 years experience in Human Resource Management in the Banking and Financial Sectors. She holds a Bachelors degree in Sociology, a Diploma in International Law & Diplomacy and a Masters Degree in Human Resources Management & Development from Manchester University, UK. She is a member of the Human Resources Committee of Kenya Bankers Association and a member of IPM (K) as well as Kenya Institute of Management. She is also a Trustee of the Bank's Pension Fund.

Anthony Mburu, (47), Director, Credit Management

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

Patrick Nyaga, (45), Director, Finance & Administration Division

Has over 20 years experience mainly in auditing and banking. Previously served at KPMG (EA), with the main focus being audit of financial institutions and especially banks in Kenya and the region. He then joined main-line banking where he has worked for over 11 years. He holds an MBA from Strathmore Business School, a Bachelor of Commerce degree in Accounting, is a Certified Public Accountant (K) and a member of ICPAK. He is also a Director of CIC General Insurance Limited.

Catherine Munyiri, (49), Director, Corporates & Institutional Banking Division

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

Titus Karanja, (37), Acting Director, Co-operatives Banking Division

Joined the Bank in 2009 and has 13 years experience in financial services having previously ran the Bank's Advisory and Asset Management subsidiaries. He holds a Bachelor of Commerce Degree, a Diploma in Information Science and is a qualified accountant under the ACCA.

Geoffrey Odundo, (44), Managing Director & CEO, Kingdom Securities

Has been with the bank for over 14 years and he holds a Bachelors degree in Mathematics and Economics and a Masters in Business Administration (Strategic Management). He is a Director of the Nairobi Securities Exchange (NSE) and represents the banking sector in the Financial Standards Committee of the Kenya Bureau of Standards where he is the current Chairman.

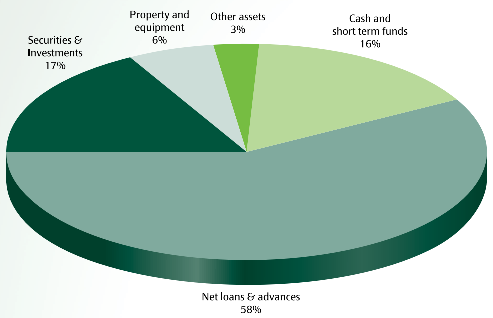
Board of Management of Co-operative Bank of South Sudan Limited

William Osir, (52), Managing Director

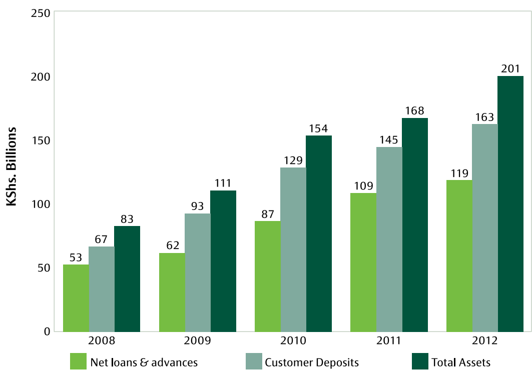
Has served the Co-operative Bank of Kenya for over ten (10) years, the last position being Director, Special Projects. He holds a Bachelors degree in Financial Services as well as a Diploma in Mortgage Lending. Prior to joining the bank, he held senior positions in both local and international banks in Kenya for over fifteen (15) years.

Five Year Financial Review	2008	2009	2010	2011	2012
Statement of Financial Position			**KShs. million**		
Cash and short term funds	11,770	13,194	20,775	21,616	31,100
Loans & Advances to Customers (gross)	60,418	66,620	90,965	114,101	123,824
Impairment losses on loans & advances	(7,509)	(4,346)	(4,346)	(4,692)	(4,736)
Government & other Securities	12,857	26,498	34,391	22,237	33,391
Property and equipment	4,302	6,192	6,943	9,336	11,133
Other assets	1,648	2,420	5,611	5,714	5,876
Total Assets	**83,486**	**110,678**	**154,339**	**168,312**	**200,588**
Customer Deposits	67,159	92,529	129,226	144,514	163,149
Other liabilities	3,375	2,493	5,133	2,846	8,072
Total liabilities	**70,534**	**95,022**	**134,359**	**147,360**	**171,221**
Net assets/Shareholders Equity	12,952	15,656	19,980	20,951	29,367
Income Statement					
Net Interest Income	5,696	7,054	9,503	11,885	13,581
Non-Interest Income	3,954	4,664	6,168	6,451	10,200
Operating Expenses	(5,888)	(7,354)	(9,231)	11,417	13,171
Provision for loans impairment	(403)	(628)	(799)	710	999
Share of profit of associate	-	-	130	158	374
Profit before Tax	**3,359**	**3,736**	**5,771**	**6,366**	**9,984**
Profit after tax	**2,374**	**2,968**	**4,580**	**5,366**	**7,724**
Earnings per share	0.80	0.85	1.31	1.54	1.84
Dividend per share	0.10	0.20	0.40	0.40	0.50
Key Ratios (%)					
Cost-Income Ratio (%)	65%	68%	64%	66%	60%
Return on Shareholders Equity (%)	24%	20%	25%	26%	31%
Return on Total Assets (%)	3.2%	3.1%	3.5%	3.3%	4.2%
Impairment charge/Gross loans & advances (%)	12%	7%	5%	0.6%	0.8%
Non-performing loans/Gross loans	12%	7%	5%	4%	4%
Gross loans to deposits ratio (%)	90%	72%	70%	79%	76%

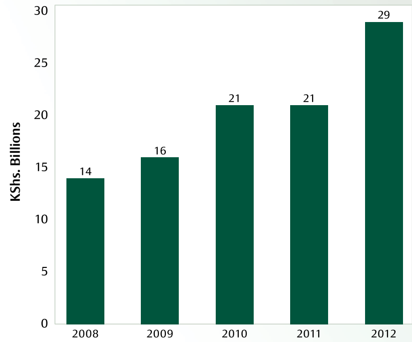
Balance Sheet: Assets distribution



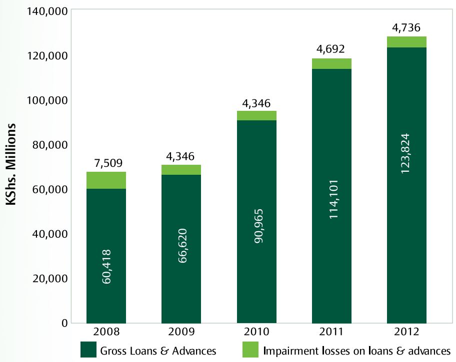
Loans, Customer Deposits and Total Assets



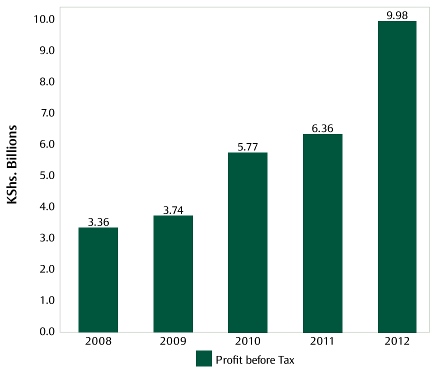
Growth in Shareholders' Equity



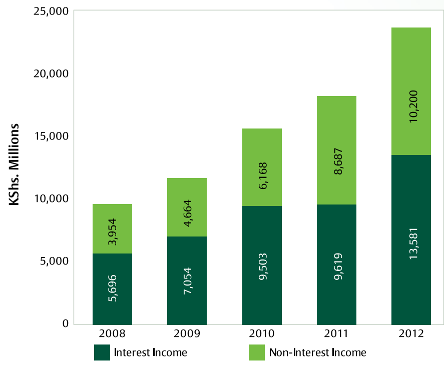
Impairment losses/Gross Loans & Advances



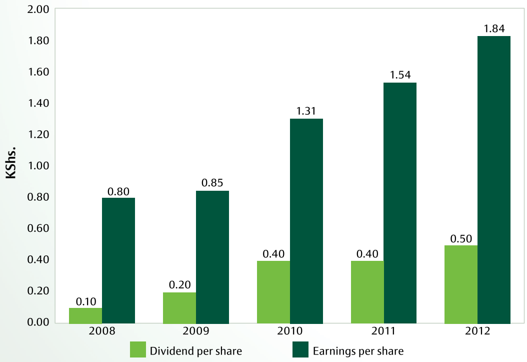
Sustainable Profitability



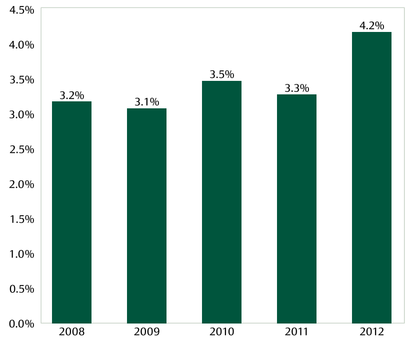
Operating Income



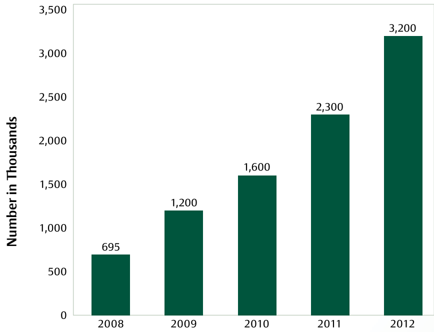
Dividend & Earnings Per Share



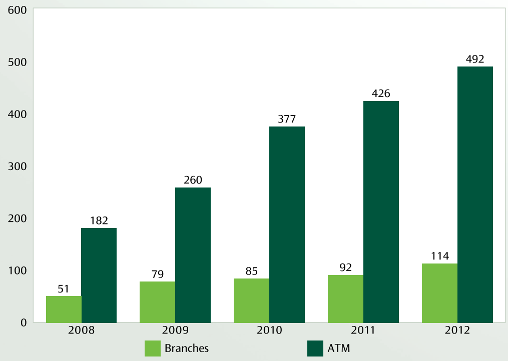
Return on Total Assets (%)



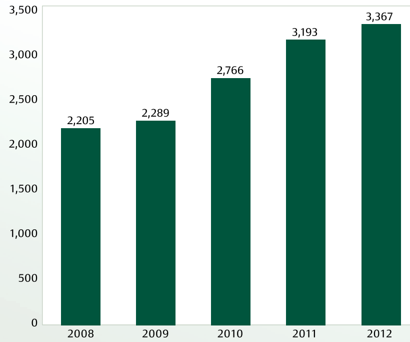
Customer Numbers



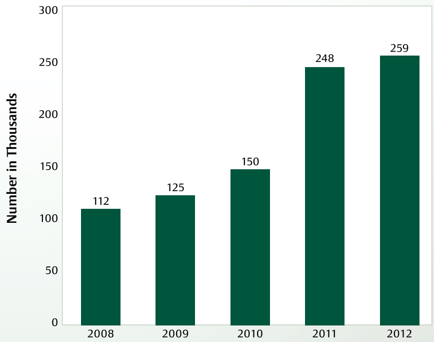
Branch and ATM Network



Staff Numbers



Number of borrowers



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

Financial Freedom through the Co-operative Movement

The original dream of the Bank's founders has not been lost. A core part of our vision is to economically empower Kenyans and alleviate poverty primarily by supporting the co-operative movement through mobilisation and facilitation of access to financial resources targeted at sustainable development. Co-operative societies and SACCOs directly impact on over 8 million Kenyans and our bank is proud to be an active stakeholder in this movement. The Bank has placed itself in step with Kenya's diverse needs and fulfilling this key responsibility has required the balanced creation of value to customers and the market, shareholders, the environment, employees and society as a whole.

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

Vision:

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

Mission:

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

Our core values:

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

Sacco-Link & FOSA Partnerships

The bank offers retail banking and related products through front-office service points (FOSAs) located at SACCO premises and to date over 418 SACCO FOSAs are in operation. In addition, the bank invested in the SaccoLink Switch which has integrated the bank's and SACCOs' financial systems, thereby providing a solution through which ATMs, mobile banking, point of sale (POS) channels and internet banking is facilitated. In this partnership, we offer wholesale banking services to co-operative societies which then provide to their members retail services complete with full technological capabilities. To date, over 150 SACCOs are enlisted in this partnership and over 530,000 ATM cards have been issued to co-operative members.

Corporate Capacity-Building - Co-op Consultancy & Insurance Agency Ltd's (CCIA)

Co-op Consultancy & Insurance Agency Ltd's (CCIA) core mandate is to enhance efficiency and profitability of co-operative societies through provision of affordable capacity-building solutions. This subsidiary of the Bank provides professional services at highly concessionary terms, with the Bank providing the subsidy. Over the years, CCIA has impacted over 3,000 societies in the areas of formulation and review of society by-laws, corporate strategic and tactical plans and operating manuals. This in addition to consultancy services on microfinance, lease negotiation, business advisory, restructuring and turn-around, performance management, staff training and recruitment, forensic audits and information technology systems procurement as well as assessment for risk-control. In 2012 we provided these specialised services to 110 Saccos. We have also moved to impact the wider Eastern Africa Region at Kilimanjaro Co-operative Bank in Tanzania as well as partnership with the Government of South Sudan towards set up of a farmers' co-operative union at Aweil Rice Irrigation Scheme.

Equipping for Management & Leadership Excellence - Co-operative Bank Management Centre (CBMC)

The Co-operative Bank Management Centre (CBMC) conducts training to the co-operative movement as part of its commitment to enhance competencies and equip with skills. Advanced courses ran include board seminars on corporate governance, Central Management Committee (CMC) workshops, co-operatives management & compliance, delegates training, credit administration, customer service, FOSA operations, frauds & forgeries, strategic planning, business process re-engineering, marketing, performance management, supervisory skills, office administration and team-building exercises. In 2012, the Management Centre carried out 62 courses in which over 760 Saccos participated and more than 3,850 members trained.

Sustainable Financing towards Vision 2030 and Millenium Development Goals (MDGs)

The bank's sustainability strategy is aligned to Vision 2030 blueprint as well as achievement of Millennium Development Goals (MDG) as adopted by the United Nations. In this regard, the bank has partnered with like-minded financiers to enhance access to credit for vulnerable sectors of the economy that require targeted financing:

- **Eastern Produce Horticultural and Traditional Food Crops Project –** Partnership with Government of Kenya-Ministry of Agriculture under the International Fund for Agricultural Development (IFAD) programme.
- **Micro and Small Enterprises (SME) lending -** Partnership with European Investment Bank to enhance access to loans for Micro and Small Enterprises (SME) including self employed entrepreneurs and sole proprietorship in income generating activities and productive sectors such as retail-trade, agro-industries, fishing, food processing, manufacturing, construction, transport and tourism.
- **Millenium Villages Project -** Partnership with Soros Economic Development Fund (SEDF) under the Millenium Promise Alliance (MPA) to support integrated social and business development services for more than 500,000 people in rural communities.
- **Micro Finance Institutions and Saccos financial deepening -** Partnership with AFD Microfinance to promote financial deepening by providing cheap loans to Micro Finance Institutions and Saccos.
- **Coffee Farm Input Loans -** Under the Stabex programme, farm input loans are offered at a low interest rate of 5% p.a.
- **Coffee export marketing support -** Kenya Co-operative Coffee Exporters Ltd (KCCE) was established to assist farmers take greater control of the export and marketing of their produce. The bank supported its set-up and it is remarkable that since commencement of operations in 2009, farmers have seen an increase in earnings from Ksh. 20 to over Ksh. 130 per kilogram of cherry.
- **Women Enterprise Fund -** Partnership with Government of Kenya, Ministry of Gender to enhance access of loan facilities to women.

Economic Growth through Small and Microenterprises (SMEs)

Across the world, small and microenterprises (SMEs) are the primary source of employment to citizens. With activation of the new County Government structure, the bank is consistently reviewing products with a view to enhance potential of our clients, especially small and microenterprises (SMEs) as they endeavour to take advantage of new opportunities arising. Our country-wide branch network covering over 40 counties is geared-up to offer our customers all the necessary support. Our procurement policy also favours local suppliers as part of our broader support to the economy.

One-Stop-Shop Financial Supermarket

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

Kingdom Securities has taken stock brokerage services to urban centres across the country, including members of the co-operative movement through over 160 institutional agents countrywide. The Bank also holds the largest interest either directly or indirectly in the Co-operative Insurance Company Ltd (CIC), an NSE quoted company which offers a broad range of insurance as well as fund management services.

Over and above diversification of investments, this partnership has created synergy in joint distribution of insurance products through bancassurance. Co-op Consultancy & Insurance Agency Ltd (CCIA) is the insurance agent in this bancassurance arrangement while the bank provides a wide distribution channel through the countrywide branch network. This collaboration extends to entry strategies for investment in regional countries. Co-op Trust Investment Services Ltd is the largest locally-owned fund management and investment services provider in Kenya and is a key part of the one-stop-shop financial services model.

Convenient Agent & Point of Sale (POS) Banking

Our Bank is at the forefront in implementation of agency banking model, currently working with over 5,000 agents countrywide. Under this model, the bank appoints and vets agents who are then issued with POS machines which are special gadgets connected to the bank's systems. Agents, who will include co-operative societies, supermarkets, ordinary shops, petrol stations among other outlets enable customers' access banking services including making withdrawals and deposits beyond official banking hours. Due to the greater geographical area covered by agents, customers also enjoy better convenience as services come closer to their most preferred location.

Seamless Mobile and Internet Banking

Our bank's products and brand propositions are designed to far exceed customer expectations and respond to diversification and sophistication of customer needs as well as changes in the business environment. Our mobile phone services product M-banking which also facilitates seamless two-way funds transfer between bank accounts and mobile-money solutions offered by mobile telecommunication firms now has an active client base of over 1.2 million customers. The bank's internet-banking solution CoopNet has contributed to growth in customer base especially for Kenyans in the Diaspora and already serves over 21,200 clients.

Excellence in Customer Service

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

Regional Expansion on course

Through the Co-operative Alliance of Kenya (CAK), the bank is active in International Co-operative Alliance Africa whose primary objective is to promote the welfare and growth of co-operative societies in the continent. The bank is in the process of expanding operations to South Sudan in partnership with the co-operative movement. The unique joint venture where Co-operative Bank of Kenya has 51% and Government of South Sudan on behalf of the co-operative movement has 49% will ensure maximum business access.

Sustainable Consumption & Reducing Environmental Impact

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

Green Projects Financing & Partnerships

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

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

Employer of Choice

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

Principle of Diversity

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

Staff Profile:

	Year 2012	%	Year 2011	%
No. of employees:	**3,367**		**3,193**	
Male	1,859	55%	1,777	56%
Female	1508	45%	1,416	44%
No. of employees of age 35 or under:	**2,680**		**2,561**	
Male	1,516	57%	1,461	57%
Female	1,164	43%	1,100	43%
No. of senior management positions:	**65**		**65**	
Male	43	66%	44	68%
Female	22	43%	21	32%
Average years of service:	**5.5**	**-**	**5.25**	**-**
Male	5.1	-	4.8	-
Female	6.0	-	5.7	-
Employees taking leave for child-rearing:	**397**	**-**	**307**	**-**
Male	222	-	178	-
Female	175	-	129	-

Building Pride & Passion

We have developed an environment to create passion and individual team-member responsibility towards making us a market leader. We promote generation of new ideas and approaches to business with the assurance that staff views are recognised, insights acted upon and innovativeness rewarded. Whilst every staff is considered as talent, the Bank runs a Talent Management Program to identify the very top performers who are then taken through assessments and assigned mentors to walk them through a fast-tracked developmental journey. This has enhanced business continuity as well as seamless transitions over the years as the team grows. Our people-management processes operate under open-door policy where information to and from employees flows freely, thus creating an environment of confidence, satisfaction and security. Each year we conduct a Staff Satisfaction Survey that provides feedback from staff on a candid evaluation of their relationship with the bank.

We Grow Our People through Life-long Learning

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

Staff Development through Training

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

Employee Welfare & Sports Activity

At this bank, we view each other as part of one big family and each member's welfare is our collective responsibility. We continue to invest in out-of-office staff activities such as sports events and team-building in reflection of our deep commitment to staff welfare. Our men and women's basketball teams are formidable competitors in the respective National Leagues with the men's team being Kenya Basketball Federation (KBF) Champions in 2011 and 2012. The bank also supports a volleyball team for men in the Premier League.

Health, Safety & Wellness Programme

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

HIV/Aids Policy towards Positive Living

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

Raising Anti-Money Laundering and Fraud Awareness among Staff

It is prudent to focus more efforts on prevention and frustration of financial crimes than on investigation albeit both being important. Branch and front-line staff are our first line of defence and have been adequately equipped for this role through regular training and refresher courses. The training is based on Know Your Customer (KYC) principles to ensure bank processes capture adequate customer information that facilitates positive customer identification during transactions and protection of customer details. This training includes updates on bank processes specifically designed to prevent fraud. Through these measures and high level of vigilance, our personnel have frustrated many high-value attempts of fraud. Staff have also been equipped with skills to prevent, detect and report transactions suspected to be money laundering in nature. This alertness is a key component of our systems, processes and procedures in line with the Banks business ethics, Code of Conduct as well as Central Bank guidelines

Whistle-Blowing Program

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

Customer Awareness

The security and privacy of customers' financial information is a bank's important responsibility. While we have invested in world-class and sophisticated Information Communication Technology (ICT) infrastructure, the customer is in custody of key documents that could facilitate fraudulent activity if accessed by those with criminal intent. We are committed to raise customer awareness on protection of confidential personal information and documents such as cheque books, debit and credit cards. In an effort to help clients protect themselves against financial crime, customers are encouraged to routinely review their credit card and bank statements and make enquiries on them. Through in-house training and tailor-made courses at our Management Centre, the bank trains customers with high-value and large-volume transactions on operational strategies to tackle financial fraud. We reiterate to customers that the bank does not request for sensitive personal information through email or mobile phone communication. We enlighten clients that legitimate online transactions can only be accessed through our official website and if in doubt, reference should be made using official telephone contacts including our Call Centre.

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

Enhancing access to Secondary Education

Lack of education has been observed as a key contributor to poverty in the society. Our bank has devoted considerable resources towards enhancing access to school, leading to a vibrant, well educated society that will propel Kenya to the envisaged middle-income economy. Since the inception of Co-op Foundation, the bank has funded it with over KShs. 230 Million to reduce disparities and inequalities in access to education for disadvantaged children. The funding is a full secondary school scholarship which caters for school fees, uniforms and text books. The Foundation spent over KSh. 84 Million in this regard in 2012 and is currently supporting more than 1,400 students in over 450 schools across Kenya. In our commitment of service to vulnerable groups, the bank also supported various schools across the country including Starehe Girls Centre in infrastructure development projects.

Equipping the next generation through Higher Education

Every year, the top 28 performers in Kenya Certificate of Secondary Education (KCSE) examination from the batch of students sponsored by Co-op Foundation through their secondary school, benefit from a scholarship throughout their university studies in any course of their choice. Currently, Co-op Foundation is supporting 56 university students pursuing careers in Business-related courses (31), Engineering (16), Law (3) and Medicine (6). In addition, during college holidays the bank offers internship experience to beneficiaries of this program to equip them for the job-market. Thereafter and upon graduation from university, the bank has committed to absorb them as permanent employees. Every year, the Foundation also offers a scholarship package of Sh.100,000 per student to at least two (2) disadvantaged students of the Co-operative College of Kenya who upon graduation will contribute to the leadership and management of the co-operative movement. Four (4) students are currently beneficiaries of this program. To boost progression of secondary school leavers to institutions of higher learning, the bank partnered with Pan-African Christian University as well as Strathmore Business School in construction and expansion projects, putting in over Sh.1.6 Million.

Staff Community Activities

With bank support, our staff are involved in at least one community development program each year. Prioritised projects include those focusing on education, environment, child-welfare and poverty alleviation initiatives among others. Staff have the liberty to identify, own and drive projects as they volunteer time and resources. Across the country, our staff made a positive impact to HIV/AIDS groups, children centres, schools, medical funds, sports events, youth groups, education days, charities, environmental clean-up events, hospitals, prisons, self-help groups and facilities for the physically challenged.

National Projects and Economic Development

As part of the wider community in which we operate, the bank collaborates with various stakeholders involved in poverty eradication, advancement of education and activities addressing local challenges such as inadequate access to health services. In this regard, the bank spent over Sh.7.8 Million in 2012. In an effort to improve the use of modern agricultural technology in the Coconut Sector, we collaborated with Amiran Kenya. To extend the quality of health services offered to citizenry, the bank partnered with the Kenya Diabetes Management and Information Centre as well as the Kenya Psychological Association. The bank takes part in activities of national importance and we supported the Kenya National Assembly Prayer Day.

Statement on Corporate Governance

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

Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya developed by the Centre for Corporate Governance and the Capital Markets Authority (CMA) set out standards which are part of the broader corporate governance best- practice principles the bank adheres to. The Board is responsible for the bank's corporate governance practices and has in place mechanisms to ensure observance and report on its compliance status on a regular basis including with regard to provisions of the Prudential Guidelines from the Central Bank of Kenya under the Banking Act.

Our high standards of corporate governance are not an exercise in compliance, but a means of driving the performance of the business whilst managing and mitigating risk. The Bank's corporate governance structure has been fêted by reputable reviewers, leading to recognition awards. Key among these is Overall Winner in Corporate Governance in 2011 and 2nd Runners Up in Corporate Social Investment in 2012, both recognitions earned at the Financial Reporting (FiRe) Awards sponsored jointly by the Nairobi Securities Exchange (NSE), the Institute of Certified Public Accountants (ICPAK) and the Capital Markets Authority (CMA).

Code of Conduct

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

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

The Board

Board composition

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

Appointments and induction to the Board

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

Board responsibilities

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

- Setting the strategic direction of the bank and putting in place appropriate policies, systems and structures for their successful implementation;
- Establishing and maintaining the Bank's overall systems of planning, accounting and internal controls that facilitate prudent risk assessment and management;

- Setting policy guidelines for management and ensuring competent management of the business including the selection, supervision and remuneration of Senior Management;
- Ensuring that the business of the Bank is conducted in compliance with relevant laws and regulations; and
- Monitoring the bank's performance and reporting this to shareholders especially at the Annual General Meeting.

Board and Strategy meetings

An annual plan of scheduled board meetings is prepared each year in advance and provided to all directors. The full Board meets at least six times a year and special meetings may be convened when need arises. Boards of subsidiaries of the bank meet on a quarterly basis. Guidelines are in place concerning the content, presentation and delivery of papers for each Board meeting to ensure that directors have adequate information and sufficient time for appropriate briefing ahead of each meeting. The Board is in charge of overall strategic direction and regularly sets targets as well as approves business plans which form the basis of performance assessment. On a regular basis, the Board receives reports and presentations from the Group Managing Director & CEO on the macroeconomic environment and the impact on banking business, a review of the broader financial services industry as well as the regulatory environment.

Board Chairman and Managing Director

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

Board Performance Evaluation

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

Directors' remuneration

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

Internal control and Audit

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

The Board reviews effectiveness of internal control systems in place by taking into account results of work carried out to audit and review activities of the Group by both external and internal assurance providers. Internal assurance is carried out by an independent Internal Audit Department that reports to the Board Audit Committee and provides confirmation that the bank's business standards, policies and procedures as set by the Board are being complied with. The Board has reviewed the Group's system of internal control and is satisfied that the system is effective. However, the Board recognises that any system of internal control can provide only reasonable and not absolute assurance against material misstatement or loss.

Risk Management and Compliance

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board's Risk and Finance Committee is responsible for developing and monitoring Group risk management policies established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board has also set up a Compliance Department which directly reports to its Risk & Finance Committee. The Compliance Department evaluates the Group's compliance framework, identifies and monitors relevant legislation applicable to the Group and ensures adherence to the Group's policies as well as legislative and regulatory requirements including changes arising and their impact.

Conflict of interest

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

Board Sub-committees

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

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

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

Audit Committee

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

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

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

Staff and Nomination Committee

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

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

Risk and Finance Committee

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

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

Management Committees

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

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

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

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

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

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

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

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

Director	Co-operative Bank Group			Board Sub-committees		
	Co-operative Bank Ltd	Co-op Consultancy & Insurance Agency Ltd	Co-optrust Investment Services Ltd	Audit Committee	Staff and Nomination Committee	Risk and Finance Committee
Schedule of meetings:	**5**	**6**	**6**	**4**	**2**	**3**
S. C. Muchiri, EBS – Group Chairman	5	6	6	-	2	3
J. Riungu - Vice Chairman	5	-	-	4	2	-
Dr. G. Muriuki, MBS – Group Managing Director & CEO	5	6	6	4	2	3
J. Sitienei	5	-	-	-	2	-
F. Odhiambo – Commissioner of Co-operatives	5	-	-	-	2	-
R.L. Kimanthi	5	-	-	-	-	3
G.J.S. Wakasyaka, Rtd Major	5	-	-	-	2	-
M. Malonza	5	-	-	-	-	2
W. Ongoro	5	-	-	-	-	3
D. Kibera	5	-	-	-	-	3
J. Murugu – Representing PS Ministry of Finance	4	-	-	3	-	-
R. Simani (Mrs)	5	-	-	4	-	-
E.K. Mbogo	-	6	6	-	-	-
P. K. Githendu	-	6	6	-	-	-
G. Mburia	-	6	6	-	-	-
S. Odhiambo (Mrs)	-	6	6	-	-	-
Dr. J. Kahunyo	-	6	6	-	-	-
C. Kabira	-	6	6	-	-	-

Attendance is shown only where director is a member of a particular board or committee.
All directors are non-executive, except for the Managing Director who is executive.

Communication with Shareholders

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

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

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

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

2012			
	NAME	**NO. OF SHARES**	**%**
1	Co-opholdings Co-operative Society Limited	2,705,511,000	64.56
2	Gideon Maina Muriuki	77,415,000	1.85
3	NIC Custodial Services A/C 077	34,502,460	0.82
4	Kenya Commercial Bank Nominees Limited A/C 771A	27,039,800	0.65
5	Standard Chartered Nominees Non-Resident A/C 9057	23,825,400	0.57
6	Standard Chartered Nominees A/C 9230	20,052,160	0.48
7	CFC Stanbic Nominees Kenya Ltd A/C NR1030682	16,441,224	0.39
8	CfC Stanbic Nominees Kenya Ltd A/C R57601	15,155,880	0.36
9	Co-operative Bank Savings & Credit Society Limited	13,946,000	0.33
10	Standard Chartered Nominees A/C 9389	12,866,120	0.31
	TOTAL	**2,946,755,044**	**70.32**

Co-opHoldings Co-operative Society Limited is the strategic and majority shareholder in the bank representing the block strategic shareholding by the Kenyan Co-operative Movement with 3,817 (Yr 2011-3,817) Co-operative Societies covering millions of Kenyans.

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

	2012		
	NAME	**NO. OF SHARES**	**%**
1	Harambee Co-op Savings & Credit Society Ltd	103,469,880	3.82
2	Afya Co-op Savings & Credit Society Ltd	79,568,280	2.94
3	Masaku Teachers Co-op Savings & Credit Society Ltd	78,377,880	2.90
4	Telepost Co-op Savings & Credit Society limited	77,824,560	2.88
5	Kipsigis Teachers Co-op Savings & Credit Society Ltd	72,496,800	2.68
6	H & M Co-op Savings & Credit Society Ltd	69,462,480	2.57
7	Kenya Police Sacco Society Ltd	67,247,040	2.49
8	K-UNITY Savings & Credit Co-operative Society Limited	61,690,440	2.28
9	Co-operative Bank Coop Savings & Credit Society Ltd	53,656,080	1.98
10	Embu Farmers Sacco Society Ltd	49,609,440	1.83
	TOTAL	**713,402,880**	**26.37**

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

2012		
DIRECTOR	**NO. OF SHARES**	**%**
S. C. Muchiri, EBS -Chairman	5,360,000	0.13
Julius M Riungu - Vice Chairman	6,132,000	0.15
Dr. G Muriuki, MBS Group Managing Director & CEO	77,415,000	1.85
M. Malonza	5,110,000	0.12
S. Odhiambo (Mrs)	2,117,160	0.05
P. K. Githendu	808,440	0.02
G. K. Mburia	4,000,000	0.10
E. K. Mbogo	3,655,480	0.09
Dr. J. Kahunyo	2,566,000	0.06
J. Sitienei	5,273,600	0.13
C. Kabira	4,908,120	0.12
F. Odhiambo – Commissioner of Co-operatives	3,300,000	0.08
R. L. Kimanthi	1,632,000	0.04
G. J. S. Wakasyaka, Rtd Major	2,060,000	0.05
W. Ongoro	1,380,260	0.03
D. Kibera	-	-
R. Simani (Mrs)	-	-
J. Murugu, OGW – Representing PS Ministry of Finance	1,200,000	0.03
R. Githaiga (Mrs) – Company Secretary	1,844,640	0.04
TOTAL	**122,630,700**	**3.00**

Shareholding distribution Schedule:

2012			
Category	**No. of shareholders**	**No. of shares**	**%**
1-500 shares	6291	1,447,618	0.03
501-5,000 shares	45,201	81,802,479	1.96
5,001-10,000 shares	33,769	208,449,005	4.97
10,001-100,000 shares	15,476	286,959,712	6.85
100,001-1,000,000 shares	678	184,611,972	4.40
1,000,001 shares and over	173	3,427,996,812	81.79
TOTAL	**101,588**	**4,190,843,298**	**100**

Shareholders' profile:

2012			
Category	**No. of shareholders**	**No. of shares**	**%**
Kenyan individual investors	99,258	825,278,195	19.69
Kenyan institutional investors	2,243	3,263,004,597	77.86
East African individual investors	1	2,000	0.0
East African institutional investors	NIL	NIL	NIL
Foreign individual investors	51	798,520	0.02
Foreign institutional investors	35	101,759,986	2.43
TOTAL	**101,588**	**4,190,843,298**	**100**

Report of the Directors

For The Year Ended 31 December 2012

The directors submit their report together with the audited financial statements for the year ended 31 December 2012, which show the state of the Group's and the Bank's affairs. This is in accordance with Section 22 of the Banking Act (Cap 488) and Section 157 of the Kenyan Companies Act (Cap 486).

1. Principal Activities

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

2. Group Operations

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

3. Results

The results of the Group for the year are set out on page 40.

4. Dividend

The directors recommend payment of a first and final dividend of KShs. 0.50 (2011 - KShs. 0.40) for every ordinary share of KShs. 1. The dividends will be paid to the shareholders registered on the Bank's Register at the close of business on 23rd May 2013. The register will remain closed for one day on 24th May 2013 for the preparation of dividend warrants.

5. Reserves

The movement in the Group's reserves is shown on page 46 of these financial statements.

6. Group Directors

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

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

7. Auditors

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

8. Approval of Financial Statements

The financial statements were approved by the Board of Directors on 27th February 2013.

By order of the Board

Group Managing Director & CEO

Statement of Directors' Responsibilities

For The Year Ended 31 December 2012

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

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

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

....

GROUP CHAIRMAN

....

VICE CHAIRMAN

....

GROUP MANAGING DIRECTOR & CEO

....

COMPANY SECRETARY

27th February 2013

To The Members of The Co-operative Bank of Kenya Limited and Subsidiaries

Report on the Financial Statements

We have audited the accompanying financial statements of The Co-operative Bank of Kenya Limited and its subsidiaries, which comprise the consolidated and bank's statements of financial position as at 31 December, 2012 and the consolidated and bank's statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 40 to 108.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated and bank's financial statements present fairly, in all material respects, the financial position of The Co-operative Bank of Kenya Limited and subsidiaries as at 31 December, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies 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 statements of financial position and statements of comprehensive income are in agreement with the books of account.

Ernst & Young

Certified Public Accountants (Kenya)

Nairobi

27th March 2013

Supporting Education

Daystar University's Dr. Jon Masso (left), Deputy Vice Chancellor Institutional Advancement and Prof. James Kombo (second left), Deputy Vice Chancellor Academics receive a trophy from Elizabeth Ndemo (second right), Co-op Bank Chief Manager - Corporate Banking and Ruga Kamathi (right), Manager University Way Branch. Co-op Bank gave a sponsorship towards the Daystar University graduation, by way of trophies which were awarded to excelling graduands at the 2012 graduation.

Corporate Social Investment

Co-op Bank Stima Plaza Branch Manager, Rose Nzeki (left) and Parklands Primary School Principal, Rose Muriu (right) engage students at the school's Cerebral Palsy unit. Co-op Bank Stima Plaza team visited the school to spend time with the children and donate two special wheel chairs to the special needs unit.

Community Development

Sylvance Nono (left), Co-op Bank Chief Manager – Government & Public Sector Banking Department lays the foundation stone of the new chief's office during the groundbreaking ceremony. The Bank's Government & Public Sector department contributed towards the construction of the new chief's offices. Looking on is the AG Chief Jonathan Otoyi (right).

Consolidated Statement of Financial Position

As at 31 December 2012

	Note	2012 KShs'000	2011 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	7	22,214,066	14,151,049
Deposits and balances due from banks	8	8,886,167	7,464,735
Held-for-trading investments	9	182,199	165,067
Held-to-maturity investments	10	3,373,531	193,447
Available-for-sale investments	11	29,835,056	21,878,907
Loans and advances to customers	12(a)	119,087,748	109,408,815
Investment in associate	14	1,354,935	1,028,159
Other assets	15	4,511,363	3,840,431
Intangible assets	16(a)	2,145,001	613,042
Prepaid lease rentals	17	38,863	39,478
Property and equipment	18	8,949,529	8,683,473
Deferred tax asset	19	308,124	845,036
TOTAL ASSETS		**200,886,582**	**168,311,639**
LIABILITIES			
Deposits and balances due to banks	20	1,065,302	1,881,284
Customer deposits	21(a)	162,083,580	142,632,308
Loans	22	4,572,005	233,940
Tax payable	23(b)	585,429	63,702
Provisions	24	62,953	48,156
Other liabilities	25	2,101,321	1,905,587
Capital grants	26	574,717	595,164
Deferred tax liability	19	473,939	-
TOTAL LIABILITIES		**171,519,246**	**147,360,141**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT			
Share capital	27	4,190,844	3,492,370
Share premium	28	3,588,262	4,286,736
Reserves	29	19,363,600	11,651,310
Proposed dividends	30	2,095,422	1,396,948
		29,238,128	20,827,364
Non-controlling interest	31	129,208	124,134
TOTAL EQUITY		**29,367,336**	**20,951,498**
TOTAL LIABILITIES & EQUITY		**200,886,582**	**168,311,639**

The financial statements were approved by the Board of Directors on 27th February 2013 and signed on its behalf by: -

S.C. Muchiri, EBS - Group Chairman

J.M. Riungu - Vice Chairman

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

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

Consolidated Income Statement

As at 31 December 2012

	Note	2012 KShs'000	2011 KShs'000
Interest income	32	22,261,087	14,124,605
Interest expense	33	(8,680,008)	(4,505,915)
NET INTEREST INCOME		**13,581,079**	**9,618,690**
Fees and commission income	34	6,064,983	5,569,407
Fees and commission expense	34	(64,544)	(29,822)
NET FEES AND COMMISSION INCOME		**6,000,439**	**5,539,585**
Net trading income	35	3,804,713	3,592,528
Amortisation of capital grants	26	20,447	20,447
Other operating income	36	374,114	(465,221)
OPERATING INCOME		**23,780,792**	**18,306,029**
Net impairment losses on loans and advances	12(d)	999,882	709,903
Employee costs	37	6,096,093	5,511,355
Depreciation of property and equipment	18(a)	1,310,631	1,120,187
Amortisation of intangible assets	16(a)	127,686	118,485
Amortisation of leasehold land		615	613
Other operating expenses	38	5,635,745	4,636,867
OPERATING EXPENSES		**14,170,652**	**12,097,410**
OPERATING PROFIT		**9,610,140**	**6,208,619**
Share of profit of an associate	14	373,632	153,943
PROFIT BEFORE TAX		**9,983,772**	**6,362,562**
INCOME TAX EXPENSE	23(a)	(2,259,914)	(999,960)
PROFIT FOR THE YEAR		**7,723,858**	**5,362,602**
Attributable to:			
Equity holders of the parent		7,718,784	5,357,212
Non-controlling interest		5,074	5,390
		7,723,858	**5,362,602**
Basic earnings per share (KShs)	39	1.84	1.53
Diluted earnings per share (KShs)	39	1.84	1.28

Consolidated Statement of Comprehensive Income

For The Year Ended 31 December 2012

	Note	2012 KShs'000	2011 KShs'000
PROFIT FOR THE YEAR		**7,723,858**	**5,362,602**
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Net movement on available for sale investments	40(i)	1,997,998	(3,075,139)
Revaluation of land and buildings	40(ii)	85,652	-
Other comprehensive income of an associate		5,278	3,601
OTHER COMPREHENSIVE INCOME, NET OF TAX		**2,088,928**	**(3,071,538)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF INCOME TAX		**9,812,786**	**2,291,064**
Attributable to:-			
Equity holders of the bank		9,807,712	2,285,674
Non-controlling interest		5,074	5,390
		9,812,786	**2,291,064**

Bank Statement of Financial Position

As at 31 December 2012

	Note	2012 KShs'000	2011 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	7	22,214,066	14,151,049
Deposits and balances due from banks	8	8,869,700	7,437,710
Held-for-trading investments	9	180,834	164,192
Held-to-maturity investments	10	3,213,925	3,850
Available-for-sale investments	11	29,834,423	21,878,102
Loans and advances to customers	12(a)	119,087,748	109,408,815
Investment in subsidiaries	13	240,000	280,000
Investment in associate	14	755,118	755,118
Other assets	15	4,392,927	3,777,929
Intangible assets	16(b)	1,892,241	359,197
Prepaid lease rentals	17	38,863	39,478
Property and equipment	18	8,943,111	8,672,350
Deferred tax asset	19	-	844,600
TOTAL ASSETS		**199,662,956**	**167,772,390**
LIABILITIES			
Deposits and balances due to banks	20	1,065,302	1,881,284
Customer deposits	21(a)	162,267,227	142,704,593
Loans	22	4,572,005	233,940
Tax payable	23(b)	581,349	65,054
Provisions	24	62,953	48,156
Other liabilities	25	1,971,461	1,867,744
Capital grants	26	574,717	595,164
Deferred tax liability	19	175,713	-
TOTAL LIABILITIES		**171,270,727**	**147,395,935**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT			
Share capital	27	4,190,844	3,492,370
Share premium	28	3,588,262	4,286,736
Reserves	29	18,517,701	11,200,401
Proposed dividends	30	2,095,422	1,396,948
TOTAL EQUITY		**28,392,229**	**20,376,455**
TOTAL LIABILITIES & EQUITY		**199,662,956**	**167,772,390**

The financial statements were approved by the Board of Directors on 27th February 2013 and signed on its behalf by: -

S. C. Muchiri, EBS - Group Chairman

J. M. Riungu - Vice Chairman

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

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

Bank Income Statement

For The Year Ended 31 December 2012

	Note	2012 KShs'000	2011 KShs'000
Interest income	32	22,230,164	14,107,922
Interest expense	33	(8,680,008)	(4,505,915)
NET INTEREST INCOME		**13,550,156**	**9,602,007**
Fees and commission income	34	5,787,637	5,307,982
Fees and commission expense	34	(64,544)	(29,822)
NET FEES AND COMMISSION INCOME		**5,723,093**	**5,278,160**
Net trading income	35	3,802,137	3,591,774
Amortisation of capital grants	26	20,447	20,447
Other operating income	35	445,453	(451,386)
OPERATING INCOME		**23,541,286**	**18,041,002**
Net impairment losses on loans and advances	12(d)	999,882	709,903
Employee costs	37	6,031,466	5,418,058
Depreciation of property and equipment	18(b)	1,307,024	1,116,023
Amortisation of intangible assets	16(b)	127,686	116,710
Amortisation of leasehold land		615	613
Other operating expenses	38	5,500,682	4,511,927
OPERATING EXPENSES		**13,967,355**	**11,873,234**
PROFIT BEFORE TAX		**9,573,931**	**6,167,768**
Share of profit of an associate	14	373,632	153,943
INCOME TAX EXPENSE	23(a)	(2,244,498)	(981,425)
PROFIT FOR THE YEAR		**7,329,433**	**5,186,343**
Basic earnings per share (KShs)	39	1.75	1.49
Diluted earnings per share (KShs)	39	1.75	1.24

Bank Statement of Comprehensive Income

For The Year Ended 31 December 2012

	Note	2012 KShs'000	2011 KShs'000
PROFIT FOR THE YEAR		**7,329,433**	**5,186,343**
OTHER COMPREHENSIVE INCOME:			
Net movement on available for sale investments	40(i)	1,997,637	(3,075,123)
Revaluation of land and buildings	40(ii)	85,652	-
OTHER COMPREHENSIVE INCOME, NET OF TAX		**2,083,289**	**(3,075,123)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		**9,412,722**	**2,111,220**

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2012

	Share Capital	Share Premium	Revaluation Reserves	Statutory Reserves	Fair Value Reserve	Proposed Dividends	Retained Earnings	Attributable to equity holder of the company	Non-controlling interest	Total equity
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Balance at 1 January 2011	**3,492,370**	**4,286,736**	**346,782**	**204,954**	**282,369**	**1,396,948**	**9,851,595**	**19,861,754**	**118,744**	**19,980,498**
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	5,357,212	5,357,212	5,390	5,362,602
Other comprehensive income	-	-	-	-	(3,071,538)	-	-	(3,071,538)	-	(3,071,538)
Reversal through income statement	-	-	-	-	(276,994)	-	-	(276,994)	-	(276,994)
Realisation of revaluation surplus	-	-	(9,071)	-	-	-	9,071	-	-	-
Deferred tax on realisation of revaluation surplus	-	-	1,814	-	-	-	-	1,814	-	1,814
Net movement in revenue grants for the year	-	-	-	-	-	-	352,064	352,064	-	352,064
Transfers to statutory reserve	-	-	-	1,024	-	-	(1,024)	-	-	-
2010- Dividends paid	-	-	-	-	-	(1,396,948)	-	(1,396,948)	-	(1,396,948)
Proposed dividends	-	-	-	-	-	1,396,948	(1,396,948)	-	-	-
Balance at 31 December 2011	**3,492,370**	**4,286,736**	**339,525**	**205,978**	**(3,066,163)**	**1,396,948**	**14,171,970**	**20,827,364**	**124,134**	**20,951,498**
Balance at 1 January 2012	**3,492,370**	**4,286,736**	**339,525**	**205,978**	**(3,066,163)**	**1,396,948**	**14,171,970**	**20,827,364**	**124,134**	**20,951,498**
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	7,718,784	7,718,784	5,074	7,723,858
Other comprehensive income	-	-	85,652	-	2,003,276	-	-	2,088,928	-	2,088,928
Issue of share capital	698,474	(698,474)	-	-	-	-	-	-	-	-
Realisation of revaluation surplus	-	-	(9,071)	-	-	-	9,071	-	-	-
Transfers to statutory reserve	-	-	-	245,806	-	-	(245,806)	-	-	-
2011- Dividends paid	-	-	-	-	-	(1,396,948)	-	(1,396,948)	-	(1,396,948)
Proposed dividends	-	-	-	-	-	2,095,422	(2,095,422)	-	-	-
Balance at 31 December 2012	**4,190,844**	**3,588,262**	**416,106**	**451,784**	**(1,062,887)**	**2,095,422**	**19,558,597**	**29,238,128**	**129,208**	**29,367,336**

Bank Statement of Changes in Equity

For The Year Ended 31 December 2012

	Share Capital	Share Premium	Revaluation Reserve	Statutory Reserve	Fair value Reserve	Proposed Dividends	Retained Earnings	Total
	KShs'000	KShs'000	KShs'000	KShs'000		KShs'000	KShs'000	KShs'000
Balance at 1 January 2011	**3,492,370**	**4,286,736**	**346,782**	**204,954**	**278,537**	**1,396,948**	**9,580,515**	**19,586,842**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	5,186,343	5,186,343
Other comprehensive income	-	-	-	-	(3,075,123)	-	-	(3,075,123)
Reversal through income statement	-	-	-	-	(278,537)		-	(278,537)
Realisation of revaluation surplus	-	-	(9,071)	-	-	-	9,071	-
Deferred tax on realisation of revaluation surplus	-	-	1,814	-	-	-	-	1,814
Net movement in revenue grants for the year	-	-	-	-	-	-	352,064	352,064
Transfer to retained earnings	-	-	-	1,024	-	-	(1,024)	-
2010- Dividends paid	-	-	-	-	-	(1,396,948)	-	(1,396,948)
Proposed dividends	-	-	-	-	-	1,396,948	(1,396,948)	-
Balance at 31 December 2011	**3,492,370**	**4,286,736**	**339,525**	**205,978**	**(3,075,123)**	**1,396,948**	**13,730,021**	**20,376,455**
Balance at 1 January 2012	**3,492,370**	**4,286,736**	**339,525**	**205,978**	**(3,075,123)**	**1,396,948**	**13,730,021**	**20,376,455**
Total comprehensive income								-
Profit for the year	-	-	-	-	-	-	7,329,433	7,329,433
Other comprehensive income	-	-	85,652	-	1,997,637	-	-	2,083,289
Issue of share capital	698,474	(698,474)	-	-	-	-	-	-
Realisation of revaluation surplus	-	-	(9,071)	-	-	-	9,071	-
Transfer from retained earnings	-	-	-	245,806	-	-	(245,806)	-
2011- Dividends paid	-	-	-	-	-	(1,396,948)	-	(1,396,948)
Proposed dividends	-	-	-	-	-	2,095,422	(2,095,422)	-
Balance at 31 December 2012	**4,190,844**	**3,588,262**	**416,106**	**451,784**	**(1,077,486)**	**2,095,422**	**18,727,297**	**28,392,229**

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2012

CASH FLOWS FROM OPERATING ACTIVITIES:-	Note	2012 KShs'000	2011 KShs'000
Profit before tax		**9,983,772**	**6,362,562**
Adjustments for:-			
Depreciation	18(a)	1,310,631	1,120,188
Amortization of prepaid lease rentals	17	615	613
Impairment on intangible assets	16(a)	2,769	-
Depreciation write-back	18(a)	(74,679)	-
Net impairment on property, equipment and intangible assets		-	2,769
Net movement in revenue grants		-	352,064
Revaluation surplus		(85,652)	-
Movement in provisions		43,440	345,737
Foreign exchange gain		73,286	(95,864)
Amortization of intangible assets	16(a)	127,686	118,485
Amortization of capital grants	26	(20,447)	(20,447)
Gain on disposal of property and equipment		(7,154)	(3,573)
Changes in fair value of financial instruments held-for-trading	9	(23,573)	24,853
Share of profit in associate	14	(373,632)	(153,943)
Loan interest	22	131,214	6,377
Amortisation of financial instruments	11	270,900	136,135
Cash flows from operating activities before working capital changes		**11,359,176**	**8,195,956**
Advances to customers		(9,722,373)	(23,136,241)
Other assets		(457,347)	1,665,889
Deposits from customers		19,451,272	18,753,886
Deposits from banks		(815,982)	(3,467,007)
Other liabilities		165,088	(2,123,463)
Central Bank of Kenya cash reserve ratio		(826,381)	(2,159,046)
Held-for-trading investments		5,421	3,871,371
Available-for-sale investments		(5,454,915)	(5,763,669)
Equity investments held-for-trading		1,020	1,100
Cash generated from / (used in) operating activities		**13,704,979**	**(4,161,224)**
Tax paid	23(b)	(1,391,791)	(1,310,283)
Net cash flows generated from / (used in) operating activities		**12,313,188**	**(5,471,507)**
CASH FLOWS FROM INVESTING ACTIVITIES:-			
Purchase of property and equipment	18(b)	(3,008,274)	(3,482,813)
Purchase of software	16(b)	(52,252)	(118,426)
Proceeds from disposal of property and equipment		10,324	9,589
Purchase of held-to-maturity investments	10	(4,618,370)	(193,447)
Maturity of held-to-maturity investments	10	1,438,286	9,954,855
Purchase of additional shares in associate		-	(634,028)
Dividends from associate	14	52,135	19,854
Net cash flows used in investing activities:-		**(6,178,151)**	**5,555,584**
CASH FLOWS FROM FINANCING ACTIVITIES:-			
Loan received	22	4,320,173	122,000
Loans paid	22	(113,322)	(32,993)
Dividends paid		(1,396,948)	(1,396,948)
Net cash flows used in financing activities		**2,809,903**	**(1,307,941)**
Net movement in cash and cash equivalents		8,944,940	(1,223,864)
Cash and cash equivalents at the beginning of the year		14,735,967	15,863,967
Foreign exchange gain		(73,286)	95,864
Cash and cash equivalents at 31 December	**41**	**23,607,621**	**14,735,967**

Bank Statement of Cash Flows

For The Year Ended 31 December 2012

CASH FLOWS FROM OPERATING ACTIVITIES:-	Note	2012 KShs'000	2011 KShs'000
Profit before tax		**9,573,931**	**6,167,768**
Adjustments for:-			
Depreciation	18(b)	1,307,024	1,116,023
Amortization of prepaid lease rentals	17	615	613
Impairment on intangible assets		1,684	-
Depreciation write-back		(74,679)	-
Impairment on property, equipment and intangible assets		-	2,769
Net movement in revenue grants		-	352,064
Revaluation surplus		(85,652)	-
Movement in provisions		43,440	345,737
Net foreign exchange differences		73,286	(95,864)
Amortization of intangible assets	16(b)	127,686	116,710
Amortization of capital grants	26	(20,447)	(20,447)
Gain on disposal of property and equipment		(7,154)	(3,573)
Changes in fair value of financial instruments held-for-trading	9	(20,997)	24,853
Loan interest	22	131,214	6,377
Amortisation of financial instruments	11	270,900	136,889
Cash flows from operating activities before working capital changes		**11,320,851**	**8,149,919**
Advances to customers		(9,722,373)	(23,136,241)
Other assets		(401,412)	1,654,639
Deposits from customers		19,562,634	18,692,554
Deposits from banks		(815,982)	(3,467,007)
Other liabilities		120,781	(2,069,473)
Central Bank of Kenya cash reserve ratio		(826,381)	(2,159,046)
Held-for-trading investments		3,335	3,780,860
Equity investments held-for-trading		1,020	1,100
Available for sale investment		(5,460,823)	(5,765,057)
Cash generated from / (used in) operating activities		**13,781,650**	**(4,317,752)**
Tax paid	23(b)	(1,374,679)	(1,287,217)
Net cash flows from /(used in) operating activities		**12,406,971**	**(5,604,969)**
CASH FLOWS FROM INVESTING ACTIVITIES:-			
Purchase of property and equipment	18(b)	(3,007,868)	(3,477,625)
Purchase of software	16(b)	(52,252)	(116,323)
Proceeds from disposal of property and equipment		8,819	9,589
Purchase of held-to-maturity investments	10	(4,618,370)	(3,850)
Maturity of held-to-maturity investments	10	1,408,295	9,954,855
Purchase of additional shares in associate	14	-	(634,028)
Net cash flows used in investing activities		**(6,261,376)**	**5,732,618**
CASH FLOWS FROM FINANCING ACTIVITIES:-			
Loans received	22	4,320,173	122,000
Loans paid	22	(113,322)	(32,993)
Dividends paid		(1,396,948)	(1,396,948)
Net cash flows generated / (used in) financing activities		**2,809,903**	**(1,307,941)**
Net movement in cash and cash equivalents		**8,955,498**	**(1,180,292)**
Cash and cash equivalents at the beginning of the year		**14,708,942**	**15,793,370**
Net foreign exchange differences		(73,286)	95,864
Cash and cash equivalents at 31 December	**41**	**23,591,154**	**14,708,942**

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

1. GENERAL INFORMATION

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

2. ACCOUNTING POLICIES

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

a) Basis of preparation

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

b) Basis of consolidation

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

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

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

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

c) Changes in accounting policies and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations:

IFRS 7 Financial Instruments: Disclosures (amendment)

The IASB issued an amendment to IFRS 7 on 7 October 2010. This amendment deleted paragraph 13 of IFRS 7 and replaced it with paragraphs 42A to 42H. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with their associated liabilities. In addition, the amendment requires disclosures about the entity´s continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011, and is applied by the Group in these financial statements.

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

The amendment clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis of the assets. The amendment is effective for annual periods beginning on or after 1 January 2012. This amendment did not have an impact on the Group's financial position, performance or its disclosures.

IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopter

When an entity's date of transition to IFRS is on or after the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date, at fair value on

Notes to the Consolidated Financial Statements *(continued)*

For The Year Ended 31 December 2012

the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011 with early adoption permitted. This amendment did not have an impact on the Group's financial position, performance or its disclosures.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group.

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and will become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting. The Group will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 – Consolidated Financial Statements, IAS 27 Separate Financial Statements

The standard becomes effective for annual periods beginning on or after 1 January 2013. It replaces the requirements of IAS 27 Consolidated and Separate Financial Statements that address the accounting for consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The impact of the new standard will be affected by the financial position and performance of the entity to be consolidated until the effective date of the new standard and by any possible change in the standard until such date.

IFRS 11 – Joint Arrangements

The standard becomes effective for annual periods beginning on or after 1 January 2013. It replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. Because IFRS 11 uses the principle of control in IFRS 10 to define control, the determination of whether joint control exists may change. The adoption of IFRS 11 is not expected to have a significant impact on the accounting treatment of investments currently held by the Group.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

IFRS 12 – Disclosure of Involvement with Other Entities

The standard becomes effective for annual periods beginning on or after 1 January 2013. It includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgements made to determine whether it controls another entity. Many of these changes were introduced by the IASB in response to the financial crisis. Now, even if the Group concludes that it does not control an entity, the information used to make that judgement will be transparent to users of the financial statements to make their own assessment of the financial impact were the Group to reach a different conclusion regarding consolidation. The Group will need to disclose more information about the consolidated and unconsolidated structure entities with which it is involved or has sponsored. However, the standard will not have any impact on the financial position or performance of the Group.

IFRS 13 – Fair Value measurement

The standard becomes effective for annual periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. There are also additional disclosure requirements. Adoption of the standard is not expected to have a material impact on the financial position or performance of the Group.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 Employee Benefits – Amendments

The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income. The effective date of the standard is 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011)

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

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

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact to the Group by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central

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clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Offsetting on the grounds of simultaneous settlement is particularly relevant for the Group as to where it engages in large numbers of sale and repurchase transactions. Currently, transactions settled through clearing systems are, in most cases, deemed to achieve simultaneous settlement. While many settlement systems are expected to meet the new criteria, some may not. Any changes in offsetting are expected to impact leverage ratios, regulatory capital requirements, etc. As the impact of the adoption depends on the Group's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects.

These amendments become effective for annual periods beginning on or after 1 January 2014.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Group.

Annual Improvements May 2012

These improvements will not have an impact on the Group, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property; plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

d) Significant accounting estimates and assumptions

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

Estimates and assumptions

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

Impairment losses on loans and advances

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

In addition to specific allowances against individual significant loans and advances, the Group makes a collective impairment allowance against exposures

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which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration such factors as any deterioration in industry, technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Impairment of non-financial assets

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

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

Impairment of available–for–sale investments

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

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

Fair value of financial instruments

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

Deferred tax assets

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

e) Recognition of income and expenses

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

i) Interest and similar income and expenses

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available–for–sale and financial instruments designated at fair value through profit or loss, interest income or expense is recognised at the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial assets or financial liabilities is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount are recognised as interest income or expense.

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

ii) Fee and commission income

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

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iii) Dividend income

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

iv) Rental income

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

f) Property and equipment

Recognition and measurement

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

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

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

Depreciation

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

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

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

g) Business combinations and goodwill

Business combinations from 1 January 2010

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

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

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

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

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

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

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

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

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

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

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

h) Intangible assets

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

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

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year–end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

(a) Computer software licences

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

(b) Other intangible assets

Other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business

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combination, where it is probable that future economic benefits attributable to the assets will flow from their use. Other intangible assets consist of Nairobi Stock Exchange (NSE) seat.

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

i) Investment in an associate

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

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

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

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

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

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

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in profit or loss.

j) Finance and operating leases

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

i) Operating leases:

Where:-

- Group is the lessee

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

- Group is the lessor

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

ii) Finance leases:

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is classified as a finance lease within loans and advances. All other leases are classified as operating leases. When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

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

k) Financial assets

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

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

(i) Financial assets at fair value through profit or loss

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

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

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

(ii) Held-to-maturity financial assets

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

(iii) Loans and receivables

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

(iv) Available-for-sale financial assets

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

(v) Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the end of reporting period. For investments where there is no active market, fair value is determined using

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valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

(vi) Amortised cost

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

l) Impairment of financial assets

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

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

(1) Financial assets carried at amortised cost

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

For loans and advance impairment losses are computed based on:

i) Central Bank of Kenya Prudential Guidelines

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

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

A collective allowance for impairment is made at the rate of 1% of loans and advances classified under normal and 3% for watch categories as per the Central Bank Kenya Prudential Guidelines. Advances are written off/down when the directors are of the opinion that their recoverability will not materialise.

ii) International Accounting Standard (IAS) 39

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

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

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

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

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

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

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

(3) Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

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

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

m) Derecognition of financial assets

A financial asset is derecognised when:

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

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

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

n) Financial liabilities

a) Customer deposits

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

b) Deposits from/ to other banks

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

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

c) Other borrowed funds and borrowing costs

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

d) Financial guarantee contracts

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. These are written by the Group to support performance by a customer to third parties. The Group will only be required to meet these obligations in the event the customer defaults. Financial guarantee contracts are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee contracts are subsequently carried at the higher of the amortised amount and the present value of any expected payment when a payment under the guarantee has become probable. These obligations are not accounted for in the statement of financial position but are disclosed as contingent liabilities.

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e) Provisions

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

o) Offsetting

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

p) Repossessed property

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

q) Foreign currency

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

r) Employee benefits

The Group operates a defined contribution retirement scheme for its employees. The assets of the scheme are held in a separate trustee administered fund which is funded by contributions from both the Group and employees. The Group contributions to the scheme are charged to the profit or loss in the year to which they relate. The Group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to KShs. 200 per employee per month.

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

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

s) Taxes

Current tax

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

Deferred income tax

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

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

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

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

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

(ii) or liability in a transaction that is not a business

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combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

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

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

Value Added Tax

Revenues, expenses and assets are recognised net of the amount of value added tax except where the value added tax incurred on a purchase of assets or services is not recoverable from the Kenya Revenue Authority (KRA), in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, KRA is included as part of accounts receivables or payables in the statement of financial position.

t) Grants

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

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

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

u) Cash and cash equivalents

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

v) Repurchase agreement transactions

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

w) Dividends

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

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been ratified at the Annual General Meeting.

x) Fiduciary assets

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

y) Segmental reporting

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

3. FINANCIAL RISK MANAGEMENT

Risk management framework

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

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

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

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

A. Credit risk

B. Liquidity risk

C. Market risks

D. Operational risks

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

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(A) Credit risk

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

Management of credit risk

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

a. Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

b. Establishing the authorisation structure for the approval and renewal of credit facilities.

c. Reviewing and assessing credit risk.

d. Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks.

e. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types.

f. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

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

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

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

	Note	Group 2012 KShs'000	Group 2011 KShs'000
Carrying amount		**123,823,553**	**114,101,180**
Individually assessed for impairment:			
Grade 5: Loss category		950,971	849,215
Grade 4: Doubtful category		2,740,959	2,292,169
Gross amount		3,691,930	3,141,384
Allowance for impairment		(2,852,977)	(2,591,391)
Carrying amount		**838,953**	**549,993**
Collectively assessed for impairment:			
Grade 1: Normal		105,153,902	104,844,916
Grade 2: Watch list		12,466,374	4,048,431
Gross amount		117,620,276	108,893,347
Allowance for impairment		(1,428,171)	(1,433,882)
Carrying amount		**116,192,105**	**107,459,465**
Past due but not impaired loans (Grade 3 - Substandard):			
Past due up to 30 days		2,236,953	1,813,738
Past due 31-60 days		15,693	13,263
Past due 61-90 days		19,368	16,146
Past due 91-150 days		239,334	223,303
Gross amount		2,511,348	2,066,450
Allowance for impairment		(454,658)	(667,093)
Net cash flows used in investing activities:-		**(6,178,151)**	**5,555,584**
Carrying amount		**2,056,690**	**1,399,357**
Net carrying amount	**12 (a)**	**119,087,748**	**109,408,815**

Maximum exposure to credit risk before collateral held:

	2012 KShs'000	%	2011 KShs'000	%
Items recognised in the statement of financial position:				
Items in the course of collection	770,485	0%	556,899	0%
Deposits and balances due from banking institutions	8,869,700	5%	7,464,735	5%
Financial assets:				
-Held-to-maturity	3,373,531	2%	193,447	0%
-Held-for-trading	182,199	0%	165,067	0%
-Available-for-sale	29,835,056	17%	21,878,907	15%
Interest receivable	2,125,948	1%	1,468,190	1%
Loans and advances to customers	119,087,748	67%	109,408,815	74%
	164,244,667	**92%**	**133,114,426**	**90%**
Items not recognised in the statement of financial position	14,434,139	8%	14,962,504	10%
	178,678,806	**100%**	**148,076,930**	**100%**

Maximum exposure to credit risk before collateral held represents the worst-case scenario of credit risk exposure without taking account of any collateral held or any other credit enhancements attached. While collateral is an important means to mitigate against credit risk, the Group's primary policy is to issue loans after establishing capacity of the customer to repay. Unsecured facilities amount to KShs.34,629 Million (2011- KShs. 43,728 Million). All other facilities are secured by collateral in the form of charges over cash, land and buildings, marketable securities, plant and machinery among others.

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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.

Maximum exposure to credit risk before collateral held:

	2012 KShs'000	**2011 KShs'000**
Due from banks	-	-
Financial assets at fair value through profit or loss	-	-
Loans and advances to customers:-	-	-
Overdrafts	-	-
Commercial loans	570,793	463,281
Government/Donor funded loan schemes	-	-
Credit card balances	-	-
Micro enterprises	-	-
	570,793	**463,281**

Allowances for impairment

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

Write-off policy

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

Collateral on loans and advances

The Bank holds collateral against loans and advances to customers in the form of cash, mortgage interests over residential, commercial and industrial properties, other registered securities over assets, motor vehicles, plant and machinery, marketable securities, bank guarantees and letters of credit. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral is generally not held over loans and advances to banks and against investment securities. It is the bank's policy to dispose of repossessed properties in an orderly manner. The proceeds are used to reduce or repay the outstanding claim and the Bank does not occupy repossessed properties for business use.

Notes to the Consolidated Financial Statements

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

	2012 KShs'000	2011 KShs'000
i) Categorised by loans & advances:		
Doubtful & loss categories	1,040,914	679,151
Past due but not impaired (Sub-standard) category	1,531,132	1,611,947
Normal & watch categories	92,518,377	67,169,783
	95,090,423	**69,460,881**
ii) Categorised by nature of collateral:		
Land & buildings	73,857,282	53,326,711
Cash & other pledges	4,361,003	4,777,412
Motor vehicles	7,059,308	4,676,813
Hypothecation of stock	1,429,591	1,121,683
Debentures & guarantees	6,659,569	5,558,263
Other chattels	1,723,669	5,558,263
	95,090,422	**69,460,881**

Concentration of Risk

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

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

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

Loans and advances:-	2012 KShs'000	%	2011 KShs'000	%
i) Categorised by loans & advances:				
Agriculture	6,489,414	5	6,134,913	5
Manufacturing, energy & water	10,084,938	8	6,976,047	6
Financial services	22,555,426	18	23,287,520	20
Tourism & hospitality	1,463,894	1	1,078,846	1
Wholesale and retail trade	13,960,692	11	13,234,195	12
Transport and communication	4,487,132	4	4,341,757	4
Real Estate, building & construction	11,488,658	9	7,019,197	6
Consumer & household	53,293,399	43	52,028,705	46
	123,823,553	**100**	**114,101,180**	**100**
ii) Concentration by business:				
Corporate	44,338,581	36	39,849,840	35
Mortgage & Asset Finance	14,586,545	12	9,408,119	8
Small, Medium and Microenterprises	12,976,536	10	8,533,295	7
Retail	47,830,072	39	52,405,626	46
Agribusiness	4,091,819	3	3,904,300	3
	123,823,553	**100**	**114,101,180**	**100**

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Customer deposits:-	**2012 KShs'000**	**%**	**2011 KShs'000**	**%**
Private enterprises	40,623,706	25	47,056,424	33
Non-profit institutions	10,218,403	6	9,768,258	7
Individuals	62,720,139	39	37,815,818	26
Others	48,704,979	30	48,064,093	35
	162,267,227	**100**	**142,704,593**	**100**

Settlement Risk

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

(B) Liquidity risk

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

Management of liquidity risk

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

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

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. In addition to internally set liquidity buffers and trigger ratios, compliance with the regulatory framework is also monitored consistently. Liquidity management is regularly reviewed in order to ensure appropriate reactions to shifts in general conditions, and special importance is attached to diversification of liquidity resources. All liquidity policies and procedures are subject to review and approval by Board Risk & Finance Committee which also receives regular risk reports.

Notes to the Consolidated Financial Statements

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Exposure to liquidity risk

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

31 December 2012 **FINANCIAL ASSETS**	**Available immediately and up to 1 month** **KShs'000**	**1-3 months** **KShs'000**	**3-12 months** **KShs'000**	**1-5 years** **KShs'000**	**Over 5 years** **KShs'000**	**Total** **KShs'000**
Cash and balances with Central Bank of Kenya	22,214,066	-	-	-	-	22,214,066
Deposits and balances due from banks	2,035,968	6,299,486	550,713	-	-	8,886,167
Investment in financial instruments	4,282,212	3,071,478	3,935,800	13,322,389	8,778,907	33,390,786
Loans and advances to customers	13,850,086	1,224,705	13,705,709	51,010,160	39,297,088	119,087,748
Other assets	3,900,468	-	610,895	-	-	4,511,363
Total undiscounted financial assets	**46,282,800**	**10,595,669**	**18,803,117**	**64,332,549**	**48,075,995**	**188,090,130**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	970,671	48,095	46,536	-	-	1,065,302
Customers' deposits	132,198,294	23,898,089	4,969,438	1,017,759	-	162,083,580
Loans	-	-	-	4,449,821	20,073	4,469,894
Other financial liabilities	2,101,321	-	-	-	-	2,101,321
Total undiscounted financial liabilities	**135,270,286**	**23,946,184**	**5,015,974**	**5,467,580**	**20,073**	**169,720,097**
Net liquidity gap at 31 December 2012	**(88,987,486)**	**(13,350,515)**	**13,787,143**	**58,864,969**	**48,055,922**	**18,370,033**
Assets not recognised in statement of financial position	6,233,972	2,276,084	3,949,221	776,810	1,198,053	14,434,140
Liabilities not recognised in statement of financial position	6,233,972	2,276,084	3,949,221	776,810	1,198,053	14,434,140

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

Details of the ratio of net liquid assets to customer deposits and other liabilities maturing within 91 days were as follows:

	2012 %	2011 %
At 31 December	35.8	27.2
Average for the year	29.3	33.6
Maximum for the year	37.5	41.5
Minimum for the year	24.3	24.4
Statutory minimum ratio	20.0	20.0

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(C) Market risk

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

Management of market risk

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

Exposure to market risk – trading portfolios

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

Exposure to interest rate risk – non- trading portfolios

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

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

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

i) Exposure to interest rate risk

31 December 2012 ASSETS	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Non interest bearing KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	22,214,066	-	-	-	-	-	22,214,066
Deposits and balances due from banks	2,035,968	6,299,486	550,713	-	-	-	8,886,167
Investment in financial instruments	4,282,212	3,071,478	3,935,800	13,322,389	8,778,907	-	33,390,786
Loans and advances to customers	13,850,086	1,224,705	13,705,709	51,010,160	39,297,088	-	119,087,748
Other assets	-	-	-	-	-	17,307,815	17,307,815
Total assets	**42,382,332**	**10,595,669**	**18,192,222**	**64,332,549**	**48,075,995**	**17,307,815**	**200,886,582**
LIABILITIES							
Deposits and balances due to banks	970,671	48,095	46,536	-	-	-	1,065,302
Customers' deposits	132,198,294	23,898,089	4,969,438	1,017,759	-	-	162,083,580
Loans	-	-	-	4,551,932	20,073	-	4,572,005
Other financial liabilities	-	-	-	-	-	33,165,695	33,165,695
Total liabilities	**133,168,965**	**23,946,184**	**5,015,974**	**5,569,691**	**20,073**	**33,165,695**	**200,886,582**
Interest sensitivity gap	**(90,786,633)**	**(13,350,515)**	**13,176,248**	**58,762,858**	**48,055,922**	**(15,857,880)**	**-**

31 December 2011 ASSETS	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Non interest bearing KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	14,151,049	-	9,999	-	-	-	14,151,049
Deposits and balances due from banks	6,614,054	-	850,681	-	-	-	7,464,735
Investment in financial instruments	297,232	49,756	1,669,576	9,018,743	11,202,114	-	22,237,421
Loans and advances to customers	6,541,941	2,330,518	8,782,551	57,961,244	33,792,561	-	109,408,815
Other assets	-	-	-	-	-	15,049,579	15,049,579
Total assets	**27,604,276**	**2,380,274**	**11,302,808**	**66,979,987**	**44,994,675**	**15,049,579**	**168,311,599**
LIABILITIES							
Deposits and balances due to banks	1,614,833	256,451	10,000	-	-	-	1,881,284
Customers' deposits	112,926,090	20,648,189	8,468,061	589,968	-	-	142,632,308
Loans	-	-	-	227,563	-	-	227,563
Other liabilities	-	-	-	-	-	23,570,444	23,570,444
Total liabilities	**114,540,923**	**20,904,640**	**8,478,061**	**817,531**	**-**	**23,570,444**	**168,311,599**
Interest sensitivity gap	**(86,936,647)**	**(18,524,366)**	**2,824,747**	**66,162,456**	**44,994,675**	**(8,520,865)**	**-**

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For The Year Ended 31 December 2012

Interest rate risk sensitivity analysis

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

ASSETS	**2012 Carrying amount KShs'000**	**1% increase**	**1% decrease**	**2011 Carrying amount KShs'000**	**1% increase**	**1% decrease**
Cash and CBK balances	22,214,066	222,141	(222,141)	14,151,049	141,510	(141,510)
Deposits and balances due from banks	8,886,167	88,862	(88,862)	7,464,735	74,647	(74,647)
Held -for- trading investments	182,199	1,822	(1,822)	165,067	1,651	(1,651)
Held to maturity investments	3,373,531	33,735	(33,735)	193,447	1,934	(1,934)
Available for sale investments	26,987,094	269,871	(269,871)	22,822,150	228,222	(228,222)
Loans and advances to customers	119,087,748	1,190,877	(1,190,877)	109,408,815	1,094,088	(1,094,088)
		1,807,308	**(1,807,308)**		**1,542,052**	**(1,542,052)**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	1,065,302	(10,653)	10,653	1,881,284	(18,813)	18,813
Customers' deposits	162,083,580	(1,620,836)	1,620,836	142,632,308	(1,426,323)	1,426,323
Loans	4,572,005	(45,720)	45,720	227,563	(2,276)	2,276
		(1,677,209)	**1,677,209**		**(1,447,412)**	**1,447,412**
Effect on profit before tax:		**130,099**	**(130,099)**		**94,640**	**(94,640)**
As percentage of profit before tax (%)		**1.30%**	**(1.30%)**		**1.76%**	**(1.76%)**
Effect on equity:						
Available- for-sale investments		298,351	(298,351)		218,789	(218,789)

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

ii) Exposure to currency risk

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

CURRENCY TYPE	**USD**	**GBP**	**EURO**	**JPY**	**CHF**	**ZAR**	**OTHERS**	**TOTAL**
EXCHANGE RATE	**86**	**139**	**114**	**1**	**94**	**10**		
31 December 2012	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Foreign Currency Assets:								
Cash and balances with banks abroad	6,190,015	42,632	1,628,161	44,790	82,135	7,283	50,198	8,045,214
Loan and advances	9,259,502	9	268	-	-	-	-	9,259,779
Other foreign assets	47,007	940	(7,312)	-	-	(7,150)	992	34,477
Total statement of financial position items	**15,496,524**	**43,581**	**1,621,117**	**44,790**	**82,135**	**133**	**51,190**	**17,339,470**
Items not recognised in statement of financial position	9,410,788	589,208	1,186,242	-	-	9,792	11,059	11,207,089
Total Foreign Assets	**24,907,312**	**632,789**	**2,807,359**	**44,790**	**82,135**	**9,925**	**62,249**	**28,546,559**
Foreign Currency Liabilities:								
Balances due to banks abroad								
Deposits	6,074,531	558,148	883,520	2,367	5	3,329	10,769	7,532,669
Loan and advances	20,073	-	-	-	-	-	-	20,073
Other foreign liabilities	685,808	(660,998)	634,332	1	31	(7,017)	800	652,957
Total statement of financial position items	6,780,412	(102,850)	1,517,853	2,368	36	(3,687)	11,570	8,205,699
Items not recognised in statement of financial position	17,678,331	631,496	1,186,242	39,816	71,002	9,792	27,073	19,643,752
Total Foreign liabilities	**24,458,743**	**528,646**	**2,704,094**	**42,184**	**71,038**	**6,104**	**38,642**	**27,849,451**
Net Exposure at 31 December 2012	**448,569**	**104,143**	**103,265**	**2,606**	**11,097**	**3,821**	**23,607**	**697,108**

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

CURRENCY TYPE EXCHANGE RATE 31 December 2011	USD 81 KShs'000	GBP 125 KShs'000	EURO 108 KShs'000	JPY 1 KShs'000	CHF 86 KShs'000	ZAR 12 KShs'000	OTHERS KShs'000	TOTAL KShs'000
Foreign Currency Assets:								
Cash and balances with banks abroad	2,242,899	2,359,867	3,483,648	3,830	47,367	10,780	32,373	8,180,764
Loan and advances	6,408,092	51,345	73,890	-	-	2	-	6,533,328
Other foreign assets	11,525,360	1,320,810	2,118,502	19,461	75,628	9,960	16,632	15,086,354
Total statement of financial position items	**20,176,352**	**3,732,022**	**5,676,040**	**23,291**	**122,994**	**20,742**	**49,005**	**29,800,446**
Items not recognised in statement of financial position	10,177,850	644,284	1,404,871	6,431	-	43,748	100,724	12,377,907
Total Foreign Assets	**30,354,201**	**4,376,305**	**7,080,910**	**29,722**	**122,994**	**64,491**	**149,729**	**42,178,353**
Foreign Currency Liabilities:								
Balances due to banks abroad	1,514,238	104	5,566	-	-	-	569	1,520,477
Deposits	6,711,254	2,386,386	3,412,991	1,291	22	3,360	8,256	12,523,560
Other foreign liabilities	11,679,946	1,327,901	2,092,547	19,461	75,679	6,136	18,383	15,220,054
Total statement of financial position items	**19,905,438**	**3,714,391**	**5,511,103**	**20,753**	**75,701**	**9,496**	**27,208**	**29,264,091**
Items not recognised in statement of financial position	10,177,850	644,284	1,404,871	6,431	-	43,748	100,724	12,377,907
Total Foreign liabilities	**30,083,288**	**4,358,675**	**6,915,974**	**27,183**	**75,701**	**53,244**	**127,932**	**41,641,998**
Net Exposure at 31 December 2011	**270,913**	**17,630**	**164,936**	**2,539**	**47,293**	**11,246**	**21,797**	**536,355**

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Currency risk sensitivity analysis

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

	2012 Carrying amount KShs'000	10% appreciation	10% depreciation	2011 Carrying amount KShs'000	10% appreciation	10% depreciation
Foreign Currency Assets:						
USD	24,907,312	(2,490,731)	2,490,731	30,354,201	(3,035,420)	3,035,420
GBP	632,789	(63,279)	63,279	4,376,305	(437,631)	437,631
EURO	2,807,359	(280,736)	280,736	7,080,910	(708,091)	708,091
JPY	44,790	(4,479)	4,479	29,722	(2,972)	2,972
CHF	82,135	(8,214)	8,214	122,994	(12,299)	12,299
ZAR	9,924	(992)	992	64,491	(6,449)	6,449
Other currencies	62,249	(6,225)	6,225	149,729	(14,973)	14,973
		(2,854,656)	**2,854,656**		**(4,217,835)**	**4,217,835**
Foreign Currency Liabilities:						
USD	30,083,288	3,008,329	(3,008,329)	30,083,288	3,008,329	(3,008,329)
GBP	4,358,675	435,868	(435,868)	4,358,675	435,868	(435,868)
EURO	6,915,974	691,597	(691,597)	6,915,974	691,597	(691,597)
JPY	27,183	2,718	(2,718)	27,183	2,718	(2,718)
CHF	75,701	7,570	(7,570)	75,701	7,570	(7,570)
ZAR	53,244	5,324	(5,324)	53,244	5,324	(5,324)
Other currencies	127,932	12,793	(12,793)	127,932	12,793	(12,793)
		4,164,199	**(4,164,199)**		**4,164,200**	**(4,164,200)**
Effect on profit before tax		**1,309,543**	**(1,309,543)**		**(53,636)**	**53,636**
As percentage(%) of profit before tax		**13%**	**(13%)**		**(0.84%)**	**0.84%**

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

(D) Operational risk

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

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

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

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

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

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

4. CAPITAL MANAGEMENT

Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the Banking industry as a whole. The statutory minimum core capital is KShs. 1,000 million. In implementing current capital requirements The Central Bank of Kenya requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

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

a. Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

b. Tier 2 capital, which includes 25% of asset revaluation reserves which have received prior Central Bank approval, subordinated debt and other capital instruments approved by Central Bank.

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

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

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:

	2012	2011
Tier I Capital:	**KShs'000**	**KShs'000**
Ordinary share capital	4,190,844	3,492,370
Share premium	3,588,262	4,286,736
Retained earnings	21,060,125	13,730,021
Other reserves	574,715	595,163
Less: Investments in equity of other institutions	-	(1,020)
Core Capital	**29,413,946**	**22,103,270**
Tier II Capital:		
Revaluation reserves (25%)	104,480	84,881
Term subordinated debt	4,572,005	227,563
Loan loss provisions	451,784	205,978
Supplementary capital	5,128,270	518,422
Total regulatory capital	**34,542,216**	**22,621,692**
Total risk weighted assets	**145,187,161**	**137,792,005**
Capital ratios:		
Core capital to Total deposit liabilities (CBK minimum 8%)	18.0%	15.3%
Core capital to Total risk weighted assets (CBK minimum 8%)	20.3%	16.0%
Total capital to Total risk weighted assets (CBK minimum 12%)	23.8%	16.4%

Capital Allocation

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

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

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

5. SEGMENT REPORTING

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

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Income taxes are managed on a group basis and are not allocated to operating segments.

The Group's segment operations are all financial with a majority of revenues deriving from interest. The management relies primarily on net interest revenue to assess the performance of the segment. Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not gross income and expenses. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2012 or 2011.

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

Profit or loss for the year ended 31 December 2012	**Wholesale banking KShs'000**	**Retail banking KShs'000**	**Un-allocated KShs'000**	**Total KShs'000**
Net interest income	3,950,237	9,630,842	-	13,581,079
Non-funded income	6,443,003	3,214,114	542,596	10,199,713
Operating income	10,393,240	12,844,956	542,596	23,780,792
Depreciation	(29,124)	(917,050)	(364,457)	(1,310,631)
Amortisation	(41)	(15,401)	(112,859)	(128,301)
Other operating expenses	(3,337,061)	(6,616,342)	(2,778,317)	(12,731,720)
Operating profit	7,027,014	5,296,163	(2,713,037)	9,610,140
Share of profit in associate	-	-	-	373,632
Profit before tax	**7,027,014**	**5,296,163**	**(2,713,037)**	**9,983,772**

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

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Statement of financial position as at 31 December 2012	Wholesale banking KShs'000	Retail banking KShs'000	Un-allocated KShs'000	Total KShs'000
Assets:				
Segment assets	84,445,409	66,313,367	-	150,758,776
Unallocated assets	-	-	50,127,806	50,127,806
Total assets	**84,445,409**	**66,313,367**	**50,127,806**	**200,886,582**
Liabilities and equity:				
Segment liabilities	91,053,285	61,587,808	-	152,641,093
Unallocated liabilities	-	-	48,245,489	48,245,489
Inter-segment lending	(6,607,876)	4,725,559	1,882,317	-
Total liabilities and equity	**84,445,409**	**66,313,367**	**50,127,806**	**200,886,582**

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

Geographical information

Geographical analysis is not relevant since all operations are carried out within the country.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

a) Determination of fair value and fair value hierarchy

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

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

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

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

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

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

As at 31 December 2012	**Level 1 KShs'000**	**Level 2 KShs'000**	**Level 3 KShs'000**	**Total KShs'000**
Held-for-trading investments:				
Treasury bonds	150,901	-	-	150,901
Corporate bonds	1,289	-	-	1,289
Unquoted equities	-	-	30,009	30,009
Available-for-sale investment:	-	-	-	-
Treasury bonds	24,320,589		-	24,320,589
Corporate bonds	5,514,467	-	-	5,514,467
	29,987,246	**-**	**30,009**	**30,017,255**
As at 31 December 2011				
Held-for-trading investments:				
Treasury bonds	134,038	-	-	134,038
Unquoted equities		-	31,029	31,029
Available-for-sale investment:		-	-	-
Treasury bonds	16,793,111	-	-	16,793,111
Corporate bonds	5,085,796	-	-	5,085,796
	22,012,945	**-**	**31,029**	**22,043,974**

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

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

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

	2012		**2011**	
Financial assets:	**Carrying amount KShs'000**	**Fair value KShs'000**	**Carrying amount KShs'000**	**Fair value KShs'000**
Cash and balances with Central Bank of Kenya	22,214,066	22,214,066	14,151,049	14,151,049
Deposits and balances due from other banks	8,886,167	8,886,167	7,464,735	7,464,735
Held-to-maturity investments	3,373,531	3,340,561	193,447	151,937
Loans and advances to customers	119,087,748	119,087,748	109,408,815	109,408,815
Other assets	4,511,363	4,511,363	3,840,431	3,840,431
	158,072,875	**158,039,905**	**135,058,477**	**135,016,967**
Financial liabilities:				
Deposits and balances due to banks	1,065,302	1,065,302	1,881,284	1,881,284
Customer deposits	162,083,580	162,083,580	142,632,308	142,632,308
Loans	4,469,894	4,469,894	227,563	227,563
	167,618,776	**167,618,776**	**144,741,155**	**144,741,155**

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

(i) Assets for which fair value approximates carrying value

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

(ii) Loans and advances to customers

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

(iii)Deposits from banks and due to customers

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

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

7. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

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

	2012 KShs'000	2011 KShs'000
Cash on hand	7,170,048	6,072,339
Central Bank of Kenya:		
Restricted balances (Cash Reserve Ratio)	8,263,097	7,436,716
Unrestricted balances available for use by the Group	6,780,921	641,994
	22,214,066	**14,151,049**

The Cash Reserve Ratio is non-interest earning and is based on the value of deposits as adjusted by Central Bank of Kenya requirements. At 31 December 2012, the Cash Reserve Ratio requirement was 5.25% (2011 – 5.25%) of all deposits. These funds are not available for use by the Group in its day to day operations.

8. DEPOSITS AND BALANCES DUE FROM BANKS

	Group		Bank	
	2012 KShs'000	2011 KShs'000	2012 KShs'000	2011 KShs'000
Local banks	4,013,588	1,746,713	3,997,121	1,719,694
Foreign banks	4,872,579	5,718,022	4,872,579	5,718,016
	8,886,167	**7,464,735**	**8,869,700**	**7,437,710**

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

9. HELD-FOR-TRADING INVESTMENTS

	Group		Bank	
	2012	2011	2012	2011
	KShs'000	KShs'000	KShs'000	KShs'000
a) Treasury bonds				
Maturing within 91 days of reporting date	50,686	-	50,686	-
Maturing after 91 days of reporting date	100,216	133,163	100,139	133,163
	150,902	**133,163**	**150,825**	**133,163**
b) Corporate bonds				
Maturing after 91 days of reporting date	**1,288**	**875**	**-**	**-**
	152,190	**133,163**	**150,825**	**133,163**
c) Equity Investments				
Consolidated Bank of Kenya Ltd:- 135,000 ordinary shares of KShs. 20 each	2,700	2,700	2,700	2,700
580,000 4% non-cumulative preference shares of KShs. 20 each	11,600	11,600	11,600	11,600
Kenya National Federation of Co-operatives Ltd:- 82 shares of KShs100 each	8	8	8	8
Kenya National Housing Co-operative Union Ltd:- 1 share of KShs. 1,000	1	1	1	1
Menno Plaza Limited:- 9,340 ordinary shares (12.39% ownership)	30,000	30,000	30,000	30,000
	44,309	44,309	44,309	44,309
Less: Provision for diminution in value of investment in Consolidated Bank of Kenya Ltd	(14,300)	(13,280)	(14,300)	(13,280)
	30,009	**31,029**	**30,009**	**31,029**
TOTAL HELD-FOR -TRADING INVESTMENTS	**182,199**	**165,067**	**180,834**	**164,192**
Movement in the year:				
At 1 January	**165,067**	**4,062,391**	**164,192**	**3,971,005**
Disposals and maturities	(3,335)	(3,871,371)	(3,335)	(3,780,860)
Provision for diminution in value	(1,020)	(1,100)	(1,020)	(1,100)
Change in fair value	23,573	(24,853)	20,997	(24,853)
At 31 December	**182,199**	**165,067**	**180,834**	**164,192**

The weighted average effective interest rate on government and other securities held-for-trading at 31 December 2012 was 9.51% (2011- 9.51%).

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

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For The Year Ended 31 December 2012

10. HELD-TO-MATURITY INVESTMENTS

	Group		Bank	
	2012	2011	2012	2011
	KShs'000	KShs'000	KShs'000	KShs'000
Government treasury bills:				
Maturing within 91 days of the reporting date	2,492,494	2,850	2,492,494	2,850
Maturing after 91 days of the reporting date	721,431	1,000	721,431	1,000
Treasury bonds:				
Maturing within 91 days of the reporting date	-	-	-	-
Maturing after 91 days of the reporting date	159,606	189,597	-	-
	3,373,531	**193,447**	**3,213,925**	**3,850**
Movement in the year:				
At 1 January	**193,447**	**9,954,855**	**3,850**	**9,954,855**
Additions	4,618,370	193,447	4,618,370	3,850
Maturities	(1,438,286)	(9,954,855)	(1,408,295)	(9,954,855)
At December 31	**3,373,531**	**193,447**	**3,213,925**	**3,850**

The weighted average effective interest rate on held-to-maturity investments as at 31 December 2012 was 10.78% (2011- 16.03%).

11. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Bank	
	2012	2011	2012	2011
	KShs'000	KShs'000	KShs'000	KShs'000
Treasury bonds:				
Maturing within 91 days of the reporting date	4,312,741	346,396	4,312,139	346,396
Maturing after 91 days of the reporting date	20,007,847	16,446,715	20,007,817	16,445,910
Corporate bonds:				
Maturing after 91 days of the reporting date	5,514,468	5,085,796	5,514,467	5,085,796
	29,835,056	**21,878,907**	**29,834,423**	**21,878,102**
Movement in the year:				
At January 1	**21,878,907**	**20,374,111**	**21,878,102**	**20,372,355**
Additions	11,894,825	13,242,213	11,895,357	13,242,984
Disposals and maturities	(5,585,057)	(8,525,389)	(5,585,056)	(8,525,225)
Change in fair value	1,917,281	(3,075,139)	1,916,920	(3,075,123)
Amortisation of premiums and discounts	(270,900)	(136,889)	(270,900)	(136,889)
At December 31	**29,835,056**	**21,878,907**	**29,834,423**	**21,878,102**

The weighted average effective interest rate on available for sale investments as at 31 December 2012 was 12.01% (2011- 9.55%).

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12. LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
	2012	**2011**	**2012**	**2011**
a) Net loans and advances	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Overdrafts	11,830,740	7,613,221	11,830,740	7,613,221
Commercial loans	101,605,663	100,744,353	101,605,663	100,744,353
Government/Donor funded loan schemes	2,650,982	2,436,123	2,650,982	2,436,123
Credit card balances	507,302	646,270	507,302	646,270
Micro enterprises & SME	7,228,866	2,661,213	7,228,866	2,661,213
Gross loans and advances	**123,823,553**	**114,101,180**	**123,823,553**	**114,101,180**
Impairment losses on loans and advances (note 12 c)	(4,735,805)	(4,692,365)	(4,735,805)	(4,692,365)
	119,087,748	**109,408,815**	**119,087,748**	**109,408,815**

	Group and Bank	
b) The weighted average effective interest rate at 31 December was:	**2012**	**2011**
	KShs'000	**KShs'000**
Overdrafts	16.9	18.8
Commercial loans	14.3	17.9
Government/Donor funded loan schemes	6.2	6.6
Credit card balances	0.2	13.8
Micro enterprises	21.8	25.2

c) Impairment losses on loans and advances:

Group and Bank	**Specific impairment losses KShs'000**	**Collective impairment losses KShs'000**	**Total KShs'000**
Balance at 1 January 2012	**3,522,463**	**1,169,902**	**4,692,365**
Impairment losses during the year through profit or loss	741,613	258,269	999,882
Interest on impaired loans not recognised as income	111,834	-	111,834
Impaired losses written off during the year	(675,400)	-	(675,400)
Amounts released to income	(392,876)	-	(392,876)
Balance at 31 December 2012	**3,307,634**	**1,428,171**	**4,735,805**
Balance at 1 January 2011	**3,429,539**	**917,089**	**4,346,628**
Impairment losses during the year through profit or loss	457,090	252,813	709,903
Interest on impaired loans not recognised as income	120,605	-	120,605
Amounts released to income	(484,771)	-	(484,771)
Balance at 31 December 2011	**3,522,463**	**1,169,902**	**4,692,365**

d) The Bank continues to carry classified impaired and delinquent accounts on its books even after making allowances for impairment in accordance with IAS 39. Interest is accrued on these accounts for contractual/ litigation purposes only and accordingly not taken to income. The carrying amount of such accounts/loans at year end was KShs.6.0 billion (2011 – KShs. 5.2 billion).

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13. INVESTMENT IN SUBSIDIARIES

The following subsidiaries are owned by the Bank:-

Company	Ownership	Principal activity	2012 KShs'000	2011 KShs'000
Co-op Consultancy & Insurance Agency Limited	100%	Consultancy & insurance agency	70,000	70,000
Co-optrust Investment Services Limited	100%	Fund management	20,000	20,000
Kingdom Securities Limited	60%	Brokerage services	150,000	150,000
Co-operative House Limited:	100%	Dormant		
1,020,000 'A' ordinary shares of KShs. 20 each			-	20,400
980,000 'B' ordinary shares of KShs. 20 each			-	19,600
			240,000	**280,000**

The investment in the above subsidiaries is carried at cost. All the subsidiaries are unlisted, incorporated in Kenya and have the same financial year-end of 31 December just as the Bank. Co-operative Merchant Limited, excluded from the above list, is a dormant Company with no assets or liabilities.

Co-op Consultancy & Insurance Agency Limited was established as Co-op Consultancy Services in 2002 to offer consultancy and advisory services. In 2011, the company began offering insurance agency services and was there fore renamed. The audited financial statements for the year ended 31 December 2012 show that the company made a profit after tax of Ksh. 17,261,826 (2011-1,575,770).

Co-op Trust Investment Services was established in 1998 to offer fund management and investment services. The audited financial statements for the year ended 31 December 2012 show that the company made a profit after tax of Ksh. 43,001,510 (2011- 27,032,752).

Kingdom Securities Limited - KSL (previously named Bob Mathews Stockbrokers Limited) was acquired in 2009 by Co-operative Bank Limited through purchase of 60% shareholding. KSL offers brokerage services and is a registered broker with the Nairobi Securities Exchange. The audited financial statements for the year ended 31 December 2012 show that the company made a profit after tax of KShs.12,685,258 (2011-(13,476,037).

Co-operative House Limited was dissolved during the year as it was dormant with no operating results.

Notes to the Consolidated Financial Statements

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14. INVESTMENT IN ASSOCIATE

Since 2010, the Bank has invested KShs. 734 million in CIC Insurance Group Limited hence becoming the single largest shareholder with a stake of 26.57%. CIC Insurance Group Limited is a private entity incorporated in Kenya whose principal activity is insurance business and fund management. The company was listed at the Nairobi Securities Exchange in 2012.

In 2012, the shareholding of the Bank as well as that for other investors' i.e. Co-operative societies, in CIC Insurance Group Limited was transferred to a newly formed company, Co-operative Insurance Society (CIS) which now holds direct shareholding in CIC Insurance Group Limited. CIS holds 1,619,534,490 ordinary shares in CIC Insurance Group Limited which represents 74.30% shareholding. The Bank holds 578,380,600 shares in Co-operative Insurance Society (CIS) which represents 35.71% shareholding.

	Group		Bank	
	2012	**2011**	**2012**	**2011**
At 1 January	**1,028,159**	**256,441**	**755,118**	**121,090**
Additional shares	-	634,028	-	634,028
Share of profit	373,632	153,943	-	-
Other comprehensive income	5,279	3,601	-	-
Dividends received	(52,135)	(19,854)	-	-
Balance as at 31 December	**1,354,935**	**1,028,159**	**755,118**	**755,118**

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

Share of the associate's statement of financial position:	**2012**	**2011**
	KShs'000	**KShs'000**
Total assets	12,172,952	2,516,938
Total liabilities	(6,659,486)	(1,376,830)
Equity	5,513,466	1,140,108
Share of the associate's revenue and profit:		
Revenue	3,194,610	1,599,512
Profit after tax	373,632	153,943

15. OTHER ASSETS

	Group		Bank	
	2012	**2011**	**2012**	**2011**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Interest receivable	2,125,947	1,468,190	2,125,948	1,468,190
Items in the course of collection from other banks	770,485	556,899	770,485	556,899
Deposits with default financial Institutions	43,052	43,052	43,052	43,052
Prepaid expenses	328,181	233,405	328,181	233,405
Sundry debtors and prepayments	1,286,750	1,581,937	1,168,313	1,519,435
	4,554,415	**3,883,483**	**4,435,979**	**3,820,981**
Impairment losses on deposits with default financial institutions	(43,052)	(43,052)	(43,052)	(43,052)
	4,511,363	**3,840,431**	**4,392,927**	**3,777,929**

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16. INTANGIBLE ASSETS

(a) Group-2012	Computer software KShs'000	Other intangible assets KShs'000	Work-in-progress KShs'000	Total KShs'000
Cost at 1 January	**752,930**	**251,000**	**-**	**1,003,930**
Additions	52,252	-	1,610,162	1,662,414
Transfers from Work in Progress	81,830	-	(81,830)	-
Write down of value	(2,769)	-	-	(2,769)
Cost at 31 December	**884,243**	**251,000**	**1,528,332**	**2,663,575**
Accumulated amortisation at 1 January	**390,888**	**-**	**-**	**390,888**
Write back of amortisation	-	-	-	-
Amortisation for the year	127,686	-	-	127,686
Accumulated amortisation at 31 December	**518,574**	**-**	**-**	**518,574**
Net carrying amount at 31 December	**365,669**	**251,000**	**1,528,332**	**2,145,001**
Group-2011				
Cost at 1 January	**638,108**	**251,000**	**-**	**889,108**
Additions	118,426	-	26,162	144,588
Transfers from Work in Progress	26,162	-	(26,162)	-
Write down of value	(29,766)	-	-	(29,766)
Cost at 31 December	**752,930**	**251,000**	**-**	**1,003,930**
Accumulated amortisation at 1 January	**302,169**	**-**	**-**	**302,169**
Write back of amortisation	(29,766)	-	-	(29,766)
Amortisation for the year	118,485	-	-	118,485
Accumulated amortisation at 31 December	**390,888**	**-**	**-**	**390,888**
Net carrying amount at 31 December	**362,042**	**251,000**	**-**	**613,042**

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

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(b) Bank-2012	Software KShs'000	Work-in-progress KShs'000	Total KShs'000
Cost at 1 January	**728,337**	**-**	**728,337**
Additions	52,252	1,610,162	1,662,414
Transfers from Work in Progress	81,830	(81,830)	-
Write down of value	(1,684)	-	(1,684)
Cost at 31 December	**860,735**	**1,528,332**	**2,389,067**
Accumulated amortisation at 1 January	**369,140**	**-**	**369,140**
Write back of amortisation	-	-	-
Amortisation for the year	127,686	-	127,686
Accumulated amortisation at 31 December	**496,826**	**-**	**496,826**
Net carrying amount at 31 December	**363,909**	**1,528,332**	**1,892,241**
Bank-2011			
Cost at 1 January	**615,618**	**-**	**615,618**
Additions	116,323	26,162-	142,485
Transfers from Work in Progress	26,162	(26,162)	-
Write down of value	(29,766)	-	(29,766)
Cost at 31 December	**728,337**	**-**	**728,337**
Accumulated amortisation at 1 January	**282,196**	**-**	**282,196**
Write back of amortisation	(29,766)	-	(29,766)
Amortisation for the year	116,710	-	116,710
Accumulated amortisation at 31 December	**369,140**	**-**	**369,140**
Net carrying amount at 31 December	**359,197**	**-**	**359,197**

Amortisation has not been charged in arriving at the results for the year in respect of certain fully amortised software assets with a cost of KShs. 180,868,069 (2011- KShs. 96,509,248), which are still in use. If amortisation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs. 36,143,351 (2011- KShs. 19,301,849).

17. PREPAID LEASE RENTALS

	Group and Bank 2012 KShs'000	Group and Bank 2011 KShs'000
Cost at 1 January	**54,568**	**54,568**
Cost at 31 December	**54,568**	**54,568**
Amortisation:		
At 1 January	**15,090**	**14,477**
Charge for the year	615	613
At 31 December	**15,705**	**15,090**
Net carrying amount at 31 December	**38,863**	**39,478**

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

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18. (a) PROPERTY AND EQUIPMENT-GROUP

COST/VALUATION	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery, furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
At 1 January 2012	**1,470,997**	**2,563,884**	**3,958,539**	**1,377,877**	**161,525**	**3,199,759**	**12,732,581**
Additions	-	2,484,699	62,326	176,002	4,000	281,247	3,008,274
Disposals	-	-	(130)	(780)	(24,131)	(17,702)	(42,742)
Transfer from WIP	-	(2,958,683)	1,251,829	2,235	-	94,457	(1,610,162)
Reclassification	-	-	393,215	(393,215)	-	-	-
Transfer*	(187,535)	-	-	-	-	-	(187,535)
Revaluation	107,065	-	-	-	-	-	107,065
At 31 December 2012	**1,390,527**	**2,089,900**	**5,665,779**	**1,162,119**	**141,394**	**3,557,761**	**14,007,480**
DEPRECIATION							
At 1 January 2012	**140,555**	**-**	**1,196,160**	**790,492**	**92,454**	**1,829,445**	**4,049,106**
Charge for the year	46,980	-	617,453	156,813	26,775	462,610	1,310,631
Disposals	-	-	(130)	(731)	(21,718)	(16,993)	(39,571)
Write back	-	-	-	(74,679)	-	-	(74,679)
Transfer*	(187,535)	-	-	-	-	-	(187,535)
Reclassification	-	-	136,747	(136,747)	-	-	-
At 31 December 2012	**-**	**-**	**1,950,230**	**735,148**	**97,511**	**2,275,062**	**5,057,951**
NET CARRYING AMOUNT							
At 31 December 2012	**1,390,527**	**2,089,900**	**3,715,549**	**426,971**	**43,882**	**1,282,699**	**8,949,529**

* This transfer relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset.

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

ii. Land and Buildings were revalued on open market value basis by professional valuers (Manclem Valuers) as at 31 December 2012. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve.

iii. Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs. 38,926,467 (2011- KShs. 38,926,467) against which no depreciation has been charged, as these are pieces of land.

iv. No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 1,883,619,419 (2011- KShs. 1,334,843,289), 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. 343,156,027 (2011- KShs.265,239,734).

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

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18. (a) PROPERTY AND EQUIPMENT-GROUP

COST/VALUATION	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery, furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
At 1 January 2011	**1,470,997**	**738,326**	**3,268,341**	**1,211,616**	**146,660**	**2,548,598**	**9,384,538**
Additions	-	2,680,950	9,089	196,559	26,202	570,013	3,482,813
Disposals	-	-	-	(40,320)	(11,337)	(41,041)	(92,698)
Impairment	-	(1,146)	(14,764)	-	-	-	(15,910)
Transfer from WIP	-	(854,246)	695,873	10,022	-	122,189	(26,162)
At 31 December 2011	**1,470,997**	**2,563,884**	**3,958,539**	**1,377,877**	**161,525**	**3,199,759**	**12,732,581**
Comprising:							
Cost	1,271,413	2,563,884	3,958,539	1,377,877	161,525	3,199,759	12,732,582
Valuation	199,584	-	-	-	-	-	-
	1,470,997	**2,563,884**	**3,958,539**	**1,377,877**	**161,525**	**3,199,759**	**12,732,582**
DEPRECIATION							
At 1 January 2011	**93,703**	**-**	**762,578**	**628,662**	**76,472**	**1,467,328**	**3,028,744**
Charge for the year	46,852	-	446,723	201,731	27,318	397,564	1,120,188
Disposals	-	-	-	(39,896)	(11,337)	(35,449)	(86,682)
Impairment	-	-	(13,141)	-	-	-	(13,141)
At 31 December 2011	**140,555**	**-**	**1,196,160**	**1,196,160**	**790,497**	**92,453**	**1,829,443**
NET CARRYING AMOUNT							
At 31 December 2011	**1,330,442**	**2,563,884**	**2,762,379**	**587,385**	**69,072**	**1,370,314**	**8,683,473**

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

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

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

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

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

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

18. (b) PROPERTY AND EQUIPMENT-BANK

COST/VALUATION	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery, furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
At 1 January 2012	**1,470,997**	**2,563,884**	**3,958,213**	**1,368,520**	**157,759**	**3,186,344**	**12,705,717**
Additions	-	2,484,699	62,326	176,002	4,000	280,842	3,007,869
Disposals	-	-	-	(518)	(20,365)	(16,490)	(37,373)
Transfer from WIP	-	(2,958,683)	1,251,829	2,235	-	94,457	(1,610,162)
Reclassification	-	-	393,215	(393,215)	-	-	-
Transfer*	(187,535)	-	-	-	-	-	(187,535)
Revaluation	107,065	-	-	-	-	-	107,065
At 31 December 2012	**1,390,527**	**2,089,900**	**5,665,583**	**1,153,024**	**141,394**	**3,545,153**	**13,985,581**
DEPRECIATION							
At 1 January 2012	**140,555**	**-**	**1,195,627**	**785,086**	**90,446**	**1,821,654**	**4,033,368**
Charge for the year	46,980	-	617,282	155,552	26,524	460,686	1,307,024
Disposals	-	-	-	(469)	(19,458)	(15,781)	(35,708)
Write back	-	-	-	(74,679)	-	-	(74,679)
Transfer*	(187,535)	-	-	-	-	-	(187,535)
Reclassification	-	-	136,747	(136,747)	-	-	-
At 31 December 2012	**-**	**-**	**1,949,656**	**728,743**	**97,512**	**2,266,559**	**5,042,470**
NET CARRYING AMOUNT							
At 31 December 2012	**1,390,527**	**2,089,900**	**3,715,927**	**424,281**	**43,882**	**1,278,594**	**8,943,111**

* This transfer relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

18. (b) PROPERTY AND EQUIPMENT-BANK

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

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

19. DEFERRED TAX

The following table shows deferred tax recorded on the statement of financial position in other assets and other liabilities and changes recorded in the income tax expense:

GROUP-2012	2012				2011
	Deferred tax assets KShs'000	Deferred tax liabilities KShs'000	Income statement KShs'000	OCI* KShs'000	Deferred tax KShs'000
Collective allowance for impairment disallowed for tax purposes	(293,831)	-	59,851	-	(233,980)
Revaluation of assets	-	65,003	1,814	-	66,817
Excess of tax wear and tear allowance over depreciation	(900)	133,061	(226,168)	-	(93,912)
Unrealised exchange gains	-	254,462	(64,900)	-	189,562
Other temporary differences	(12,851)	-	8,203	-	(4,648)
Revaluation surplus	-	21,413	-	(21,413)	-
Change in fair value on available for sale	-	-	-	768,785	(768,875)
Tax loss available for future tax relief	(542)	-	542	-	-
	(308,124)	**473,939**	**(220,658)**	**747,372**	**(845,036)**

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

BANK - 2012	2012 KShs'000	Income statement KShs'000	OCI* KShs'000	2011 KShs'000
Collective allowance for impairment disallowed for tax purposes	(285,634)	51,654	-	(233,980)
Revaluation asset	65,003	1,814	-	66,817
Excess of tax wear and tear allowance over depreciation	133,060	(226,616)	-	(93,556)
Unrealised exchange gains	254,462	(64,900)	-	189,562
Other temporary differences	(12,591)	7,930	-	(4,661)
Revaluation surplus	21,413	-	(21,413)	-
Change in fair value on available for sale	-	-	768,781	(768,781)
	175,713	**(230,118)**	**747,368**	**(844,600)**

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

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

*OCI – Other Comprehensive Income

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

20. DEPOSITS AND BALANCES DUE TO BANKS

The weighted average effective interest rate on deposits from other banks at 31 December 2012 was 13.8% (2011- 12.4%)

21. CUSTOMER DEPOSITS

	Group		Bank	
	2012 KShs'000	2011 KShs'000	2012 KShs'000	2011 KShs'000
a) Deposit category				
Call deposits	6,818,705	10,167,259	6,818,705	10,167,259
Fixed deposits	50,251,012	36,984,458	50,251,012	36,984,458
Transaction accounts	47,306,241	39,844,928	47,306,241	39,844,928
Savings accounts	3,812,150	3,005,556	3,812,150	3,005,556
Current accounts	44,876,141	41,294,585	44,876,141	41,294,585
Foreign currency deposits	9,019,331	11,335,522	9,202,978	11,407,807
	162,083,580	**142,632,308**	**162,267,227**	**142,704,593**
b) From government and parastatals:-				
Payable on demand	9,992,196	13,967,460	9,992,196	13,967,460
Payable within 30 days	1,235,420	4,782,823	1,235,420	4,782,823
Payable after 30 days but within 1 year	15,740,081	9,585,550	15,740,081	9,585,550
	26,967,697	**28,335,833**	**26,967,697**	**28,335,833**
c) From private sector and individuals:-				
Payable on demand	96,990,534	81,149,979	97,174,181	81,222,264
Payable within 30 days	8,349,470	13,495,021	8,349,470	13,495,021
Payable after 30 days but within 1 year	29,775,879	19,651,475	29,775,879	19,651,475
	135,115,883	**114,296,475**	**135,299,530**	**114,368,760**
	162,083,580	**142,632,308**	**162,267,227**	**142,704,593**

Included in customers' deposits is an amount of KShs.3,001 Million (2011- KShs. 1,700 Million) that has been pledged to the Bank by customers as security for loans and advances. The weighted average effective interest rate on interest-bearing customer deposits as at 31 December 3.46% (2011-6.32%).

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

22. LOANS

The Bank has received loans for onward lending to specific customer segments as follows:

	Group and Bank	
	2012	2011
Balances at 31 December	**KShs'000**	**KShs'000**
IFAD	35,792	34,892
European Investment Bank – Long term debt	4,313,811	-
AFD Microfinance	100,021	134,740
Soros Economic Development Fund	20,073	-
Women Enterprise Fund	102,308	64,308
	4,572,005	**233,940**
Movement in the year:		
At 1 January	233,940	138,556
Additional loan disbursement	4,320,173	122,000
Accrued interest	131,214	6,377
Loan repayment	(113,322)	(32,993)
At 31 December	**4,572,005**	**233,940**

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

European Investment Bank
Two loan agreements for Euros 20 million and Euros 50 million were entered into in April 2012 between the European Investment Bank and The Co-operative Bank of Kenya Limited, the loans are to be disbursed upon request. The final beneficiaries of the loans are Micro and small enterprises including self employed entrepreneurs and sole proprietorship in income generating activities and productive sectors such as trade, retail, agro industries, fishing, food processing, manufacturing, construction transport, tourism. The interest on the the first loan of Euros 20 million is equal to 1.56% plus a currency risk premium of 6.00% and the second loan of Euros 50 million is equal to 2.43% plus a currency risk premium determined over a period of time. As at end of 2012, Euros 40 million had been disbursed to the bank. The loans are to be repaid in a duration of 10 years.

Soros Economic Development Fund
The loan agreement was entered into in June 2012 between Soros Economic Development Fund (SEDF), Millenium Promise Alliance (MPA) and The Co-operative Bank of Kenya Limited. MPA agreed to assist in financing the millenium villages project which supports integrated social and business development services for more than 500,000 people in rural communities across 10 countries in sub-saharan Africa; MPA agreed to issue the bank a guarantee of USD 50,000 in its favor. SEDF agreed to assist in financing the same program by issuing a guarantee of USD 700,000 in favour of the bank. SEDF shall be fund the project in three tranches of USD 233,333 each.

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

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

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

23. INCOME TAX EXPENSE

	Group		Bank	
	2012	2011	2012	2011
	KShs'000	KShs'000	KShs'000	KShs'000
a) Income Statement:-				
Current tax at 20% (2011 - 20%) on the taxable profit for the year	1,917,401	1,206,870	1,891,419	1,188,370
Under -provision in previous year	121,855	-	122,961	-
Deferred tax charge / (credit)	220,658	(206,910)	230,118	(206,945)
	2,259,914	**999,960**	**2,244,498**	**981,425**
b) Statement of financial position:-				
Balance brought forward	63,702	175,582	65,054	171,120
Over-provision in previous year	(3,883)	(8,466)	(445)	(7,219)
Charge for the year	1,917,401	1,206,869	1,891,419	1,188,370
Paid during the year	(1,391,791)	(1,310,283)	(1,374,679)	(1,287,217)
	585,429	**63,702**	**581,349**	**65,054**
c) Reconciliation of tax expense to tax based on accounting profit:-				
Accounting profit	9,983,772	6,362,562	9,573,929	6,167,768
Tax applicable rate (Bank 20%, Subsidiaries 30%)	1,937,742	1,251,293	1,914,786	1,233,554
Under-provision in previous year	121,855	-	122,961	-
Tax effect of items not eligible for tax	200,317	(251,333)	206,751	(252,129)
Tax in the statement of comprehensive income	**2,259,914**	**999,960**	**2,244,498**	**981,425**

The corporation tax rate applicable to the Bank was changed from 30% in 2008 to 20% in 2009 following its listing at the Nairobi Securities Exchange. The rate of 20% will hold for a period of 5 years. The income tax rate applicable to the Groups' subsidiaries and associates remained at 30 %.

24. PROVISIONS

	Group and Bank	
	2012	2011
	KShs'000	KShs'000
Leave liability	62,953	48,156
Balance at 1 January	**48,146**	**56,126**
Provisions arising during the year	14,807	11,193
Provisions utilised during the year	-	(19,173)
Balance at 31 December	**62,953**	**48,146**

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

25. OTHER LIABILITIES

	Group		Bank	
	2012 KShs'000	2011 KShs'000	2012 KShs'000	2011 KShs'000
Bills payable	105,198	101,018	105,198	101,018
Sundry creditors and accruals	1,996,123	1,804,569	1,866,263	1,766,726
	2,101,321	**1,905,587**	**1,971,461**	**1,867,744**

Bills payable, sundry creditors and accruals are payable on demand and are non-interest bearing.

26. CAPITAL GRANTS

	Group and Bank	
	2012 KShs'000	2011 KShs'000
Grant net of amortisation:		
At 1 January	**595,164**	**615,611**
Amortisation for the year	(20,447)	(20,447)
At 31 December	**574,717**	**595,164**

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

27. SHARE CAPITAL

	Group and Bank	
	2012 KShs'000	2011 KShs'000
Authorised:-		
5,000,000,000 (2011: 5,000,000,000) ordinary shares of KShs. 1 each.	5,000,000	5,000,000
Issued and fully paid:-		
4,190,843,900 (2011: 3,492,370,900) ordinary shares of KShs. 1 each.	4,190,844	3,492,370

During the Annual General Meeting held during the year, the shareholders approved issue of bonus shares to existing shareholders in the proportion of 1 new ordinary share of KShs. 1 each for every 5 ordinary shares held. This resulted in creation of 698,474,000 ordinary shares by capitalisation of KShs. 698, 474,000 out of share premium.

28. SHARE PREMIUM

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

	Group and Bank	
	2012 KShs'000	2011 KShs'000
At 1 January	4,286,736	4,286,736
Decrease during the year (Bonus share issue)	(698,474)	-
At 31 December	**3,588,262**	**4,286,736**

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

29. RESERVES

	Group		Bank	
	2012	2011	2012	2011
	KShs'000	KShs'000	KShs'000	KShs'000
Revaluation reserve	416,106	339,525	416,106	339,525
Retained earnings	19,558,597	14,171,970	18,727,297	13,730,021
Available for sale reserve	(1,062,887)	(3,066,163)	(1,077,486)	(3,075,123)
Statutory reserve	451,784	205,978	451,784	205,978
	19,363,600	**11,651,310**	**18,517,701**	**11,200,401**

Revaluation reserve

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

Retained earnings

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

Statutory reserve

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

Available for sale reserve

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

30. PROPOSED DIVIDENDS AND DIVIDENDS PER SHARE

	Group and Bank	
	2012	2011
	KShs'000	KShs'000
Proposed dividends	2,095,422	1,396,948

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

(ii) Proposed dividends are accounted for as a separate component of equity at year end until they are ratified at an Annual General Meeting (AGM). At the AGM to approve year 2012 financial statements, a first and final dividend in respect of year 2012 of KShs.0.50 (2011 - KShs. 0.40) for every ordinary share of KShs. 1 is to be proposed by the directors and is subject to approval by shareholders.

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

31. NON-CONTROLLING INTERESTS

Kingdom Securities Limited - KSL (previously named Bob Mathews Stockbrokers Limited) was acquired in year 2009 by Co-operative Bank Limited through purchase of 60% shareholding. KSL offers brokerage services and is a registered broker with the Nairobi Securities Exchange. The movement in the year is shown in the consolidated statement of changes in equity.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

32. INTEREST INCOME

	Group		Bank	
	2012 KShs'000	2011 KShs'000	2012 KShs'000	2011 KShs'000
Loans and advances to customers	21,231,015	13,297,606	21,231,015	13,297,606
Held-to-maturity investments	199,583	254,418	173,289	237,735
Deposits and balances due from other banks	436,613	87,810	431,984	87,810
Interest on previously impaired loans	393,876	484,771	393,876	484,771
	22,261,087	**14,124,605**	**22,230,164**	**14,107,922**

33. INTEREST EXPENSE

	Group and Bank	
	2012 KShs'000	2011 KShs'000
Call deposits	896,537	620,513
Fixed deposits	5,755,183	2,541,798
Savings accounts	282,019	249,184
Current accounts	1,079,849	439,802
Deposits and balances due to banks	297,818	457,079
Loans	368,602	197,539
	8,680,008	**4,505,915**

34. FEES AND COMMISSIONS

	Group		Bank	
	2012 KShs'000	2011 KShs'000	2012 KShs'000	2011 KShs'000
Fees and commissions income:				
Fees and commissions on loans and advances	1,455,578	1,435,796	1,455,578	1,435,796
Ledger fees & service charges	594,530	628,653	594,530	628,653
Other fees and commissions	4,014,875	3,504,958	3,737,529	3,243,533
	6,064,983	**5,569,407**	**5,787,637**	**5,307,982**
Fees and commissions expense:				
Inter-bank transaction charges	60,812	24,001	60,812	24,001
Brokerage fees	3,732	5,821	3,732	5,821
	64,544	**29,822**	**64,544**	**29,822**
Net fees and commissions income	**6,000,439**	**5,539,585**	**5,723,093**	**5,278,160**

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

35. NET TRADING INCOME

	Group		Bank	
	2012	2011	2012	2011
	KShs'000	KShs'000	KShs'000	KShs'000
Foreign exchange gain	1,292,225	1,013,213	1,292,225	1,013,213
Interest income on investment securities:				
-Available for sale	2,744,420	2,498,787	2,744,420	2,498,787
-Held-for-trading	15,395	252,094	15,395	252,094
Loss on sale of financial instruments held-for-trading	-	(10,578)	-	(10,578)
Changes in fair value of financial assets held-for-trading	23,573	(24,853)	20,997	(24,853)
Amortisation of financial instruments	(270,900)	(136,135)	(270,900)	(136,889)
	3,804,713	**3,592,528**	**3,802,137**	**3,591,774**

36. OTHER OPERATING INCOME

	Group		Bank	
	2012	2011	2012	2011
	KShs'000	KShs'000	KShs'000	KShs'000
Gain on disposal of property and equipment	7,154	3,573	7,154	3,573
Dividend income	2,937	470	55,072	20,325
Rental income	72,371	69,335	72,371	69,335
Loan recoveries	13,870	16,367	13,870	16,367
Gain / (loss) on sale of financial assets available-for-sale	190,183	(640,507)	190,183	(646,526)
Miscellaneous	87,599	85,541	106,803	85,540
	374,114	**(465,221)**	**445,453**	**(451,386)**

37. EMPLOYEE COSTS

	Group		Bank	
	2012	2011	2012	2011
	KShs'000	KShs'000	KShs'000	KShs'000
Basic salaries	4,900,483	4,269,241	4,900,483	4,189,416
Allowances	260,368	240,764	260,368	239,948
Pension scheme contribution	435,187	522,775	435,187	517,419
Medical expenses	110,400	238,088	110,400	234,773
Education and training	72,337	49,065	71,978	48,482
Others	317,318	191,422	253,050	188,020
	6,096,093	**5,511,355**	**6,031,466**	**5,418,058**

	Group and Bank	
The number of employees at the year end was:	2012	2011
Management	350	319
Supervisory and unionisable	2,806	2,825
Others	211	49
	3,367	**3,193**

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

38. OTHER OPERATING EXPENSES

	Group		Bank	
	2012	2011	2012	2011
	KShs'000	KShs'000	KShs'000	KShs'000
Rent and maintenance costs for branch premises	902,808	692,363	894,142	683,501
Motor vehicle running & other equipment maintenance	695,520	565,896	695,520	564,982
Stationery and printing	495,668	405,484	495,668	404,516
Travelling and insurance	373,374	252,132	373,374	231,108
Telephone, postage, electricity and water	494,935	428,585	494,935	428,054
Contribution to Deposit Protection Fund	200,324	162,727	200,324	162,727
Directors' emoluments	83,552	100,472	64,516	81,551
Auditors' remuneration	12,617	10,250	12,617	8,200
Other operating and administrative expenses	2,376,947	2,018,958	2,269,586	1,947,288
	5,635,745	**4,636,867**	**5,500,682**	**4,511,927**

39. BASIC AND DILUTED EARNINGS PER SHARE

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

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

At the AGM held in 2012, the shareholders of the Bank approved a bonus share in the proportion of one new ordinary share of KShs. 1 each for every 5 ordinary shares then held. This resulted in capitalisation of KShs. 698, 474,000 out of the share premium of the Bank, to create 698,474,000 bonus shares distributed to the ordinary shareholders.

	Group		Bank	
	2012	2011	2012	2011
	KShs'000	KShs'000	KShs'000	KShs'000
Profit for the year attributable to shareholders (KShs'000)	7,716,970	5,357,212	7,327,617	5,186,343
Weighted average number of ordinary shares for basic and diluted earnings per share (Thousands)	4,190,844	4,190,844	4,190,844	4,190,844
Basic earnings per share (KShs)	1.84	1.53	1.75	1.49
Diluted earnings per share (KShs)	1.84	1.28	1.75	1.24

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

40. COMPONENTS OF OTHER COMPREHENSIVE INCOME

i) Available for sale investments	**Group**		**Bank**	
	2012	**2011**	**2012**	**2011**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Gains/(losses) arising during the year	1,917,281	(4,193,909)	1,916,920	(4,192,075)
Amortisation to income statement	270,900	-	270,900	-
Reclassification during the year to profit or loss	(190,183)	348,282	(190,183)	348,171
Income tax on other comprehensive income	-	770,488	-	768,781
	1,997,998	**(3,075,139)**	**1,997,637**	**(3,075,123)**
i) Revaluation of land and buildings surplus				
Revaluation of land and buildings	107,065	-	107,065	-
Income tax effect	(21,413)	-	(21,413)	-
	85,652	**-**	**85,652**	**-**

41. CASH AND CASH EQUIVALENTS

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

	Group		**Bank**	
	2012	**2011**	**2012**	**2011**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Cash on hand	7,170,048	6,072,339	7,170,048	6,072,339
Cash with Central Bank of Kenya	15,044,018	8,078,710	15,044,018	8,078,704
Deposits and balances due from banking institutions	8,886,167	7,464,735	8,869,700	7,437,716
Items in the course of collection from other Banks	770,485	556,899	770,485	556,899
	31,870,718	**22,172,683**	**31,854,251**	**22,145,658**
Less: CBK Cash reserve ratio	(8,263,097)	(7,436,716)	(8,263,097)	(7,436,716)
Cash and cash equivalents	**23,607,621**	**14,735,967**	**23,591,154**	**14,708,942**

42. RELATED PARTY TRANSACTIONS

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

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

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

	2012	**2011**
	KShs'000	**KShs'000**
Directors	159,003	150,036
Employees	5,645,248	4,777,870
	5,804,251	**4,927,906**
Interest income earned	**371,488**	**211,429**
Weighted average interest rate	**4.6%**	**4.8%**

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

The loans are secured by mortgage property mortgage and are repayable in a period less than 30 years. No impairment losses have been recorded against balances outstanding during the period and no specific allowance has been made for impairment losses on balances at period end (2011-Nil).

(b) Deposits received from directors, employees and other related parties:-

Balances held at the close of period as received from directors, employees of the Bank and other related parties in the ordinary course of business is as follows:

	2012 KShs'000	2011 KShs'000
Directors and Employees	239,077	648,664
Subsidiaries and Associate companies	185,036	967,444
Interest expensed	3,706	23,667
Weighted average interest rate	1.55%	4.8%

(c) Inter-company balances and transactions:-

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

	Relationship	Bank 2012 KShs'000	2011 KShs'000
Due from:-			
Kingdom Securities Limited	Subsidiary	-	2,170
Co-optrust Investment Services Limited	Subsidiary	1,309	1
Co-op Consultancy & Insurance Agency Ltd	Subsidiary	1,959	72
Co-opholdings Co-operative Society Limited	Parent	35,483	32,686
		38,751	**34,929**
Due to:-			
Kingdom Securities Limited	Subsidiary	246	-
Co-optrust Investment Services Limited	Subsidiary	-	-
Co-op Consultancy & Insurance Agency Ltd	Subsidiary	14,585	2,986
		14,831	**2,986**
Insurance premium:-			
Co-operative Insurance Company Limited	Associate	**236,314**	**262,015**

(d) Compensation of key management personnel:-

	Group		Bank	
	2012 KShs'000	2011 KShs'000	2012 KShs'000	2011 KShs'000
Directors' emoluments:				
-Fees	65,454	87,770	53,871	76,081
-Others	19,343	12,702	10,644	5,470
	84,797	**100,472**	**64,515**	**81,551**
Senior managers	**589,552**	**592,828**	**573,908**	**568,346**

The compensation above is a consolidated remuneration package including all employment benefits and pension where applicable. Directors are not eligible for pension scheme membership.

(e) Co-operative Bank Foundation

The Foundation is a registered trust established to assist bright needy students from the co-operative movement in paying school fees. In 2012, KShs. 84 million (2011- KShs. 45 million) was disbursed to the Foundation. At 31 December 2012, the Foundation held deposits of KShs. 1,613,597 (2011- KShs. 33,012,708) with the Bank.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

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

This is a defined contribution scheme and provides, under the rules of the scheme, retirement benefits for the staff of Co-operative Bank of Kenya Limited and its subsidiaries. The Group contributed KShs. 426,274,905 (2011 - KShs. 522,775,000) as at 31 December 2012. Under the terms of their appointment, Co-optrust Investment Services Limited is responsible for the investment of funds and is a related entity to the Scheme by virtue of shareholding.

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

	2012 KShs'000	2011 KShs'000
Rent paid to the scheme on leased property	3,863	3,744
Dividends paid by the Bank's ordinary shares	9,515	7,484

43. OPERATING LEASE COMMITMENTS

As lessor:

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

	Group and Bank	
	2012 KShs'000	2011 KShs'000
Within One year	75,591	67,730
Between 2 and 5 years	161,726	207,525
Over 5 years	-	1,648
	237,317	**276,903**

As lessee:

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

	Group and Bank	
	2012 KShs'000	2011 KShs'000
Within one year	402,419	487,738
Between 2 and 5 years	594,137	1,102,666
Over 5 years	187,081	79,090
	1,183,637	**1,669,494**

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

44. COMMITMENTS

	Group and Bank	
	2012 KShs'000	2011 KShs'000
i) Capital: Authorised and contracted for	45,037	84,295
ii) Capital: Authorised and not contracted for	4,322,717	4,083,353
iii) Loans committed but not disbursed at year end	6,777,203	20,731,085

Notes to the Consolidated Financial Statements

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45. CONTINGENT LIABILITIES

	Group and Bank	
	2012	2011
a) Not recognised in statement of financial position	**KShs'000**	**KShs'000**
Letters of credit, guarantees, acceptances, and other engagements entered into on behalf of customers	14,434,139	14,962,504

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

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

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

b) Pending legal suits

i) Raki Investments Limited

This is a claim against the Bank for general and special damages amounting to KShs. 638,546,737. The plaintiff, which is a coffee exporting company, had been granted overdraft facilities with USD 2 million and KShs. 5 million in October 1998. They claim that the Bank over time failed to remit the agreed upon funds to Coffee Board of Kenya thereby causing the collapse of their coffee export business due to delayed shipments and therefore dissatisfied customers. There were additional claims relating to unauthorized transfers, application of excessive interest rates and failure to offset borrowings with the fixed deposit as instructed by the plaintiff. The bank has entered into without prejudice out of court negotiations with the Plaintiff wherein the Plaintiff has agreed to pay the Bank a compromised amount and the Bank has allowed the Plaintiff to sell the security subject to the sale proceeds being utilized to pay the agreed amount. No contingent liability is expected to arise.

ii) Kenya Continental Holdings

This is an injunction application seeking to stop the Bank from selling the company's security alleging fraud and misrepresentation on the part of the Bank with a claim for special damages for alleged loss of opportunities amounting to KShs. 404,785,225. The Bank has a counterclaim amounting to KShs. 521,318,439 against the debtor. No contingent liability is expected to arise.

iii) Boaz Mathews Ouma Awiti & three others

This is a claim for KShs. 31,864,120 against the Bank relating to the sale and purchase of shares in Bob Mathews Stock Brokers Ltd (now Kingdom Securities Limited). The Bank has applied for a stay of proceedings and referral of the matter to arbitration. No contingent liability is expected to arise.

iv) Alice Anyona Mumo & Others vs. RBA & Co-operative Bank of Kenya Limited Retirement Benefit Scheme, 2007 RBA Tribunal appeal no. 8 of 2012 (NBI)

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

v) Protex EPZ (K) Limited vs The Co-operative Bank of Kenya Limited

This is a claim of KShs. 45,038,046 being an amount allegedly debited from the customer's account without following the proper instructions as agreed between the bank and the customer. In its defence, the bank denies the allegations and avers that the payments were made as per mandates held. A hearing date for the case is awaited. No contingent liability is expected to arise.

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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2012

46. FIDUCIARY ACTIVITIES

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

The Group at Custodial Services department holds asset security documents on behalf of customers with a value of KShs. 23,380 million (2011 – KShs. 14,437 million). The Group, through Co-op Trust Investment Services manages securities with a value of KShs. 36,911 million (2011- KShs. 21,908 million) on behalf of customers.

47. ASSETS PLEDGED AS SECURITY

As at 31 December 2012, there were no assets pledged by the Group to secure liabilities.

48. HOLDING ENTITY

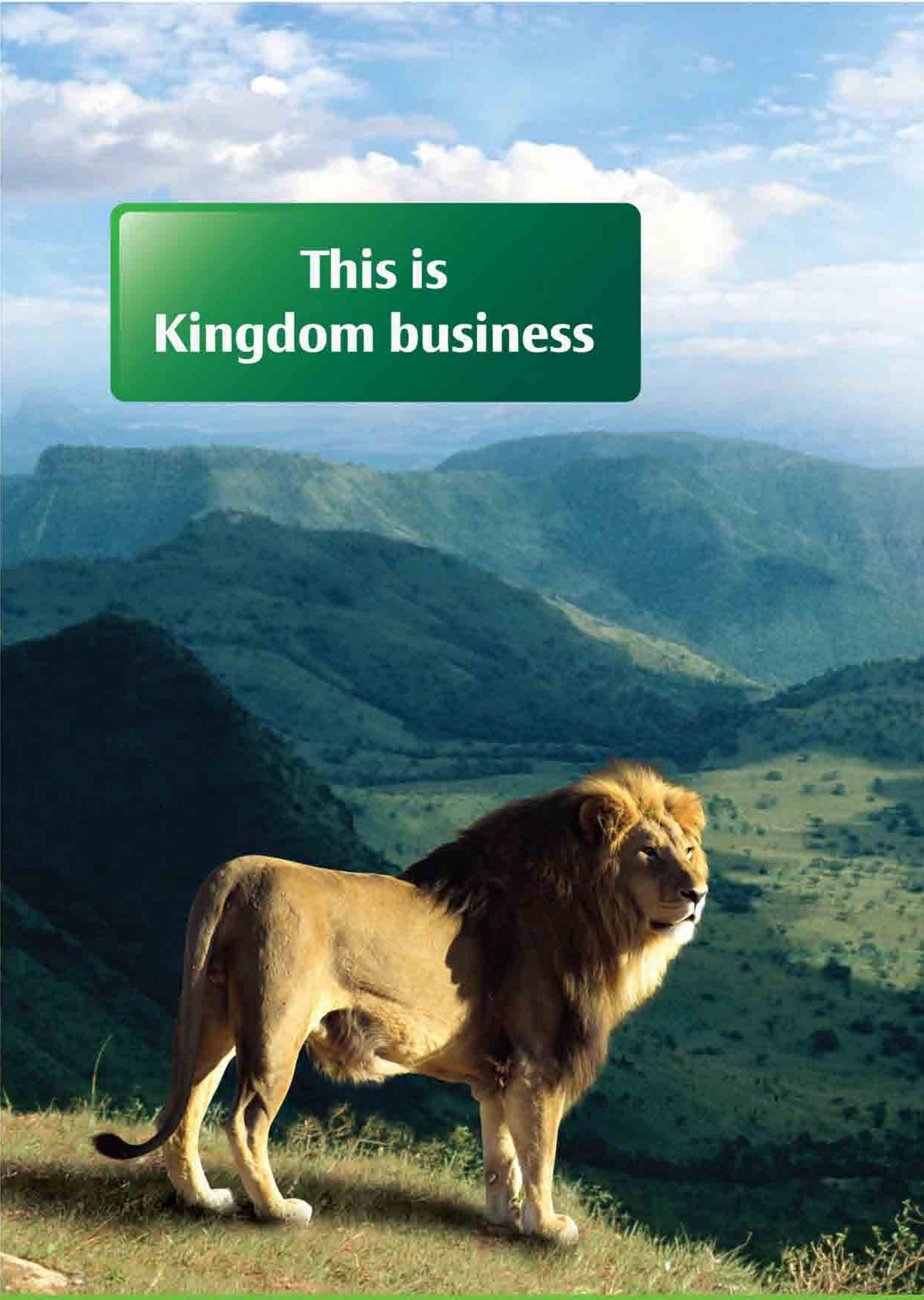
The holding entity of The Co-operative Bank of Kenya Limited is Co-opholdings Co-operative Society Limited incorporated in Kenya under the Co-operative Societies Act.

49. INCORPORATION

The Bank is incorporated in Kenya under the Companies Act.

50. CURRENCY

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