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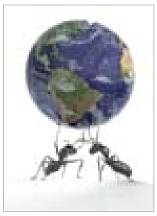


Our Brands

Our Brands

Delivering the essence of our brand ***We are you.***

Overview


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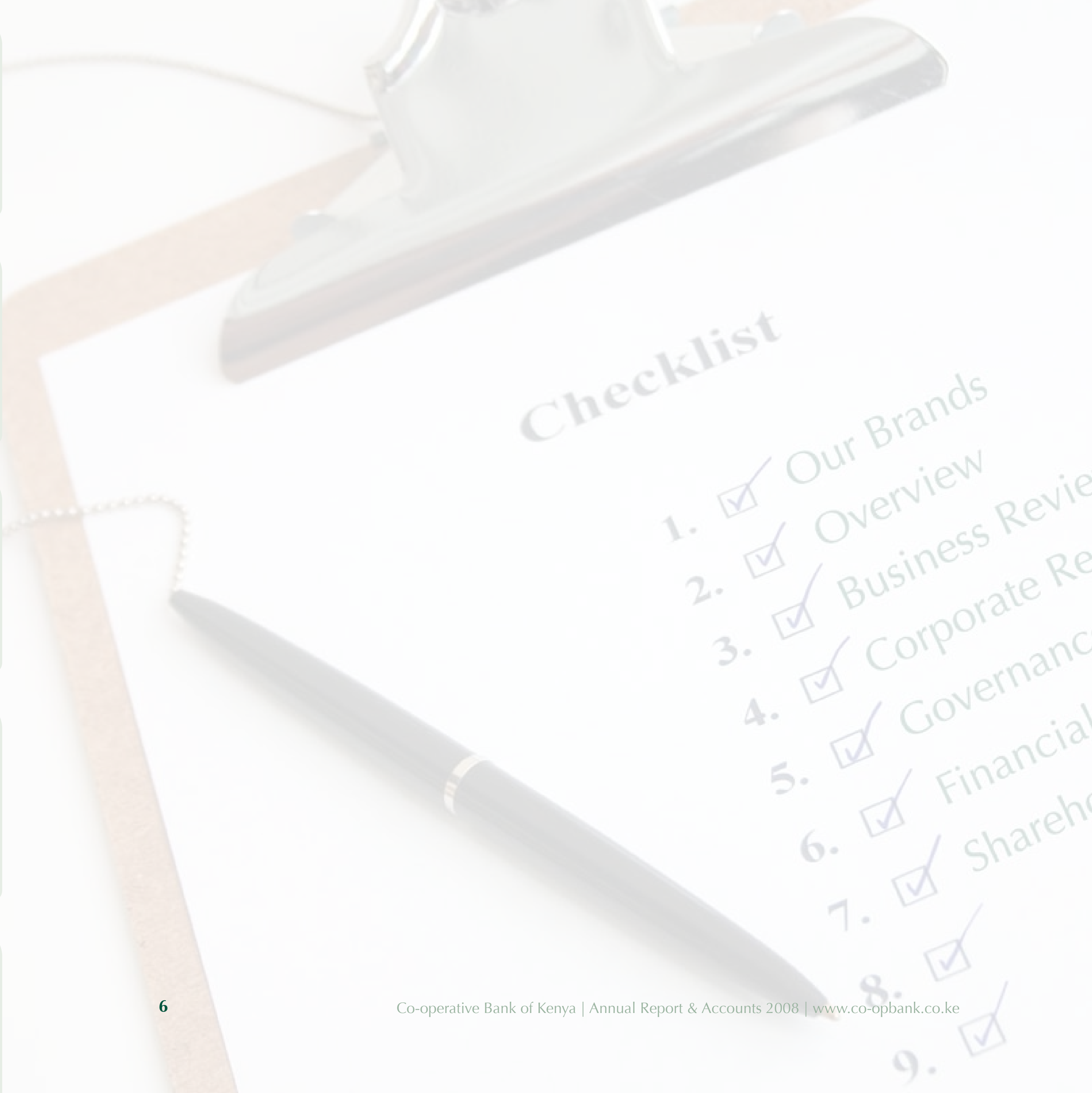
Overview



Group Information

REGISTERED OFFICE AND HEAD OFFICE
Co-operative 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-operative Consultancy Services Kenya Ltd
P O Box 48231-00100,
Tel: 020 3276000
NAIROBI

Co-operative House Ltd
P O Box 48231-00100,
Tel: 020 3276000
NAIROBI

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

COMPANY SECRETARY
Rosemary Majala Githaiga
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

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

LAWYERS
Various
A list is available at the Bank

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

Branches and other Service Outlets

	BRANCHES	POSTAL ADDRESS	LANDLINE	EMAIL ADDRESS
1	Athi River	321-00204 Athi River	045-22875	athi_riverbr@co-opbank.co.ke
2	Bungoma	1964-50200 Bungoma	055-30701	bungomabr@co-opbank.co.ke
3	Buruburu	427-00515 Buru Buru	020-780187	buruburubr@co.ke
4	Chuka	101-60400 Chuka	064-630461	chukabr@co-opbank.co.ke
5	City Hall, Nbi	44805-00200 Nairobi	020-2252133	cityhallbr@co-opbank.co.ke
6	Co-operative Hse - Nairobi	67881-00200 Nairobi	020-3276000	co-ophsebr@co-opbank.co.ke
7	Digo Rd - Mombasa	86039-80100 Mombasa	041-2317944	digoroadbr@co-opbank.co.ke
8	Eastleigh	360-00610 Eastleigh	020-6768062	eastleighbr@co-opbank.co.ke
9	Eldoret	2948-30100 Eldoret	053-2062717	eldoretbr@co-opbank.co.ke
10	Embu	1337-60100 Embu	068-30363	embubr@co-opbank.co.ke
11	Enterprise Road Nairobi	17928-00500 Nairobi	020-651760	enterpriserdbr@co-opbank.co.ke
12	Githurai	41420-00100 Nairobi	020-2133638	githuraibr@co-opbank.co.ke
13	Homa-Bay	406-40300 Homa-Bay	059-22390	homabaybr@co-opbank.co.ke
14	Industrial Area, Nbi	18119-00500 Nairobi	020-2122164	indu-areabr@co-opbank.co.ke
15	Kakamega	595-50100 Kakamega	056-31702	kakamegabr@co-opbank.co.ke
16	Karatina	931-10101 Karatina	061-72855	karatinabr@co-opbank.co.ke
17	Kariobangi	252-00515 Buru Buru	020-2069124	kariobangi@co-opbank.co.ke
18	Kawangware	46904-00100 Nairobi	020-3560764	kawangwarebr@co-opbank.co.ke
19	Kayole	43-00518 Kayole	020-2403404	kayolebr@co-opbank.co.ke
20	Kericho	1742-20200 Kericho	052-30414	kerichobr@co-opbank.co.ke
21	Kerugoya	635-10300 Kerugoya	060-21586	kerugoyabr@co-opbank.co.ke
22	Kiambu	1064-00900 Kiambu	066-2022352	kiambubr@co-opbank.co.ke
23	Kimathi Street, Nbi	7512-00200 Nairobi	020-315435	kimathibr@co-opbank.co.ke
24	Kisii	2469-40200 Kisii	058-31509	kisiibr@co-opbank.co.ke
25	Kisumu	1511-40100 Kisumu	057-2020070	kisumubr@co-opbank.co.ke
26	Kitale	1058-30200 Kitale	054-31602	kitalebr@co-opbank.co.ke
27	Upperhill, Nbi	30415-00100 Nairobi	020-2713501	upperhillbr@co-opbank.co.ke
28	Machakos	1250-90100 Machakos	044-20215	machakosbr@co-opbank.co.ke
29	Maua	565-60600 Maua	064-21548	mauabr@co-opbank.co.ke
30	Meru	1328-60200 Meru	064-30209	merubr@co-opbank.co.ke
31	Migori	406-40300 H/Bay	059-20130	migoribr@co-opbank.co.ke
32	Moi Avenue, Nbi	46541-00100 Nairobi	020-315191	moiavenuebr@co-opbank.co.ke
33	Mtwapa	521-80109 Mtwapa	020-8011331	mtwapabr@co-opbank.co.ke
34	Mumias	905-50102 Mumias	056-641299	mumiasbr@co-opbank.co.ke
35	Murang'a	954-10200 Murang'a	060-30503	murangabr@co-opbank.co.ke
36	NBC Ngong' Road	19555-00202 Nairobi	020-2711614	ngongroad@co-opbank.co.ke

Branches and other Service Outlets

	BRANCHES	POSTAL ADDRESS	LANDLINE	EMAIL ADDRESS
37	Nacico, Nbi	8666-00300 Nairobi	020-2227222	nacicobr@co-opbank.co.ke
38	Naivasha	1180-20117 Naivasha	050-2030137	naivashabr@co-opbank.co.ke
39	Nakuru	20100-2982 Nakuru	051-2211574	nakurubr@co-opbank.co.ke
40	Nkubu	740-60202 Nkubu	054-51045	nkububr@co-opbank.co.ke
41	Nkrumah Rd-Mombasa	87771-80100 Mombasa	041-2315376	nkrumahrdbr @co-opbank.co.ke
42	Nyahururu	307-20300 Nyahururu	065-32132	nyahururubr@co-opbank.co.ke
43	Nyeri	12253/1032-10100 Nyeri	061-2030815	nyeribr@co-opbank.co.ke
44	Parliament Rd	5772-00200 Nairobi	020-2225370	parliamentrd@co-opbank.co.ke
45	Ongata Rongai	470-00511 Ongata Rongai	045-24403	ongatarongaibr@co-opbank.co.ke
46	Stima Plaza, Nbi	38764-00600 Nairobi	020-2135007	stima-plazabr@co-opbank.co.ke
47	Thika	1815-01000 Thika	067-21815	thikabr@co-opbank.co.ke
48	Ukulima	74956-00200 Nairobi	020-2221240	ukulimabr@co-opbank.co.ke
49	Ukunda	568-80400 Ukunda	040-3203832	ukundabr@co-opbank.co.ke
50	University Way	60800-00200 Nairobi	020-2225400	univ-waybr@co-opbank.co.ke
51	Voi	770-80300 Voi	0728-608031	voibr@co-opbank.co.ke
52	Wakulima Market, Nbi	43071- 00100 Nairobi	020-2211318	wakulimabr@co-opbank.co.ke
53	Westlands	66589-00800 Nairobi	020-4440567	westlandsbr@co-opbank.co.ke

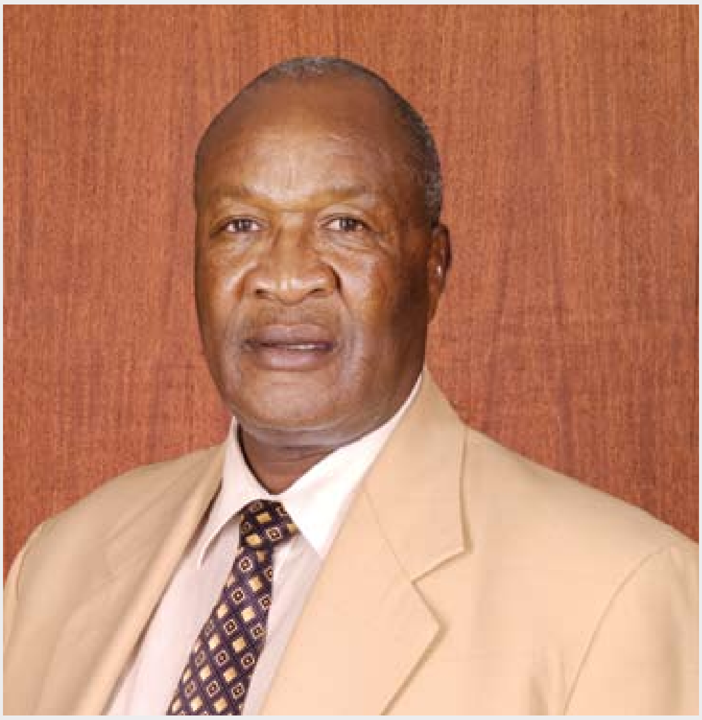
	AGENCIES			
1	Kilgoris Agency	40200-2469 Kisii	058-31509	kisiibr@co-opbank.co.ke
2	Makutano Agency	60200-1328 Meru	064-20421	makutanobr@co-opbank.co.ke
3	Malaba Agency	1964-50200 Bungoma	055-54095	bungomabr@co-opbank.co.ke
4	Mbita Agency	406-40300 Homa-Bay	020-2311914	homabaybr@co-opbank.co.ke

	OTHER OUTLETS			
1	Co-operative Bank Management Centre	15355-00509 Nairobi	020-891187	cbmc@co-opbank.co.ke
2	Call Centre	48231-00100 Nairobi	020-2776000	customerservice@co-opbank.co.ke
3	Card Centre	21831-00400 Nairobi	020-3276600	cardcentre@co-opbank.co.ke
4	Kilindini Port	87771-80100 Mombasa	041-2312292	nkrumahrdbr @co-opbank.co.ke

Chairman's Report

Dear Shareholders,

I am pleased to present the Annual Report and Financial Statements for the year ended 31 December 2008. I would like to begin on a welcome note to the over 60,000 new shareholders who joined the Bank in December 2008 in a truly successful Initial Public Offering through the Nairobi Stock Exchange. It is great to have you on board as we grow and share in the common future we have invested in through The Co-operative Bank of Kenya Group.



Stanley C. Muchiri, EBS, Chairman

Overview of the Economy

The external environment has seen unprecedented turbulence in the banking and other financial markets. The deterioration of the U.S. mortgage market that began in 2007 escalated into a global financial crisis that has required co-ordinated actions from central banks and governments around the world

Though the Kenyan economy grew by 7.0 percent in 2007 and 6.4 percent in 2006 as supported by growth in the tourism, transport and communication, mining and quarrying, and electricity and water sector the economy has been performing below its potential in 2008. This is as a result of the internal and external shocks experienced in the country such as the post election violence, global economic slowdown and high food prices.

There was mixed performance in the agricultural sector during the year 2008. The sector has been affected mainly by low production of food crops owing to unfavourable weather coupled with effects of post election violence and high agricultural input costs.

Developments in the Banking Sector

The banking sector remained stable with all institutions being adequately capitalised in 2008. Institutions maintained capital adequacy ratios above the minimum requirement of 12% attributed to retention of profits and fresh capital injection by some institutions. Total capital of the banking sector rose by 42% and the total shareholders' funds increased by 36%.The Minister of Finance has put banks on notice to increase their minimum capital to Kshs1Billion.

The industry has made progress with the ratio of gross non-performing loans to gross loans reducing to 8.4% in November 2008 compared with 11.4% as at the end of November 2007. The reduction was attributable to the growing prudence in risk management, write-offs and recoveries of NPLs. Total assets rose by 31% while deposits expanded by 25.5%. The sectors' deposits remained the primary source of funding for the banking sector, and represented 77% of total liabilities.

Bank's performance and key achievements

The Bank delivered a fitting and strong performance in 2008. This has been achieved as a result of growth in our income, through building stronger relationships with our customers and excellent customer service. Our aggressive expansion strategy saw the bank open over 10 outlets, the most in any one year. The continued expansion strategy will see the bank go into the region, particularly Southern Sudan and Uganda, adding impetus for future growth in revenues.

Owing to the good performance, the board has proposed a dividend of 10% at the forthcoming Annual General Meeting. The board continues to recognize the importance attached by shareholders to the Group's dividend thus increasing it from 8% paid in 2007.

During the year and for the third year running, the bank achieved the *Best Use of ICT in Banking* award from the Computer Society of Kenya. The bank also got the *Best Financial Institution Stand* at both the Nairobi International show and Nakuru show.

Corporate Social Responsibility

The bank has continued in its quest to enrich lives and relationships in the communities. Through the Co-op Bank Foundation, the bank is paying full secondary school fees for over 800 students from all the 8 provinces in Kenya. The students comprise those who are bright, are orphaned or their parents are not able to pay for the school fees.

Individual departments of the bank also contribute their personal resources, with the bank contributing a similar amount to assist various communities within their area of operation. The bank also supported the government efforts in resettling the displaced persons as well as hunger alleviation through Kenya Red Cross Society by contributing Kshs 5 million to each of the projects.

Board changes

In October 2008, we welcomed D K Kibera to the Board as a non-executive Director. He brings exceptional experience from many years of service in both Kenya's civil service and private sectors.

Personal thanks

I would like to thank the Managing Director and staff of the bank for the excellent performance achieved in the last year, and the progress made in executing the group's growth strategy. I remain confident that we have the skills and resources necessary to manage the significant opportunities and challenges that lie ahead. I thank my colleagues on the board for their sound guidance and support during an eventful year.

To our customers for their continued support and our shareholders whose confidence has sanctioned important strategic developments, we extend our gratitude.

I also sincerely thank the Government of Kenya, the regulatory authorities, particularly the Central Bank of Kenya, the Capital Markets Authority and the Nairobi Stock Exchange for their guidance and continued support.

Stanley C. Muchiri, EBS
Chairman

Taarifa ya Mwenyekiti

Nina furaha kuwasilisha kwenu ripoti na taarifa ya kifedha ya kipindi kilichomalizika tarehe 31 mwezi Desemba mwaka 2008. Kwanza ninaanza kwa kuwakaribisha zaidi wenye hisa wapya sitini elfu, waliojiunga na benki yetu mwezi desemba mwaka 2008 kupitia toleo lililofaulu la hisa za benki yetu kwa umma, kupitia soko la hisa la Nairobi.Ninayo furaha tele kuwapokea wakati huu tunapoungana nanyi huku tukiwa na matarajio makubwa ya kunawiri kwa uwekezaji wetu katika benki ya Co-operative.

Mtazamo wa uchumi

Athari kutoka nje zilisababisha msukosuko mkubwa katika sekta ya benki na masoko mengine ya kifedha. Kudorora kwa soko la rehani nchini Marekani kulikoanza mwaka 2007, kuliendelea na kuwa mzozo mkubwa wa kifedha, ambao benki kuu na serikali za mataifa mbali mbali duniani yamelazimika kuchukua hatua ya pamoja kuuthibiti.

Ingawaje uchumi wa Kenya ulikua kwa asilimia 7.0 katika mwaka wa 2007 na asilimia 6.4 katika mwaka 2006 kutokana na kushamiri kwa sekta za utalii, uchukuzi na mawasiliano na uchimbaji mawe ya ujenzi,sekta za umeme na usambazaji maji zilififia katika kipindi cha mwaka 2008. Hii ni kutokana na athari za ghasia za baada ya uchaguzi, msukosuko wa kiuchumi duniani na mfumko wa bei ya vyakula.

Hata hivyo kulikuwa na matokeo nyumbufu katika sekta ya kilimo katika kipindi cha mwaka 2008. Sekta hiyo ilishuhudia mavuno duni ya chakula kutokana na hali isiyokuwa nzuri ya hewa ,ghasia za baada ya uchaguzi na bei ghali ya pembejeo za kilimo.

Yanayojiri katika sekta ya Benki

Sekta ya benki katika kipindi hicho ilikuwa thabiti huku asasi zote katika sekta hii zikiwa imara kimtaji. Benki zilidumisha mtaji wa juu ya kiwango kinachohitajika cha asilimia 12.0, hali iliyowezesha benki kadhaa kuendelea kupata faida na hata kuongeza mtaji wake. Mtaji jumla wa sekta ya benki uliongezeka kwa asilimia 42 huku mchango wa wenye hisa ukiongezeka kwa asilimia 36. Waziri wa fedha hata hivyo ametoa ilani kwa benki kuongeza kiwango cha chini cha mtaji kufikia shillingi billioni 1.

Sekta ya benki imepata ufanisi mkubwa huku kiwango cha mikopo jumla isiyolipwa ikilinganishwa na mikopo jumla iliyotolewa kikipungua hadi asilimia 8.4 kufikia mwezi novemba mwaka 2008, kutoka asilimia 11.4 mwezi novemba mwaka 2007. Ubora huu ulitokana na umakini katika uthibiti wa hasara inayotokana na mikopo isiyolipwa, ufutiliaji mbali baadhi ya mikopo na kuimarishwa kwa juhudi za kufuatilia mikopo isiyolipwa. Mali ya jumla ya benki iliongezeka kwa asilimia 31 huku akiba za wateja zikiongezeka kwa asilimia 25.5. Akiba za wateja ndizo zilizochangia pakubwa kwenye kapu lote la fedha za sekta ya benki nchini.

Utendakazi na ufanisi wa benki.

Benki yetu ya Co-operative ilipata ufanisi mkubwa katika kipindi cha mwaka 2008. Ufanisi huo ulitokana na kuongezeka kwa mapato yetu kwa kudumisha uhusiano mwema na wateja wetu na utoaji huduma ya hali ya juu. Chini ya mpango wetu kabambe wa upanuzi, benki yetu ilifungua zaidi ya matawi 10, ambacho ni kiwango kikubwa zaidi cha matawi kuwahi kufunguliwa katika kipindi cha mwaka mmoja. Mpango wetu wa upanuzi utashirikisha pia mataifa mengine katika eneo hili, kwa minajili ya kuongezea mapato.

Ni kutokana na matokeo hayo ya kuridhisha ambapo bodi ya benki yetu imependekeza mgawo wa faida wa asilimia 10 kwa hisa katika mkutano wetu mkuu ujao wa kila mwaka. Bodi yetu inatambua umuhimu ambao wenye hisa wanatilia malipo ya mgao huu, na ndio sababu imependekeza nyongeza ya kiwango cha malipo kutoka asilimia 8 mnamo mwaka 2007.

Katika mwaka huu, benki yetu ilituzwa kwa matumizi bora zaidi ya teknolojia ya mawasiliano na habari yaani – ICT katika sekta ya benki na chama cha tarakilishi hapa nchini. Benki yetu ilituzwa pia kwa kuwa na kibanda bora miongoni mwa taasisi za fedha katika maonyesho ya kimataifa ya Nairobi na yale ya Nakuru.

Huduma kwa jamii

Benki yetu imeendelea na harakati zake za kutoa usaidizi kwa jamii.Kupitia wakfu wa benki ya Co-operative, tumewalipia karo zaidi ya wanafunzi 800 kutoka mikoa yote minane hapa nchini. Wanafunzi hao wanajumuisha wale werevu, mayatima na wale ambao wazazi wao hawana uwezo wa kuwalipia karo.

Idara binafsi za benki yetu pia hutoa michango yao kibinafsi, huku benki ikitoa kiwango sawia kuzisaidia jamii mbali mbali katika maeneo ambako benki inaendeshea shughuli zake. Benki yetu pia inaisaidia serikali kuwarejesha makwao waathiriwa wa ghasia za baada ya uchaguzi na pia wale wanaokumbwa na baa la njaa kupitia chama cha msalaba mwekundu kwa kutoa mchango wa shilingi milioni 10.

Mabadiliko katika Halmashauri ya wakurugenzi

Mnamo mwezi wa Oktoba mwaka 2008, tulimkaribisha D K Kibera katika bodi ya benki yetu kama mkurugenzi asiyekuwa na majukumu maalum. Atachangia pakubwa kutokana na uzoefu na ujuzi wake wa miaka mingi, alipohudumu kwenye vyeo vingi katika sekta ya umma na pia ya kibinafsi.

Shukrani zangu binafsi

Ningependa kumshukuru mkurugenzi mkuu na wafanyikazi wa benki ya Co-operative kwa utendakazi bora katika mwaka uliopita na juhudi wanazofanya kuhakikisha kwamba benki hii inadumisha kasi yake ya ukuaji. Sina shaka kwamba kuna wafanyikazi wenye ujuzi na raslimali ya kutuwezesha kushughulikia vyema fursa na changamoto zilizoko mbele yetu. Nawashukuru wenzangu katika bodi ya benki kwa maelekezo na usaidizi wao katika mwaka huu uliokuwa na shughuli nyingi.

Kwa wateja wetu nawashukuru kwa kuendelea kutuunga mkono na pia wenye hisa kwa imani mlio nayo katika benki, ambayo imetuwezesha kupata ufanisi wa kipekee.

Hatimaye naishukuru kwa dhati serikali ya Kenya, halmashauri kuu za usimamizi, hususan benki kuu ya Kenya, mamlaka ya masoko ya mtaji na soko la hisa la Nairobi kwa uelekezi na usaidizi wao.

Stanley C. Muchiri, EBS
Mwenyekiti

The Board of Directors

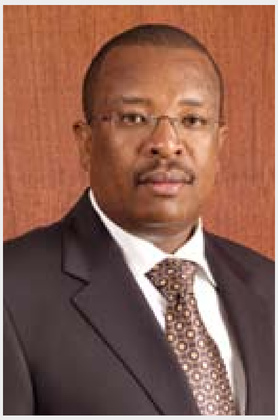
The Board of Directors of the Co-operative Bank of Kenya Limited

Stanley C Muchiri, EBS, Chairman (62)

Has served the Board as Director since 1986 and Chairman since 2002. 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 Kenya National Federation of Co-operatives (KNFC), 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* in the year 2005 for his outstanding service to the nation.

Julius Riungu, Vice Chairman (60)

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.



Gideon Muriuki, OGW, Managing Director (44)

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. 3.4 billion in 2008. 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 and is a Fellow of the Kenya Institute of Bankers. He has over 19 years experience in banking and finance between Barclays Bank, Standard Chartered Bank Kenya Limited and the Co-operative Bank.

He is also the Managing Director of Co-opTrust Investment Services Limited and Co-operative Consultancy Services (K) Limited – both subsidiaries of the Bank. He is also a director of the Deposit Protection Fund, Vice President Africa – International Co-operative Banking Alliance (ICBA), Vice-Chairman of Co-operative College of Kenya, and Chairman Governing Council of the Nairobi Evangelical Graduate School of Theology.

He was decorated in 2005 with the award of *Order of the Grand Warrior* in recognition of his successful turn around of the Bank. 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 leadership and contribution to development of rural finance in Africa.

The Board of Directors

Julius Sitienei, Director (54)

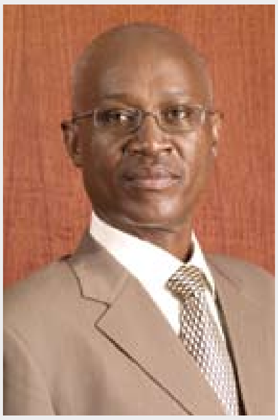
Joined in 2003. He is a business man and an educationist with over 20 years experience in the teaching profession before he took leadership positions in the management of co-operative societies. He a Director of Co-op Holdings Co-operative Society Limited.

Major (Rtd) Gabriel J S Wakasyaka, Director (66)

Joined in 1998. He is a business man, having retired as a Major from the Kenya Army. He a Director of Co-op Holdings Co-operative Society Limited.

Macloud Malonza, Director (38)

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 the employees of the various Government departments under the Office of the President.



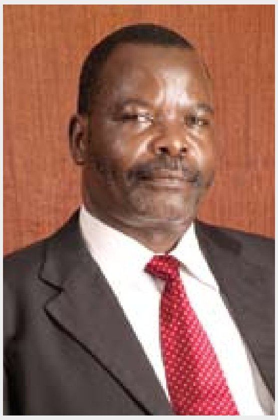
Richard L Kimanthi, Director (52)

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.

The Board of Directors

John K Murugu
(Representing Permanent Secretary, Treasury), Director (58)

Joined in 2007 as an appointee representing the Government of Kenya Permanent Secretary, Treasury. He has over 25 years of banking at Central Bank. He holds a Bachelor of Education degree and Masters of Arts in Economics. He is Director – Debt Management at the Government of Kenya, Ministry of Finance. He has previously been an alternate director for the Permanent Secretary – Treasury, in Kenya Commercial Bank, Industrial Development Bank and at Jomo Kenyatta University of Agriculture and Technology.



Wilfred Ongoro, Director (54)

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 Saccos in Kenya. He a Director of Co-op Holdings Co-operative Society Limited.

Fredrick F Odhiambo, MBS (55)
Commissioner for Co-operatives Development & 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* 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) and Co-op Holdings Co-operative Society Limited.

Donald K Kibera, Director (61)

Joined in 2008. 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, Chairman of the National Youth Service Task Force. He holds a Bachelor of Arts Degree. He is currently a consultant at the Treasury, Ministry of Finance, Chairman of the Financial Committee of the Humanitarian Fund for Mitigations of Effects and Resettlement of victims of Post-2007 election violence, and also Chairman of the Government Task Force on Transport Policy.

All directors are non-executive, except for the Managing Director who is executive.

Rosemary Majala Githaiga (Mrs), Secretary to the Board (46)

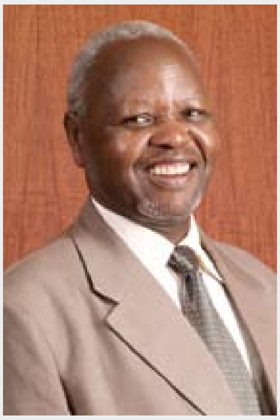
Has over 20 years experience as a Lawyer. She previously worked for Hamilton Harrison & Mathews Advocates. She holds an LL.B degree from the University of Nairobi and is a member of the Institute of Certified Public Secretaries of Kenya (ICPSK) and is also an associate member of the Chartered Institute of Arbitrators.

Board of Directors of Subsidiary Companies (Co-optrust Investment Services Limited & Cooperative Consultancy Services Kenya Limited)

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

Dr. James M Kahunyo, Director (54)

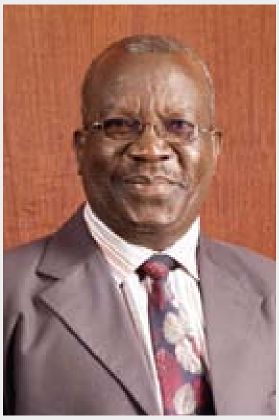
Joined the boards of the subsidiaries in 2008. He is a leading educationist and currently a Lecturer at the Kabete Campus of the University of Nairobi. He holds a Bachelor of Veterinary Medicine degree and a Master of Science degree, and is also involved in providing leadership at Chuna Co-operative Savings and Credit Society.



Elijah K Mbogo Director (65)

Joined the boards of the subsidiaries in 2008. He is a businessman having also had a career in accounting, and has vast experience is the management of co-operatives, particularly in Aembu Farmers Co-operative Society Limited. He has previously served as Director – Kenya Planters Cooperative Union Limited.

The Board of Directors

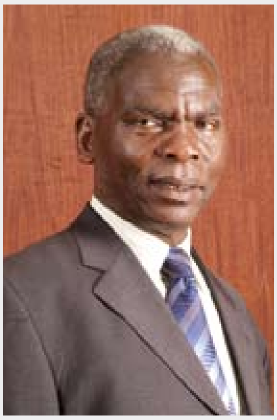


Patrick K Githendu, Director (55)

Joined the board of Co-optrust Investment Services Limited in 1998 and Co-operative Consultancy Services (K) Limited in 2008. He is a businessman, with vast experience, particularly in the coffee industry.

Scholastica Odhiambo (Mrs), Director (48)

Joined the boards of the subsidiaries in 2008. 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 Kenya College of Accountancy



Cyrus N Kabira, Director (66).

Joined the board of Co-operative Consultancy Services in 2005 and the board of Co-optrust Investment Services in 2008. He is a businessman and has served as Chairman of Kirinyaga Tea Sacco - the first Sacco to start a FOSA in Central Province - for the last 23 years. He has been a Director of Kenya Tea Development Authority.

Godfrey Mburia, Director (52).

Joined the boards of the subsidiaries in 2004. He is an Accountant by profession and served as Head of Finance, Meru Central Farmers Union.

All directors are non-executive, except for the Managing Director who is executive.

Business Review

Business Review

Chief Executive's Report

The year 2008 was a momentous year for the Bank due to the considerable changes that it went through. The bank listed its shares in the Nairobi Stock Exchange. The Initial Public Offer and the listing at the Nairobi Stock Exchange raising over Kshs 5.4 Billion additional capital to support critical growth and expantion. The bank is now amongst the most capitalised banks with a capital base of over Kshs 14 Billion. We have refocused our strategic direction to concentrate on our core businesses, and put in place many of the building blocks for continued profitable growth in 2009 and beyond.

Financial performance

I am delighted to report that the bank made a record profit before tax of Kshs 3.4 billion being a 48% growth compared to KShs 2.3 billion in 2007. It is notable that income growth underpinned our overall performance. As a result of our competitive pricing, interest income rose appreciably by 27% to Kshs 7.42 billion up from Kshs 5.85 billion. We have continued to explore and diversify our income streams leading to our non interest income growing by 15% from Kshs 3.43 billion to Kshs 3.955 Billion. The non interest income growth is due to the remarkable performance of our treasury operations, trade finance, institutional banking, electronic payment services and transaction - based commission income. The total income for the bank rose by 17% to Kshs 9.7 billion.

G Muriuki, OGW, Chief Executive Officer

To attain the growth levels we have seen in the year, the bank's cost base has also expanded as evidenced by increase in staff numbers, branch and ATM outlets and other delivery channels. Our operating expenses grew by 6% from Kshs 5.9 billion to Kshs 6.3 billion.

During the year, our loan book grew by 39% to Kshs 53.3 billion owing to the aggressive sales strategy of our business teams during the year. Despite the impressive rise in advances, our impaired loans as a percentage of gross advances declined due to our prudent risk management framework that did a commendable job in controlling the quality of our loan portfolio despite the inflationary increases and economic slowdown in the year.

The Group is already benefiting from the increased number of service points following the opening of more branches and the customer deposits notably grew from Kshs. 55 billion to Kshs 65.8 billion in the year.

With the successful initial public offering (IPO) in December 2008, we are now stronger than ever before to change gears and implement the next phase of growth amidst the intense competition. We are proud of our capitalization that has now doubled to almost Kshs14 billion, that's amongst the highest in the banking industry and enables us to increase our deposit base to over Kshs.160 Billion.

With the historical earnings for the 40 year old bank, we recorded earnings per share (EPS) of Kshs 0.67, up from Kshs 0.52, a growth of 29%. With the impressive results, the board is therefore recommending a dividend of 10% per share (Ksh 0.10) up from 8% paid last year (Kshs 0.08). This is a clear indication that the bank has maintained and sustained a dividend payout consistent with the objective of increasing shareholders return.

Our expansion strategy

The bank kick-started an expansion strategy of the service network. During the year the bank opened 10 additional branches bringing the total number of branches to 55. ATM outreach has also been growing to stand at over 186.

The expansion strategy will continue albeit with caution due to the financial crisis. To diversify our business the bank is also looking at regional growth initially within the East African region.

Our Business focus

Co-operatives Banking

The bank has continued to serve the co-operative movement as the pillar of our customer base. This was by means of integrating Sacco systems to those of the bank and providing the Sacco Link card that made Sacco customers access the banking services. The bank continued to assist Saccos to develop front office services access (FOSAs). The co-operative movement will continue to be the main sustainable way to deliver banking services to the vast majority of Kenyans.

Retail Banking

The bank experienced significant growth in the retail sector by growing the number of customers, liability and asset book as well as VISA-backed cards. The growth was supported by expansion of our branch network, ATMs and other banking delivery channels such as internet and non-cash outlets. The bank has been in the forefront in delivering mobile banking which supported growth of revenues in the year. Several products were also launched and gained momentum in the year such as the YEA! account for the youth.

Corporate and Institutional Banking

Our foothold in the corporate sector continued to grow. This was by lending to key customers as well as arranging syndicated lending with other partnering banks.

In the year, we also focused on acquisition and management of key liability lines to fund our balance sheet growth. As a growing bank we will continue to harness our liability growth to be in line with our capital ability as well as growth projections.

The new Coop Asset Finance product has continued to grow significantly recording above expectation performance. As a key product in providing finance to both corporate and individuals we will continue to develop and market the product aiming at achieving the market leadership status.

M-Banking, the first in the banking industry has continued to roll out innovative products enabling customers to transact using mobile phones. The product contributed significant commissions to total revenues.

Treasury

The treasury business has continued to grow, underpinned by the movements in exchange rates thus growing our foreign exchange revenues. Through treasury, the bank was able to manage the liquidity in the year despite instances where the industry was faced with liquidity issues.

Fund Management and Financial Consultancy

The bank's wholly-owned subsidiary, the Co-op Trust Investment Services Limited continued its leadership as the largest locally-owned fund management institution with over Kshs17 billion under management.

To support our key customers, the bank through the wholly-owned subsidiary, Co-op Consultancy Services Limited continued to provide consultancy services to co-operatives societies. This improved their capacity in management of their societies in turn being able to support their customers better.

Our people

We are in the service business and therefore our success in keeping our customers happy and growing the bank can only be achieved by attracting the right people in the right roles. During the year and to support the bank's growth strategy, we continued to recruit and attained a staff complement of 2,600. We also continued to increase the number of direct sales team to support our aggressive sales strategy.

The bank structures have continued to change to align with current practices and to include statutory requirements and better ways of doing business such as risk management and compliance. This has opened new opportunities for staff to grow their careers.

The bank continued to maintain well trained staff through internal training at our dedicated training facility, the Co-operative Bank Management Training Centre and also through external training. The bank has therefore continued to maintain high levels of employee satisfaction thereby attracting the best talent in the market.

Conclusion

2008 is a memorable year as the bank concluded the process of change in its legal status, issuing an IPO, aggressive expansion strategy and achieving historic results.

I would thus like to extend my thanks to the staff for their commitment and support and, in particular, their desire to serve our customers.

I sincerely thank each and every one of our stakeholders for the continued incredible support that has seen the success of the 'Kingdom Bank'. We are elated to count on your support in our endeavour to be the leading bank in Kenya.

Thank you and may God richly bless you all.

GM Muriuki, OGW
Chief Executive Officer

Taarifa ya Mkurugenzi Mkuu

Mwaka wa 2008 ulikuwa mwaka wenye shughuli nyingi kwa benki yetu ikizingatiwa mabadiliko mengi tuliyoyapitia. Benki yetu iligeuzwa kutoka kuwa chama cha ushirika na kuwa kampuni ya umma iliyoorodheshwa katika soko la hisa la Nairobi. Toleo la hisa kwa umma na kuorodheshwa katika soko la hisa kuliiwezesha benki yetu kupata mtaji muhimu iliohitaji kuiwezesha kutimiza mipango yake ya upanuzi sio tu hapa nchini bali pia katika mataifa ya eneo hili kwa ujumla. Tumeratibu upya shughuli zetu, na kuelekeza jitihada zetu kwa biashara yetu muhimu, ili kuweka msingi thabiti kwa ukuaji wa shughuli zetu sio tu kufikia mwaka 2009 bali pia kuendelea.

Matokeo ya kifedha

Nini furaha kuwafahamisheni kwamba benki yetu iliyopata faida ya shilingi bilioni 3.4 kabla ya kutozwa ushuru, hii ikiwa nyongeza ya asilimia 48 ikilinganishwa na shilingi bilioni 2.3 iliopata mwaka wa 2007. Kwa ujumla matokeo hayo bora ni dhihirisho kamili la utendakazi bora. Kutokana na ada nafuu tunayotoza kwa huduma zetu, mapato yanayotokana na riba yaliongezeka kwa asilimia 27 na kufikia shilingi bilioni 7.42 kutoka shilingi bilioni 5.85. Tumeendelea kuvumbua na kuimarisha njia za kuongezea mapato, iliyopelekea kunawiri kwa pato isiotokana na riba kuongezeka kwa asilimia 15 na kufikia shilingi bilioni 3.43 kutoka shilingi bilioni 3.955. Yaha mafanikio yalitokana na kuimarika kwa shughuli zetu za kifedha, ufadhili wa biashara, huduma ya benki kwa mashirika na huduma ya malipo kupitia mitambo meme. Mapato jumla ya benki yaliongezeka kwa asilimia 17 na kufikia shilingi bilioni 9.7.

Ili kuafikia kiwango hiki cha ukuaji, gharama ya matumizi ya benki pia iliongezeka kutokana na uajiri wa wafanyikazi zaidi, ufunguzi wa matawi zaidi na kusitawishwa kwa mitambo ya ATM sehemu mbali mbali na uzinduzi wa namna nyingine za utoaji huduma. Gharama yetu iliongezeka kwa asilimia 6 kutoka shilingi bilioni 5.9 na kufikia shilingi bilioni 6.3.

Katika kipindi hicho, mikopo kwa wateja iliongezeka kwa asilimia 39 na kufikia shilingi bilioni 53.3 kufuatia mpango mahususi wa uuzaji uliozingatiwa katika kipindi hicho. Licha ya ongezeko hilo la mikopo, asilimia ya mikopo isiyolipwa ilipungua mno, ikilinganishwa na mikopo jumla iliyotolewa. Ufanisi huu ulitokana na umakini wa kitengo chetu cha utathmini na uthibiti wa hasara inayotokana na mikopo, licha ya kupanda kwa gharama ya maisha na kufifia kwa hali ya kiuchumi kwa ujumla katika mwaka huo.

Benki hii tayari imeanza kupata manufaa ya kuongezea vituo vya kutoa huduma, kufuatia kufunguliwa kwa matawi zaidi na kuongezeka kwa akiba ya wateja kwa shilingi bilioni 11 na kufikia shilingi bilioni 65.8 katika mwaka huo.

Kufuatia toleo la hisa za benki yetu kwa umma lililofaulu Desemba 2008, sasa tuko imara kuliko hapo awali, na tuko tayari kabisa kutekeleza awamu ya pili ya mpango wetu wa upanuzi licha ushindani mkali katika sekta ya benki. Tunafuraha kwamba mtaji wetu umeongezeka maradufu na kufikia shilingi bilioni 14, hii ikiwa moja ya mitaji ya juu zaidi katika sekta ya benki, na hivyo kutuwezesha kufikisha kiwango cha akiba ya wateja ya zaidi ya shilingi bilioni 160.

Kutokana na mapato hayo ya kihistoria, kwa ujumla tulipata shilingi 0.67 kwa kila hisa ikilinganishwa na shilingi 0.52 kwa mwaka uliopita, hii ikiwa nyongeza ya asilimia 29. Na kufuatia mapato hayo mazuri, halmashauri ya benki imependekeza malipo ya mgawo wa faida ya asilimia 10, sawa na shilingi 0.10,kutoka asilimia 8, kiasi sawa na shilingi 0.08 kwa kila hisa. Hatua hii ni dhihirisho la kujitolea kwa benki yetu kudumisha desturi yake ya kulipa mgawo wa faida, kwa minajili ya kuwafaidi wenye hisa.

Mikakati yetu ya upanuzi

Benki imeanza mpango wa upanuzi kwa kufungua matawi na vituo zaidi vya kutolea huduma. Katika kipindi kilichomalizika, benki yetu ilifungua matawi 10 na kufikisha 55 idadi jumla ya matawi yake. Mitambo ya ATM pia iliongezewa na kufikia 186.

Hata hivyo licha ya msukosuko wa kifedha uliopo kwa sasa,mpango huo wa upanuzi utaendelea kutekelezwa, japo kwa uangalifu mkubwa. Ili kupanua zaidi shughuli zatu, benki inanuia kufungua matawi eneo nzima la Afrika Mashariki.

Biashara yetu muhimu

Vyama vya ushirika

Benki imeendelea kuvihudumia vyama vya ushirika, ambavyo ni wateja wetu wa mustari wa mbele. Benki kadhalika imejumuisha mtandao wa huduma zake na ule wa vyama vya ushirika, na pia kuwapatia wanachama wa vyama hivyo kadi maalum unganishi inayowawezesha kupata huduma kipitia matawi ya benki. Benki pia imevisaidia vyama kadhaa vya ushirika kuanzisha huduma za benki. Vyama vya ushirika vitaendelea kutekeleza wajibu muhimu katika utoaji huduma za benki kwa Wakenya wengi.

Huduma ya reja reja

Benki yetu imepata ufanisi mkubwa katika utoaji huduma ya benki ya reja reja, kufuatia kuongezeka kwa wateja, akiba na mikopo na pia utumizi wa kadi za Visa. Ukuaji huo umechangiwa pakubwa na kufunguliwa kwa matawi zaidi, matumizi ya kadi za ATM na huduma nyinginezo kama vile huduma za benki kupitia mtandao na vituo vinavyotoa huduma zisizohusiana na pesa taslim. Benki yetu pia imekuwa msitari wa mbele katika utoaji huduma za benki kupitia simu za mkono, ambazo zimechangia ukuaji wa benki yetu na hivyo kuongezea mapato sio haba. Huduma kadha pia zilizinduliwa katika kipindi hicho, kama vile akaunti ya vijana inayoendelea kupata umaarufu ya YEA!

Huduma za benki kwa makampuni na taasisi

Uthibiti wetu wa sekta ya mashirika uliendelea kudumishwa. Hii ni kutokana na kuendelea kutoa mikopo kwa asasi hizo ambazo ni wateja wetu wakuu, na kushiriki katika mipango maalum ya utoaji mikopo kwa pamoja na benki zingine.

Katika kipindi hicho pia tuliangazia zaidi upanuzi na uthibiti wa akiba za wateja wakuu ili kuhakikisha kwamba benki iko shwari kifedha ili kuiwezesha kugharamia mahitaji yake kikamilifu. Kama benki tutaendelea kuwianisha gharama ya riba na mtaji wetu ili kuhakikisha tunaafikia malengo yetu ya ukuaji.

Huduma yetu mpya ya kufadhili ununuzi wa raslimali imeendelea kuimarika na hata kupita kiwango kilichotarajiwa. Kama chombo muhimu cha kutoa ufadhili wa ununuzi wa raslimali kwa mashirika na watu binafsi, tutaendelea kuimarisha huduma hiyo mpya ili kuvutia wateja zaidi.

Huduma ya benki kupitia simu ya mkono maarufu kama M-Banking, ambayo ni ya kwanza ya aina yake katika sekta ya benki, imeendelea kuzindua huduma kadha wa kadha, na pia kuchangia ongezeka la mapato ya benki.

Biashara ya fedha

Biashara ya fedha imeendelea kukua, kuambatana na unyumbufu wa viwango vya ubadilishanaji, na hivyo kuongeza pato letu la kigeni. Kupitia soko la fedha, benki iliweza kudumisha uchumi wake kwenye kiwango kinachohitajika, licha ya misukosuko ya hapa na pale iliyotokea katika sekta ya benki.

Usimamizi wa hazina na Utoaji Ushauri

Kampuni inayomilikiwa na benki ya Co-op Trust iliendelea kusimamia moja ya hazina kubwa zaidi za usimamizi wa fedha zenye umiliki wake hapa nchini, ikiwa na thamani ya shilingi bilioni 17. Ili kuwasaidia wateja wetu wakuu, benki kupitia tawi lake la utoaji ushauri, iliendelea kutoa huduma ya ushauri bingwa kwa vyama vya ushirika. Ushauri huo uliviwezesha vyama hivyo kuboresha usimamizi wake na hivyo kutoa huduma inayoridhisha kwa wateja wake.

Watenda kazi wetu

Kwa vile tumo katika biashara ya kutoa huduma, tunaweza tu kuwaridhisha wateja wetu na wakati huo huo kudumisha hima ya ukuaji tukiwa na wafanyikazi wenye ujuzi mwafaka. Tuliendelea kuwasajili wafanyikazi wenye ujuzi na kufikisha idadi ya wafanyikazi 2,600. Ili kuthibiti kasi ya uuzaji, tuliendelea kukipanua kikundi chetu cha mauzo.

Mfumo wa usimamizi wa benki yetu umeendelea kuimarishwa ili uambatane na mabadiliko yanayochipuza katika sekta ya benki na pia kuzingatia sheria kuhusu uthibiti wa hasara zitokanazo na madeni yasiyolipwa. Na ili kudumisha umahiri wa wafanyikazi wetu, benki iliendelea kuwapa mafundisho kazini katika chuo maalum cha mafunzo cha benki na pia katika nchi za nje. Ni kutokana na kujali maslahi ya wafanyikazi wetu, benki imeweza kuwavutia na kuwadumisha wafanyikazi walio mabingwa wa taaluma ya benki nchini.

Mwisho

Mwaka 2008 hautasahaulika, kwani ni mwaka ambapo benki yetu ilianza safari ya kubadili usajili wake kisheria, ikauza hisa kwa umma na vile vile kuzindua mpango kabambe wa upanuzi wa huduma yake kwa minajili ya kujiongezea mapato.

Nawashukuru wafanyikazi wetu kwa bidii yao kazini, hususan kuhakikisha kwamba wateja wetu wanaridhika na huduma zetu.

Pia nawanashukuru kwa dhati wahusika wa benki yetu wote wenye, kwa kuendelea kuisaidia benki na hivyo kuiwezesha *Kingdom Bank* kupata ufanisi mkubwa. Tunathamini sana msaada wenu na ni matumaini yetu kwamba mtaendelea kuisaidia benki hii itimize lengo lake la kuwa benki inayoongoza hapa nchini.

Asanteni sana na Mungu awabariki.

GM Muriuki, OGW
Mkurugenzi Mkuu

Board of Management

Mr. Gideon Muriuki, OGW, Chief Executive Officer (44)

Appointed Chief Executive Officer 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 and is a Fellow of the Kenya Institute of Bankers. He has over 19 years experience in banking and finance between Barclays Bank, Standard Chartered Bank Kenya Limited and the Co-operative Bank of Kenya Limited.

Lawrence Karissa, Director, Finance & Administration (53)

Has over 24 years experience in banking having joined the Bank in January 1995 from the Kenya Commercial Bank. He has previously worked for PricewaterhouseCoopers. He is Chairman of the Board of Trustees of the Bank's Retirement Benefits Scheme. He holds a Bachelor of Commerce degree in Accounting and is a Certified Public Accountant of Kenya.

Rosemary Majala Githaiga, Company Secretary (46)

Has over 20 years experience as a Lawyer. She previously worked for Hamilton Harrison & Mathews Advocates. She holds an LL.B degree from the University of Nairobi and is a member of the Institute of Certified Public Secretaries of Kenya (ICPSK) and is also an associate member of the Chartered Institute of Arbitrators.

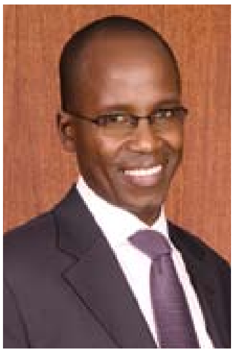
Samuel Mutungi, Director, Operations (53)

Has served the bank for over 14 years at various senior management positions. He joined the bank from Glaxo EA Limited, where he served as the head of Computer Services among other responsible positions. He holds a Masters of Science degree in Business Systems Analysis and Design from the City University (London). He is a Fellow of the Kenya Institute of Bankers and a founder member of the Kenya Computer Society.

Zachary Chianda, Director, Co-operatives Banking (51)

A career banker with over 27 years experience in banking and has worked in various senior positions in the Co-operative Bank of Kenya. He holds a Bachelor of Science Degree in Financial Services and is an Associate of Chartered Institute of Bankers (ACIB) of UK.

Board of Management



Samuel Birech, Director, Retail Banking (45)

Has extensive retail banking experience in both the Co-operative Bank and Barclays Bank Kenya Limited spanning over 19 years. He is a holder of a Bachelor of Commerce degree.

Geoffrey Ndambuki, Director, Corporate & Institutional Banking (48)

Has over 15 years banking experience having previously worked in a number of financial institutions which include African Banking Corporation, Commercial Bank of Africa and Middle East Bank. He holds a Diploma in Marketing and Management from the Kenya Institute of Management.

Weda Welton, Director, Human Resources (51)

Has 13 years banking experience. 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 HR Committee of KBA and a member of IPM (K) as well as KIM. She previously worked with Hogg Robinson Insurance Brokers (now Eagle East Africa) and Agricultural Finance Corporation where she left as Deputy Personnel & Administration Head.

Anthony Mburu, Director, Credit Management (43)

A career banker – he spent 16 years at Standard Chartered Bank in various capacities including the last eight years in senior management with his last appointment there being an international role as Regional Head of Credit for SME in Africa. He holds a Bachelors degree in Commerce.

Caroline Mugadi, Treasurer (40)

A banking professional of 14 years with experience in a number of financial institutions including Diamond Trust Bank, Stanbic Bank Kenya and Standard Chartered. She has a Bachelor of Science Degree in Mathematics and Chemistry. She represents the Bank and The Kenya Bankers Association at The Joint Purpose Liquidity Committee initiated by The Central Bank of Kenya.

Financial Review

Our financial results for the year 2008 reflect the continuing strong growth in our business achieved through commitment to our strategic objectives. The results follow our established track record of driving efficiency improvements and creating additional capacity for further investment to support our future growth plans. The following table shows selected financial information which includes key performance measures and the trend over the last five years. We discuss further this information to provide a greater insight to our investors.

Five Year Financial Review

KShs million **Balance sheet**	**2004**	**2005**	**2006**	**2007**	**2008**
Total Assets	44,540	49,938	57,435	65,324	83,486
Advances to Customers (net of Provisions)	25,115	27,195	27,783	38,045	52,909
Government Securities	7,530	11,348	15,439	12,982	12,856
Cash and short term funds	6,344	6,420	8,715	7,759	8,430
Property and equipment	2,341	2,556	2,794	3,107	4,053
Customer Deposits	35,151	43,602	48,183	54,775	65,854
Shareholders Equity	3,394	4,067	4,834	6,460	13,609
Income Statement					
Net Interest Income	2,188	2,743	3,339	4,849	5,695
Non-Interest Income	2,025	2,556	3,578	3,426	3,954
Operating Expenses	2,971	3,421	4,236	5,257	5,888
Provision for loans impairment	886	1,164	1,425	700	403
Profit before Tax	356	714	1,256	2,319	3,359
Profit after tax	204	446	867	1,550	2,373
Earnings per share	0.07	0.15	0.30	0.54	0.80
Key Ratios (%)					
Return on shareholders Equity	10.5	17.6	26.0	35.9	24.9
Return on Total Assets	0.8	1.4	2.2	3.5	4.0
Impairment Provision to Advances	3.5	4.3	5.1	1.8	0.8
Operating cost to Income	70.5	64.6	61.2	63.5	61.0
Liquidity Ratio	27.4	35.7	41.4	33.5	33.1

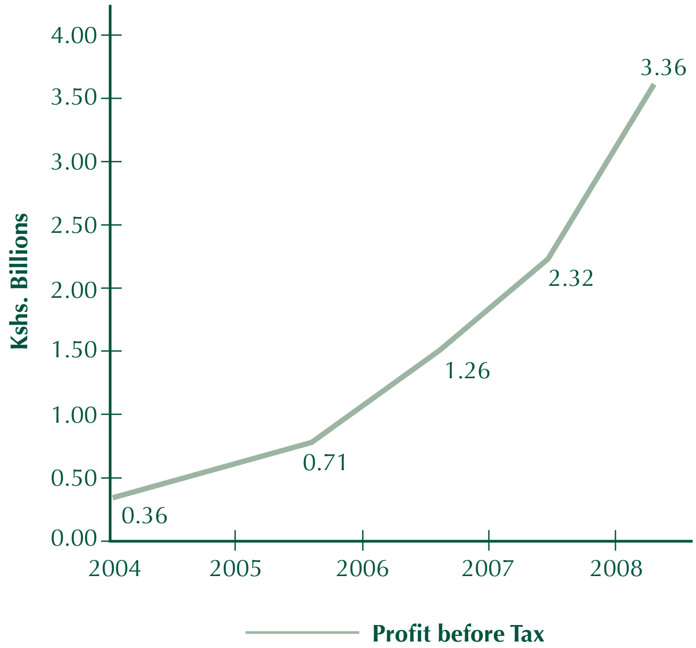
Profitability

Net interest Income: In 2008, our group net interest income increased by Shs. 850 million (20% growth) compared to 2007, maintaining the momentum of sustained growth over the last five years. This commendable level of growth is as a result of increased lending to customers and investment in government securities.

Non-interest income: Our non-interest income includes fees and commission from transactions, foreign exchange income and other non-margin based operating incomes. This income grew from Kshs. 3.4 billion earned in year 2007 to Kshs. 4.0 billion in 2008, representing an increase of 14%. The trend over the last five years has seen us grow this income from 2 billion in year 2004, a cumulative growth of over 100%.

Operating expenses: Operating expenses are incurred in the ordinary course of running the business to generate income. Our operating expenses have increased in line with growth in asset base and total income. Operating expenses have increased from Kshs. 3 billion in year 2004 to Kshs. 5.8 billion in year 2008. Our cost to income ratio has however improved steadily over this period, reflecting enhanced efficiency and cost management.

Growth in Profits



Loan loss provisions: We review our loans and advances at each reporting date and make provisions for any impairment which may arise. Over the five year period from year 2004, our provision for impairment showed a rising trend to peak at Kshs. 1.4 billion in the year 2006. During this period, the bank undertook an exercise to improve the quality of loans carried in our books. The quality of our loan book was enhanced and provisions have been declining to close at Kshs. 403 million in 2008. The ratio of impairment to advances also reflected this trend, improving from a peak of 5.1% in 2006 to close at 0.8% in 2008. Provision for impairment is expected to follow the trend of growth in overall loan book in coming periods.

Total Assets

Our total assets stood at Kshs. 84 billion at close of year 2008, an increase of 91% from Kshs. 44 billion in 2004. This productivity is due to cumulative effort of a strong business growth strategy in branch expansion, growth in our loan book and deposit base. We plan to grow the asset book by concentrating on a specific mix of assets comprising of loans, government securities, cash, short term funds and other assets.

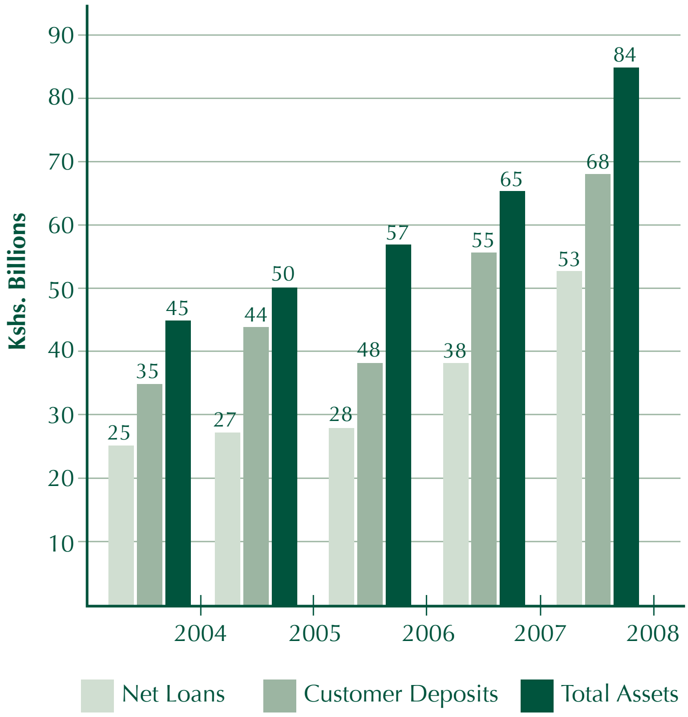
Loans to Customers

Our net loans to customers have grown steadily from Kshs. 25 billion in 2004 to stand at Kshs. 52 billion as at December 2008. This growth was achieved while also pursuing a provisioning policy that ensured that we have a well performing loan book. We plan to build the loan book in line with our strategies of business growth and particular emphasis will be placed on loan performance in addition to sectoral and industry spread.

Government Securities

Government securities include treasury bills and bonds issued by the Central government. These are held for the dual purpose of managing our liquidity position and for earning interest income. Over the past five years from 2004, our holding of government securities has risen in line with necessity to balance between suitable levels of liquidity and earning of income. We have been reducing the percentage of government securities in relation to total assets in response to consistently low rate of return on investment in this type of asset. Our strategy into the future is to utilise the portfolio mainly as a liquidity management tool and concentrate on earning our interest income from lending.

Loans, Customer Deposits and Total Assets



Customer Deposits

Our emphasis in offering quality service to customers has seen deposits grow from Kshs. 35 billion in 2004 to Kshs 65 billion at close of year 2008, a cumulative growth of 86%. Our customer base has also diversified over the period to include not only the co-operative movement but also individual, non-profit making, business and corporate customers. With the increase in our core capital due to capital injection, we are now poised to target and book an even higher level of deposits.

Shareholders Equity

Shareholders equity comprises of share capital and earnings retained by the company over time. Our shareholders equity has steadily grown from Kshs. 3.3 billion in year 2004 to Kshs. 6.8 billion at the end of year 2007 and further to Kshs. 14 billion as we closed the year in 2008. This significant growth was as a result of consistent injection of capital from shareholders and visionary retention of profits. In the last quarter of 2008, we offered our shares to the public through an Initial Public Offer. We managed to increase our share capital by 5 billion through this IPO as well as listing our shares on the Nairobi Stock Exchange.

Growth in Shareholders Equity

The Chairman Co-operative Bank Mr. Stanley C Muchiri rings the bell to open trading at the Nairobi Stock Exchange (NSE) on 22 December 2008 - the day the Bank was listed on the NSE. Also present to grace the historic event was the Hon. Joseph Nyagah, Minister for Co-operatives Development and Marketing (right), and Mr Gideon Muriuki, Managing Director Co-op Bank.

Co-operatives Banking

Since inception, the co-operative movement has been our core customer base. It is our firm belief that co-operatives are an indispensable vehicle for sustainable delivery of banking services to the vast majority of Kenyans. In this respect, we have structured our service delivery with a view to strengthening this sector. We have established a franchising partnership with Saccos through FOSAs to provide wholesale banking and support that enables them offer retail banking services to their members. We are repositioning ourselves strategically in the Co-operatives sector through enhanced market presence and profile.

Our service to the movement is based on relationship management aligned on the basis of economic sectors and regions in which societies operate. Savings and Credit Co-operatives (SACCOs) are categorised into Urban, Rural and Community Saccos, while Co-operative Societies are grouped into Housing, Transport, Coffee, Dairy, Horticulture and Agricultural Marketing Co-operatives. We have focussed on integrating financial systems in the Cooperative Movement with those of the Bank to enable their members transact from their Sacco accounts through our ATM network and other outlets. Through this service, we bring co-operative movement members onto mainstream banking, including access to all VISA branded touch points.

Retail Banking

Driven by our countrywide presence and centralised banking, our products and customer numbers in the retail segment have posted rapid growth. We are one of the largest issuers of Visa-backed debit cards in Kenya, and command a significant share of lending to Small and Medium Enterprises (SMEs). We have keen interest in growing our retail clientele as a means to offering financial services to the un-banked that constitute the majority of Kenyans. Our Credit card business also plays a significant role in serving retail customers. In 2009 and the foreseeable future, we shall commit significant resources towards expansion of our branch and ATM networks and other service channels including internet and non-cash service outlets across the country. This will enable us maintain low cost of funds and grow non-funded income whilst reaching a wider market.

Corporate and Institutional Banking

We have a strong foothold in large corporate business, underpinned by our capacity and reputation to deliver banking solutions that are customized to the particular needs of customers. We offer loans and overdrafts denominated in various world currencies, and arrange syndicated, high-value term loans in partnership with other financial service providers. We also finance our customers' local and international trading activities seamlessly through Letters of Credit, Guarantees, Invoice and Bill discounting products which are all structured to meet the client's unique requirements. We intend to broaden e-business offerings and international trade finance facilities in line with increased sophistication of global business interactions. To ensure prudent liquidity management, we also focus on the acquisition, retention and management of key deposit liability clients who may not have borrowing needs but provide stable deposits.

We are positioned to reinforce and safe guard inroads made into this market segment and increase inter-segment synergy through cross selling and marketing. Our bank is on course to retain and grow its stake in channelling funds for government programs through our country-wide branch network.

Treasury

Our Treasury, in addition to managing liquidity, is responsible for managing assets and liabilities, trading in currencies and securities, and developing new products. We systematically identify, mitigate, and profit from careful management of market risks. We have prudently managed our liquidity levels and operated way above the statutory minimum requirement.

Fund Management

We offer fund management services through our wholly-owned subsidiary, Co-optrust Investment Services Limited. Co-optrust is the leading locally owned fund management company with total assets under management valued at over Kshs.17 billion and a client base of over 120 corporate schemes and 600 retail clients. We have a clientele comprising of private, quasi-Government and institutional organisations . We also provide private wealth management solutions to individual investors.

The Bank is an Authorized Central Depository Agent and is licensed as a Custodian by the Capital Markets Authority (CMA) and Retirement Benefits Authority (RBA) respectively. We offer outstanding scheme administration services to custodians, fund managers and brokers as well as individual clients. We currently manage total assets in excess of Kshs.7 billion and administer over 80 schemes. We are a Central Depository Agent for over 50,000 customers trading at the Nairobi Stock Exchange.

We also provide a wide range of Share Registry services to publicly quoted companies and unquoted firms, including those intending to float Bonds and associated commercial papers.

Financial Consultancy

We offer financial consultancy services through our wholly-owned corporate finance and investment advisory subsidiary, Co-operative Consultancy Services Kenya Limited. The subsidiary offers universal advisory services with a special strategic focus on capacity building in the Co-operative movement in liaison with other stakeholders in the sector. Our current client base comprises of over 150 Co-operative Societies benefiting from our services in the areas of Strategic Planning, Management Evaluation, Information Technology Consulting, Business Organization Review and Human Resources Reviews. Through a dedicated team of consultants, this subsidiary is the project manager of the bank's FOSA program roll-out to Saccos.

Risk Management

Co-operative Bank has established a comprehensive framework for risk management that has been implemented across all business units. This framework is based on an identified range of possible risks, indicating their drivers, frequency, impact, trends and respective measures on how to mitigate them. All risks to the banking industry and those that are specific to the Co-operative Bank are monitored and actively managed by the respective strategic business units and regularly monitored by the Risk Management. The Bank's Risk Management has an independent and direct reporting line to the Board of Directors to whom it reports on the status of risk management throughout the Bank on a regular basis.

There is a continuous monitoring and assessment of the Bank's risk limits to ensure appropriate and timely intervention in line with the Bank's objectives, strategies and current market conditions.

Competition

Co-op Bank currently has the fourth-highest market share in terms of deposits and loans from customers. Competition in the banking sector is expected to grow even more than has been experienced before. However, the potential market is still largely untapped since banking services bear a low penetration rate, especially among the rural people. Therefore, to manage competition, the Bank has actively engaged vigorous mitigating strategies to safeguard our market share, key among them being diversification into non-traditional markets.

Credit Risk

Co-op's credit risk emanates primarily from its loans and advances. One way that the Bank mitigates this risk is by placing limits on the amounts of risk acceptable in relation to any one borrower or any group of borrowers. The Bank has established a credit approval process that is performed at several levels, depending on the credit risk and amount being borrowed. This risk is monitored on a monthly basis and is managed through:

- Analyzing the ability of borrowers and potential borrowers to meet the interest and principal repayment obligations;
- Obtaining collateral and guarantees where necessary;
- The Bank has no significant concentration of credit risk in any one sector, or customer having similar characteristics, as exposure is spread over diverse geographical and industrial sectors;
- Regular analysis of the ability of borrowers to meet interest and capital repayment obligations and by pro-actively taking remedial action where appropriate; and
- Complying with all CBK regulations.

Liquidity Risk

The Bank seeks to ensure that it maintains sufficient funds at all times to meet its operational needs, including maturing liabilities and to ensure compliance with the CBK regulations.

Liquidity risk refers to the Bank's ability to meet its obligations and other commitments at all times, at a reasonable price. Liquidity risk may not be seen in isolation, because it is often triggered by consequences of other financial risk such as credit risk, market risk and similarly, liquidity problems may have significant implications on the whole financial system.

Co-op Bank addresses liquidity risk through the following measures:

- By entering into lending contracts subject to availability of funds;
- Maintaining an aggressive strategy aimed at increasing the customer deposit base, therefore increasing the availability of funds;
- Borrowing from the market through inter-bank transactions with other banks, pension funds and insurance companies for short term liquidity requirements;
- Investing in short term liquid instruments which can easily be sold in the market if the need arises; and
- Investing in property and equipment that are properly budgeted for and done only when the Bank has sufficient cash flows.

Political Risk

The Bank derives all of its revenues from Kenya. The entire Bank infrastructure and other assets are located in Kenya and all of the officers and directors are resident in Kenya. The operations and financial results and the market price and liquidity of the Bank's equity shares may be affected by Kenyan Government policy or taxation of earnings and/or revenues or political, social, ethnic, economic or other developments in or affecting Kenya.

In the past, the performance of the Kenyan economy has been affected by its political situation. As a result of the outcome of, and reaction to, the 2007 elections, Kenya experienced a period of social and political turmoil, which included civil unrest, riots, protests and street demonstrations. On February 28, 2008 a power sharing agreement was reached, and this has helped calm the tension and fears of the public. As a result all sectors of the economy, banking sector included, faced a difficult first quarter of 2008.

There is always the risk that changes in government, and subsequently regulations and legislature can always affect the operations of not only the Bank, but the industry and the entire economy as a whole. This is a risk that is not unique to The Co-operative Bank of Kenya Limited.

Regulatory and Legislation Risk

Regulatory risk is the risk of non-compliance with regulatory guidelines and is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practice, or ethical standards issued by the regulator from time to time. Regulatory risk also arises in situations where the laws or rules governing certain Bank products or activities of the Bank's clients may be ambiguous or untested. The regulatory and governance related legislation that affects or is likely to affect The Co-operative Bank of Kenya Limited includes:

- The Banking Act;
- The Central Bank of Kenya Act;
- The Central Bank Prudential Guidelines;
- The Companies Act;

- The Capital Markets Act;
- Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya;
- The Capital Markets (Securities) (Public Offers, Listing and Disclosure) Regulations 2002; and
- The Central Depositories Act
- Nairobi Stock Exchange Rules

Legal risk refers to the possibility of loss arising from violation of laws or contractual obligations. We aim to sustain a system which monitors and provides appropriate direction and guidance to ensure the sound and proper conduct of business activities across the entire Group. This includes compliance with legal statutes and strengthening preventive measures against conflicts of interest. We have established processes for managing legal risk, collecting information on new and existing business laws and examining the legal implications of new products, services and contracts.

Interest Rate Risk

The Co-operative Bank of Kenya is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates, as funds are sourced at fixed and floating rates.

To mitigate this risk, the Bank aims to:

- Maintain an appropriate mix between fixed and floating rates deposit base, interest rates on advances to customers and other risk assets are either pegged to the bank's base lending rate or treasury bill rate;
- Adjust the base rate from time to time to reflect the cost of deposits;
- Evaluate hedging activities regularly in line with the average interest rate and the defined risk appetite. Optimal hedging strategies are applied, by positioning the balance sheet or protecting interest expense through different interest rate cycles;
- Negotiate the interest rate on customer deposits with customers, ensuring that the Bank retains the discretion to adjust the rates in line with changes in market trends, allowing the interest rates to fluctuate depending on the movement in the market interest rates; and
- Invest in fixed interest rate instruments issued by the Government of Kenya through the Central bank of Kenya.

Currency Risk

The Co-operative Bank of Kenya is exposed to the risk that the value of financial assets will fluctuate due to changes in foreign exchange rates. To mitigate this risk, the Bank has put in place guidelines and limits that are reviewed and approved by the Board, on how much forex exposure the Bank can take.

Foreign currency risk is addressed through the following measures:

- Daily monitoring of the overall foreign exchange risk exposure;
- Single currency exposure, irrespective of short or long position, based on the Bank's core capital; and
- The Board of Directors sets the Intra-day foreign exchange exposures within strictly defined limits.

Inflation Risk

The bank is exposed to inflation as a risk as high levels of inflation weaken the purchasing power of the shilling consequently reducing the amount of savings. High rates of inflation could increase the Bank's costs and decrease its operating margins.

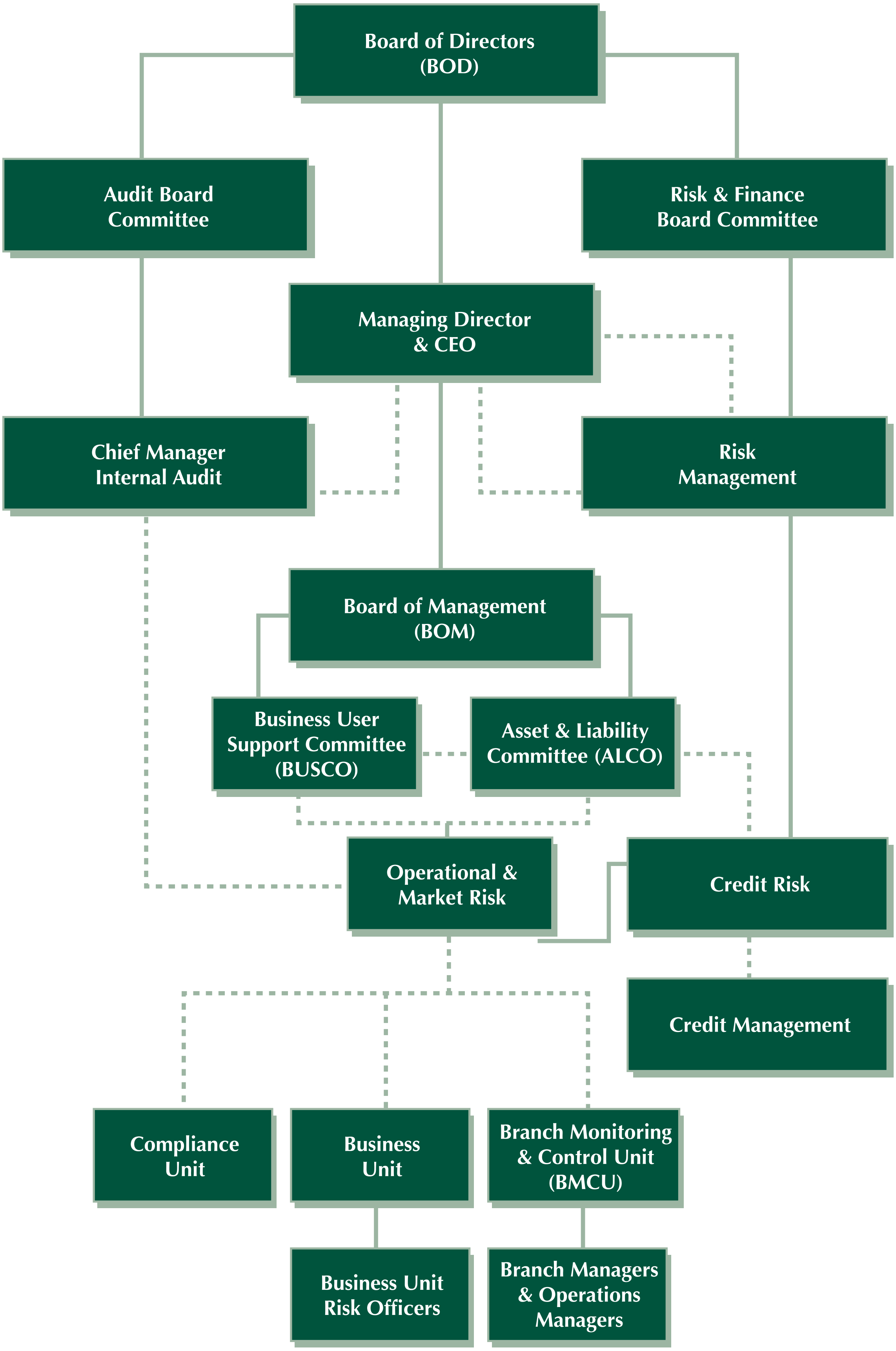
The Bank is able to mitigate against this risk by adjusting its lending rates so as to cover the cost of inflation.

Operational Risk

Operational risk is associated with human error, system failures and inadequate procedures and controls. It is the risk of loss arising from potentially inadequate information system; technology failures, breaches in internal controls, fraud, unforeseen catastrophes, or other operational problems may result in unexpected losses. Operational risk exists in all products and business activities. The Management ensures that an effective, integrated operational risk management framework that incorporates a clearly defined organizational structure and work flow is maintained.

- Each department has defined roles and responsibilities for all aspects of operational risk management.
- Appropriate tools that support the identification, assessment, control and reporting of key risks in place.
- All information technological services systems architecture is highly scalable and requires minimal lead-time to increase capacity to match growth in demand.
- Operational risk systems are subjected to independent reviews including testing from external reputable firms.
- Appropriate insurance cover to cover risks such as theft and employee infidelity.

Risk Management Framework: Governance Structure



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Pop into any Co-operative Bank branch for more details.

CO-OPERATIVE BANK OF KENYA
We are you

Y&R 11823

Corporate Responsibility

Corporate Responsibility

- Promoting Sustainable Business
- Innovating Value-Adding Financial Services
- Enhancing Access to Financial Services
- Caring for the Environment
- Growing Human Capital
- Safeguarding Financial System Security
- Co-operative Bank Foundation
- Value - Added Statement

Promoting Sustainable Business

The Co-operative Bank was formed in 1965 when the banking sector was dominated by multinationals that were reluctant to lend to indigenous customers. As a financial services group, the bank had to place itself in step with Kenya's needs and earn the highest trust of society by meeting the public's expectations and fulfilling its social responsibilities. Earning the highest level of trust has required the balanced provision of value to customers, shareholders and the market, the environment, society and employees. Through this process, we aim to contribute to economic growth and poverty reduction through the sustainable development of society as a whole.

Our corporate vision is to make the Bank the best financial services company, firstly in Kenya, then across borders to the regional front. Our strategy on sustainably engaging in business is to help achieve our corporate vision by building a great place for our people to work, a great place for our customers to do business and generating great returns for our shareholders. In so doing, we create value for all our stakeholders. The business case for sustainability-approach to business is clear as this is fundamental to delivering a successful 21st century blue-chip.

Out of the over 36 million Kenyans, only about 4 million have access to commercial banking services. In a bid to reach the majority who are un-banked, the Bank is in the process of expanding its retail network through branches as well as ATM's. In the year 2008, the bank opened eleven new branches and intends to open an additional over thirty new branches by the end of the year 2009. The Bank is also using product innovation as a tool for expanding access to financial services. In this regard, the bank launched the Sacco Link program which gives participating Saccos access to our Information Technology (IT) backbone. It enables them to offer front-office financial services in addition to use of Co-op Bank ATMs. We have also made our services readily available to customers through SMS-based mobile banking.

Three out of six of Co-operative Bank's core values are in the area of customer service that is, we value our customers, we execute at speed and we value our banks reputation. These values are geared towards ensuring that the customer is served as quickly and as efficiently as possible. To achieve this, the bank has invested in a customer relationship management system and established a call centre with dedicated free toll lines to facilitate customers' enquiries.

Our bank appreciates the importance of Information Communication Technology (ICT) in efficient service delivery. This is especially so given that the expected branch expansion will result in increased customer numbers. The bank has positioned itself for this growth with the successful implementation of a banking system that will support a significant increase in the client base. Plans for the internet banking solution are at advanced stages. This product is expected to contribute to the growth in client base by providing convenient banking services especially for Kenyans in the diaspora.

Promoting Sustainable Business

Success isn't a destination; it's a journey, made all the more rewarding by pausing along the way to invite others to enjoy it with you. At Co-operative Bank, we believe that our continued success depends on our ability to share it with others, enhancing their lives and leaving them better equipped to succeed themselves. Towards this end, the bank launched the Co-operative Bank Foundation in year 2007 and is currently paying school fees for hundreds of students from needy families across Kenya. Our staff are also encouraged to participate in community projects and volunteering through the shilling-for-shilling program. The bank continues to play its role as a patriotic corporate citizen and contributes generously to a wide range of social welfare activities and organisations devoted to poverty alleviation programs and other causes aimed at benefiting the public.

Co-operative Bank's environmental policy is aimed at conducting business in a responsible, fair and straightforward manner and in keeping with government endeavours towards environmental protection. The Bank is committed to nurturing an environmental protection and conservation culture, both in its own operating environment and in those of all the parties with which it has a business association.

We have strong evidence that there is a clear link between employee satisfaction and customer retention, which in turn leads to improved financial performance. Co-operative Bank operates a successful human resources policy aimed at attracting and retaining the best staff in the industry. We employ an equal opportunity policy based on merit and driven by the need to have a highly professional staff complement. A key contributor to our business success is human capital development. The bank recognizes the importance of multi-skilled staff by providing continuous and relevant training of all staff members. The bank facilitates training by both local and international organization trainers to equip employees with relevant skills both for the job and their welfare.

His Excellency the President Hon. Mwai Kibaki, receives a Kshs 5 million cheque to the Kenya Red Cross towards famine relief from the Managing Director of the Co-operative Bank Mr. Gideon Muriuki (right). Also present is the Vice President Hon. Kalonzo Musyoka and the Bank Chairman Mr. Stanley Muchiri.

The Bank had earlier in the year donated another Kshs 5 million to the Kenya Red Cross in aid of the relief efforts for the victims of the post-election violence.

Innovating Value-adding Financial Services

The banking sector has grown phenomenally over the last several years resulting in increased access to financial services and considerable enhancement in the numbers of banked Kenyans. This significant growth necessitated expansion of branch networks across the sector to increase service points, but this has not matched the rate of increase in customer numbers. This has resulted in unsatisfactory customer experiences and delayed service delivery. At Co-operative Bank, we have resolved to focus on providing customers with top quality service in line with our target to achieve sustainable growth.

Excellence in Customer Service

Our customer service program is designed around the concept of delivering enhanced customer value. We engage in continuous re-engineering of our business processes to make them simpler and more efficient without diminishing their integrity. We have invested in information technology enhancements to deliver timely and exceptional client service. Our newly established Call Centre has boosted efficiency in customer interactions through efficient logging, tracking and monitoring of enquiries to conclusion. We also are increasing service channels to maintain customer delight even as client numbers increase.

Product Innovation

The bank will develop new products and services in response to diversification and sophistication of customer needs in addition to other changes in the business environment. We pioneered Mobile Banking in 2004, which enables customers to transact on their accounts from their cell phones, including the payments of utility bills through mobile phones and ATMs. We are committed to development of new products that will further enhance convenience in access to financial service by our clients, including Internet banking. At the same time, we will enhance our business model to offer customers 'one-stop-shopping' for various financial services including securities, trust services, custody services and more as the regulatory framework is set-up.

Co-operative Bank Stima Plaza Branch Manager, Joyce Kimondo (right) donates food and other essensials to Jacinta Barasa (left) a social worker at Bahati Rehabilitation Centre and Antony Njoka (centre), Bahati area Chief.

The Bank runs a shilling-for-shilling program wherein staff contribute towards community projects of their choice, after which the bank matches amounts raised.

Enhancing Access to Financial Services

A survey conducted by the Central Bank of Kenya (CBK) in 2007 revealed that only 19% of Kenya's population is banked i.e. those that have access to financial services from commercial banks, microfinance institutions and building societies. An additional 8% are served by Saccos and micro finance institutions while 35% depend primarily on rotating savings and credit associations. 38% of Kenyans have no access to financial services whatsoever and are classified as un-banked.

In a bid to reach this un-banked section of the population, the Co-operative Bank is in the process of expanding its retail network through branches as well as ATM's. We have grown from a single branch in 1968 to over fifty branches to date. In the year 2008, the bank opened eleven new branches in Eastleigh, Kayole, Westlands, Buruburu, Ongata Rongai, Nkubu, Naivasha, Ukunda, Mtwapa, Upper Hill and Wakulima. The bank intends to open over thirty additional branches by end of year 2009.

The bank offers tailor-made services to niche segments of the market to enhance benefits that accrue to the community. It encourages a savings culture among children through the Jumbo Junior account. The newly launched YEA! account is tailored for young adults and to empower them to manage their finances and start their own businesses. The bank has great confidence in this future generation and is set to unlock their potential. Many great economies have been built by the contribution of the small businesses. The Bank has for a long time appreciated the contribution of the small saver, the small business owner and the upcoming entrepreneur. The bank nurtures their growth by providing affordable products such as the Haba na Haba access account and the Biashara Plus loan.

The Bank is also using product innovation as a tool for expanding financial services to majority of Kenyans who are currently out of mainstream banking system. The Co-operative movement is a key component of the Kenyan economy, with diverse membership of over seven million Kenyans. It is our firm belief that co-operatives will continue to be a vital means to delivery of banking and financial services to Kenyans. We have supported Saccos in set-up of front-office banking to provide retail banking to their members. We have so far opened close to one hundred FOSAS and expect to commission another one hundred by the close of 2009.

In line with this strategy, the bank invested heavily in the SaccoLink program which has integrated the bank's and Saccos' financial systems to enable Sacco members transact from their Sacco accounts through our ATM network. VISA cards are issued to members of participating Saccos through which they access services at the Bank's ATMs. The cards can also be used at other visa branded ATMs and used to purchase goods at VISA-accepting outlets.

We have also made our services readily available to our customers through mobile banking. This SMS-based telephone banking service allows our customers to enquire their account balances, purchase air time, request for mini statements, make utility payments and receive automatic salary alerts when cash enters their accounts.

Branch Network

Existing Branches

1 Athi River
2 Buru Buru
3 Bungoma
4 Chuka
5 City Hall
6 Co-op House
7 Digo Rd, Msa
8 Eastleigh
9 Eldoret
10 Embu
11 Githurai
12 Homa Bay
13 Industrial Area
14 Industrial Area II
15 Kakamega
16 Karatina
17 Kariobangi
18 Kawangware
19 Kayole
20 Kericho
21 Kerugoya
22 Kiambu
23 Kimathi
24 Kisii
25 Kisumu
26 Kitale
27 Machakos
28 Makutano
29 Maua
30 Meru
31 Migori
32 Moi Ave. Nbi
33 Mtwapa
34 Mumias
35 Muranga
36 Nacico, Nbi
37 Naivasha
38 Nakuru
39 Ngong Rd
40 Nkrumah Rd, Msa
41 Nkubu
42 Nyahururu
43 Nyeri
44 Ongata Rongai
45 Parliament Rd
46 Stima Plaza, Nbi
47 Thika
48 Ukulima House, Nbi
49 Ukunda
50 University Way
51 Upperhill
52 Voi
53 Wakulima Market, Nbi
54 Westlands

Upcoming Branches

1 Busia
2 Garissa
3 Gilgil
4 Juja
5 Isiolo
6 Kajiado
7 Kangemi
8 Kapsabet
9 Kitui
10 Malindi
11 Mariakani
12 Nakuru No.2
13 Nanyuki
14 Narok
15 North Airport Road
16 River Road
17 Siakago
18 Siaya
19 Tala
20 Tom Mboya St
21 Zimmerman

Caring for the Environment

We recognise the importance of realising a sustainable society through continuous efforts to harmonise environmental preservation and corporate activities in order to support the economy and contribute to the general well-being of society as a whole. This includes taking stock of the impact of our activities on the surrounding environment, including factors influencing climate change. We have devised ways to reduce levels of environmental risk posed by our own activities and are determined to fulfil our social responsibilities through the conservation of resources, energy saving and the reduction of waste.

Reducing Environmental Impact

Protecting the environment complements business and reducing environmental impact through efficient use of resources is good for the wellbeing of all our stakeholders. 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. Recycling plays an additional role of creating employment.

Another key environmental initiative is reduction of paper consumption through use of information technology (IT) and implementation of modern business process reviews. Establishment of IT infrastructure has facilitated computerisation of most in-house administrative operations thus reducing the need to print. In the area of customer interactions, the bank is increasingly offering services through ATMs and electronic banking through the Internet as additional means to reduce the use of paper. Towards preservation of scarce resources, 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.

Partnerships

We seek to establish partnerships with industry members, government agencies, relevant environmental bodies, suppliers, customers and the public to promote and achieve a high standard of environmental care. We have already established links with Nairobi City Council to maintain green-gardens around Co-operative House and the commuter area of Railways bus stage.

His Excellency the President Hon. Mwai Kibaki is received by the Managing Director Co-operative Bank Mr. Gideon Muriuki, as he visits the bank's stand during the Centenary Celebrations of the co-operative movement held at the KICC grounds.

From its founding in 1968, Co-op Bank has continued to serve the key co-operative customers with distinction.

Growing Human Capital

Employer of choice

We are committed to maintain high levels of employee satisfaction and fair terms of engagement. Our bank has made it a priority to create an energetic, enjoyable workplace with a reputation to attract and retain the best talent in the market. We endeavour to preserve gender and ethnic diversity in our employee mix and take pride as an equal opportunity employer for all qualified persons. Out of our total workforce as at December 2008, females make up 43%; a remarkable gender balance. Over the years, there has been a sustained increase in the number of female employees in senior management positions to stand at over 30% in 2008. For purposes of government programs, youth are defined as being those below the age of 35 and form the largest segment of Kenya's population. 78% of our staff is aged below 35 and this has emphasised our role towards realisation of Vision 2030 through youth employment and empowerment. We have also developed competitive remuneration systems to stimulate superior performance and reward high achievers for their contribution.

Building Pride & Passion

We have developed an environment to create passion and individual team-member responsibility towards making us a market leader. Staff are encouraged to exercise initiative and be prepared to receive objective challenge to bring out the best of each member. We promote generation of new ideas and approaches to business with the confidence that staff views are recognised, insights acted upon and innovativeness rewarded. We undertake to communicate a compelling vision of success that inspires our people to see the world from our customers' perspective to deliver world-class customer experiences. We take great satisfaction in noting that whilst staffs were allocated 4% of shares offered in our Initial Public Offer (IPO), they managed to oversubscribe substantially, indicating deep-seated sense of ownership.

We grow our people

We strive to bring out the collective best as this is the art of winning. We are committed to the development and success of team-members through first-class training, leadership-building and skills enrichment. We encourage our people to commit themselves to lifelong learning in both their professional and personal endeavours. Further, we have set up an e-learning facility and robust intranet that facilitates self-learning by bringing information right to the office desk. We undertake to grow talent through on-job-training and structured programs at Co-operative Bank Management Centre in Karen. We believe that human capital is the most valuable asset of a great company and our employee retention strategies are aligned along this mantra. Even while maintaining low attrition levels especially for critical employees, we take pride in our role as a major contributor to Kenya's highly skilled human resource base. We have resolved to maintain programs that open our people's eyes to personal development opportunities within and beyond their current horizons to boost their capabilities and employability.

Staff Welfare

At the Co-operative Bank we view each other as part of one big family and each member's welfare is our collective responsibility. Following political disturbances at the beginning of Year 2008, we brought together our staff to build greater bonds of tolerance and oneness in addition to provision of financial support to those in need.

Further, the bank contracted professional counsellors to offer psychological support to all staff and facilitate post-trauma management as a means to maintain all-round staff wellbeing. We continue to invest in out-of-office staff activities such as sports events, team-building and other activities in reflection of our deep commitment to staff welfare. Another of our prime concerns is provision of a safe and secure working environment that facilitates high staff productivity.

HIV/AIDS Policy

The Co-operative 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.

Co-op Bank Relationship Manager in Institutional Banking Pauline Olali, takes Joseph ole Sumbicha through the process of opening a Haba na Haba Account.

Co-op Bank was the first Bank in Kenya to introduce Micro Credit in 1998. Since then, the facility has supported over 60,000 small businesses realise their dreams for growth due to the flexible collateral requirements of the Biashara Plus Loan.

Safeguarding Financial System Security

Money Laundering

Money laundering is the illegal practice of filtering ill-gotten gains or 'dirty' money through a series of transactions, so that the funds are 'cleaned' to look like proceeds from legal activities. This practice is driven by criminal activities and conceals the true source, ownership or use of funds through diverse and complex processes and transactions. The bank has an effective anti-money laundering program to minimise exposure. The program includes account opening controls under Know Your Customer (KYC) principle and active risk-based monitoring of transactions to detect suspicious activity. The bank is in compliance with the Central Bank of Kenya regulations on Anti-Money Laundering. Further, we encourage customers to maintain proper records of transactions and insist on acquiring identification details of trade partners especially for high-value business deals.

Information Technology-based Financial Services

Internet banking and online business transacting is now a widespread practice and it can only grow further in volume as computer accessibility improves and under-sea fibre-optic cables make landing in Kenya in 2009. While offering convenience and speed, accessing financial services through the internet introduces potent risks such as loss of confidentiality, identity theft and resultant fraudulent activities. The bank has installed modern and robust programs, anti-viruses and firewalls to guarantee flawless online transacting. We have also set-up secure systems to protect the bank and customers from financial crime in addition to consistent review of our processes to set and maintain standards that meet international best practice.

Customer Awareness

The Co-operative Bank has prioritised the security and privacy of customer financial information. While we have invested in world-class and sophisticated IT infrastructure, the customer is in custody of key documents that could facilitate fraudulent activity if accessed by criminals. 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.

Kids having fun with the bouncing castle at the December 2008 Jumbo Junior Family Fun Day. Launched in 1995, Jumbo Junior was the pioneer children account that remains the most popular kids account in Kenya.

Co-operative Bank Foundation

The Co-operative Bank of Kenya Limited is committed to improving the welfare of the broader community in which it operates. In modern times, the welfare of the people, communities, organisations and the environment continue to be interlinked. To ensure sustainability, we continue to give equal consideration to our social, economic and environmental goals.

In 2007, the Co-operative Bank Foundation was set up as the bank's social responsibility vehicle focusing mainly in the areas of education, health, environment, social welfare and agriculture. Lack of education has been observed to be a key contributor to poverty in the society. We believe in a vibrant, well educated society and have therefore devoted considerable resources towards enhancing access to school.

Between years 2007 and 2008, the bank funded the Foundation with Kshs. 30 million to facilitate access to education for bright but needy children. The funding is a full secondary school scholarship which caters for school fees, uniforms and text books. The Foundation is currently supporting a total of 815 students from all provinces of Kenya and we will continue to support them through to completion of secondary school education.

Staff Community Participation

Co-op Bank members of staff are involved in at least one community development program each year. With bank support, our staff participate in a wide range of community programmes, giving their time and resources towards projects focusing on education, environment, child welfare and poverty alleviation initiatives. For many years we have ran a shilling-for-shilling program wherein staff contribute towards projects of their choice, after which the bank matches amounts raised. Staff thus have the liberty to identify, own and drive projects as they volunteer time and services.

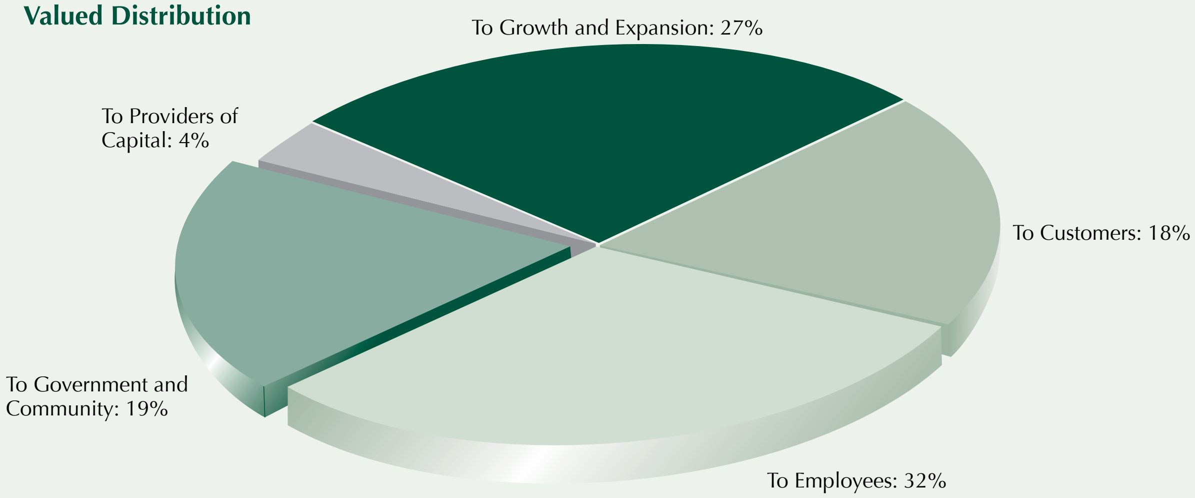
Beyond funds disbursed through Co-operative Bank Foundation and staff shilling-for-shilling program, our bank contributed over Kshs 15 million to various charities. Key among these was Kshs 5 million given to Kenya Red Cross and another five million to the government's National Humanitarian Fund to assist in supporting victims of post-election violence.

The Co-operative Bank Foundation is the driver of the Bank's corporate social responsibility strategy. Entirely financed by the Bank, the Foundation is offering full 4 year scholarships for secondary school education for disadvantaged bright Kenyan children. Now in its third year, the Foundation is currently educating some 815 children across the country.

Value Added Statement

	2007		2008	
	Shs. Mn	%	Shs. Mn	%
Value added				
Gross Interest Income	5,520		7,133	
Fees and commissions	2,847		3,219	
Other Operating Income	915		1,037	
Net Operating expenses	(2,345)		(2,282)	
Value added by Group	6,937	100	9,107	100
To Customers	980	14.1	1,660	18.2
Interest Paid (net of Taxes)	910		1,590	
Contribution to Deposit protection fund	70		70	
To Employees	2,596	37.4	2,908	31.9
Salaries and other benefits	2,218		2,467	
Contribution to Retirement benefit scheme	201		246	
Employee Training and Welfare	177		195	
To Government and Community	**1,016**	**14.6**	**1,683**	**18.5**
Corporation Tax	632		1,037	
Taxes witheld on payments	356		594	
Business Operating Licenses	10		21	
Donations	18		31	
To Providers of capital	269	3.9	401	4.4
Dividends to Shareholders	229		350	
Interest Paid on Government/Donor Loans	40		51	
To expansion and Growth	2,076	29.9	2,455	27.0
Retained Income	1,550		2,023	
Depreciation and armortisation	389		483	
Deferred Tax	137		(51)	
	6,937	**100**	**9,107**	**100**

Valued Distribution



Governance

Governance

- Corporate Governance
- Directors' Report
- Statement of Directors' Responsibilities
- Independent Auditors' Report

The Board

The Bank is governed by a Board of Directors appointed by the shareholders. The Board has a clear mandate to provide policy guidance to the institution and protect the interest of all stake holders. The Bank's Board of Directors comprises of personalities with many years of experience in banking and business related matters.

The Board consists of eleven directors, one of whom, the Managing Director is executive, while ten are non-executive. The Board is composed of directors with a good mix of skills, experience and competences in the relevant fields of expertise and is well placed to take the business forward. Notably, seven members of the Board are elected from the Co-operative movement and represent the strategic and majority shareholder in the bank - Co-op Holdings Cooperative Society limited.

An annual plan of scheduled board meetings is prepared each year, including meetings for the sub-committees and the annual Board of Directors retreat / seminar. Special meetings are convened when need arises.

The boards of the subsidiaries of the Bank - Co-opTrust Investment Services Limited and Co-operative Consultancy Services (K) Limited - meet on a quarterly basis. The full Board meets at least six times a year. The Board of Directors is responsible for providing leadership to the Bank and has the following duties and responsibilities:

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

See pictures and profiles under the "Overview" section above of this Annual Report and Accounts.

Corporate Governance

Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya set out good corporate governance requirements which listed companies should comply with and adhere to, observe and report on. Of particular interest is the composition and role of the Board, qualifications and experience of directors, board committees and general corporate governance. As a listed company, the Co-operative Bank of Kenya Limited continues to adhere to best practice in corporate governance and also report on its said compliance on a regular basis.

Good corporate governance for the Bank is about running the Bank well. At Co-op Bank, we aspire to the highest standards of corporate governance, not as an exercise in compliance, but as a means of driving the performance of the business. We aspire to have effective corporate governance in accordance with high international standards as part of our identity and an integral part of our business philosophy.

Corporate governance involves putting in place an effective internal framework of authority and accountability that promotes success whilst managing and mitigating risk. It is also outward looking; it is about how the Bank and its Directors engage and interact with shareholders and other key stakeholders.

Our system of corporate governance has, over the years, ensured the responsible, value-driven management and control of your Bank, which has four key elements: good relations with shareholders, effective cooperation between the Board of Directors and the Executive Team, a system of performance-related compensation for managers and employees, as well as transparent and early reporting.

The Board is responsible for the Group's corporate governance practices and recognizes its responsibilities to shareholders and other stakeholders to uphold the highest standards in economic, social, environmental and ethical matters by ensuring that the Bank conducts its business in accordance with best practice in corporate governance. The Co-operative Bank of Kenya has in place mechanisms to fully comply with the provisions and principles of good corporate governance as set out in the Prudential Guidelines from the Central Bank under the Banking Act.

On appointment, the directors receive an induction covering the bank's business and operations. The directors are advised of the legal, regulatory and other obligations of a director of a listed company. 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. As part of this process, all the directors attend training, at the Bank's expense, on good corporate governance provided by Centre for Corporate Governance and various relevant Exposures / seminars.

Board Performance Evaluation

The Central Bank of Kenya Prudential Guidelines require that the Board is responsible for ensuring that an evaluation of its performance, and that of its committees and individual directors is carried out. The evaluation is conducted annually and results provided to the Central Bank of Kenya. The Board evaluates the effectiveness of its performance against its set objectives, by way of both peer and self evaluations and an evaluation of the performance of the Chairman.

The board and all its committees conducted evaluations to measure their effectiveness during the year. No material concerns were expressed in these evaluations and the committees in their opinion have honoured their responsibilities during the year.

Directors' remuneration

The remuneration of all directors is subject to regular review to ensure that levels of emoluments and compensation are appropriate. Information on the aggregate amount of emoluments and fees paid to directors are disclosed in notes to the financial statements.

Succession planning

The Bank benefits from an extensive pool of people with diverse experience and competence at senior management level. Succession planning is an ongoing process. The board is confident that it should be possible to identify suitable short term and long term replacements from within the Bank should the need arise.

Internal control

The Board has a collective responsibility for the Group's systems of internal control and for reviewing their effectiveness. The Board, through Management, ensures establishment and management of appropriate systems and controls in the running of the business of the Group. The system of internal control in place has defined procedures and 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 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 an independent confirmation that Group and business standards, policies and procedures 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.

Code of conduct

The Co-operative Bank Group is committed to effectively carry out its mission as an integral part of the country's financial sector infrastructure and fulfil its social and economic responsibilities. To achieve this and more, we have resolved to strictly adhere to principles of compliance and open the path to becoming an outstanding regional corporate group. Compliance is a key pillar of our business ethics policy and we strive to strengthen it as a matter of priority. The Board has approved a Code of Conduct, which sets out the Bank's core values relating to the lawful and ethical conduct of business. This is in addition to compliance with the Central Bank of Kenya Code of Conduct as set out in the Prudential Guidelines.

The Board requires that all directors, officers and other employees 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 as outlined in the Co-operative Bank Code of Conduct.

Conflict of interest

The Board has a policy in place to ensure that directors avoid placing themselves in positions where their self interests conflict with their duty to act in the best interest of the company. This policy provides that directors, their immediate families and companies where directors have interests in 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. Business transactions with directors and related parties are disclosed in notes to the financial statements.

Board Sub-committees

The Board has in place the following sub-committees:

- Audit Committee;
- Staff and Nomination Committee;
- 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 synchronize them with new developments / new requirements of the CBK Prudential Guidelines.

Audit Committee

This Committee meets at least six times in a year. As per regulatory requirements the membership of this committee consists of two non-executive members of the Board who are independent of the day to day management of the Bank.

The current members are:

Julius Riungu - Chairman
John K Murugu - PS Treasury's appointee

The terms of reference for this committee are to review and evaluate the financial condition of the bank, its internal controls, performance and findings of the internal auditors, and recommend appropriate remedial action regularly, 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

This committee meets at least four times in a year.

The current members are:

Stanley Muchiri - Chairman;
Julius Riungu; - Vice Chairman
Gideon Muriuki; - Managing Director
Fredrick F Odhiambo - Commissioner for Co-operative Developement and Marketing;
Julius Sitienei;
Major (Rtd) Gabriel Wakasyaka.

Its mandate is to review human resource policies and make suitable recommendations on Senior Management appointments. In addition it has the responsibility of reviewing, vetting names for director positions and proposing/making recommendations to the Board of Directors, who then present to the General Meeting, and also assessing the performance and effectiveness of directors of the Bank.

Risk and Finance Committee

The committee meets at least six time a year.

The current members are:

Stanley C Muchiri - Chairman;

Gideon Muriuki - Managing Director

Macloud Malonza;

Wilfred Ongoro;

Richard Kimanthi; and

Donald K. Kibera.

Its mandate is to review all credit and finance matters and risk management issues in terms of management, assurance, reporting and overseeing all risks facing the bank.

Management Committees

The Board has put in place key Management Committees, also with defined terms of reference and scope of authority and reporting structure.

The current Management Committees are as follows;

The Board of Management - which is the Executive Committee constituted to assist the Managing Director in the day to day management of the Bank's business, formulate and implement strategy and policy. The membership of this Board comprises Managing Director, Division Directors and Treasurer.

The Credit Board of Management - whose mandate is to receive, review and consider all credit cases and matters that are beyond the credit approval limits of divisional directors. It currently has membership of all Division Directors.

The Asset and Liability Committee (ALCO) - This Committee is responsible of assisting the Board of Management in the overall management and strategy on the 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 operations and processes management of the Bank. The Committee also prioritizes all requisitions on significant capital expenditure and budgets for investments in ICT and considers business case proposals for all proposed ICT investments.

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

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

Schedule of attendance of meetings prior to conversion of the bank from a co-operative society to a limited liability company:

Director	Co-operative Bank Group			Board Sub-committees		
	Coop Bank	Coop Consultancy	Coop Trust	Audit Committee	Staff and Nomination Committee	Risk and Finance Committee
Scheduled meetings:	**5**	**1**	**1**	**2**	**1**	**1**
S. C. Muchiri, - Chairman	5	1	1	N/A	1	1
J. Riungu - Vice Chairman	5	1	N/A	2	1	1
G. Muriuki, Managing Director	5	1	1	2	1	1
J. Sitienei	5	N/A	1	N/A	1	N/A
F. Odhiambo Commissioner of Co-operatives	5	1	N/A	N/A	1	1
P. K. Githendu	5	N/A	1	N/A	1	N/A
G. Mburia	5	1	1	N/A	N/A	N/A
R. L. Kimanthi	5	N/A	1	N/A	N/A	1
E.K. Mbogo	5	N/A	N/A	N/A	1	1
G.J.S. Wakasyaka, Rtd Major	5	N/A	1	N/A	1	N/A
M. Malonza	5	N/A	1	N/A	N/A	1
S. Odhiambo (Mrs)	5	N/A	N/A	N/A	1	1
Dr. J. Kahunyo	5	1	N/A	2	N/A	N/A
C. Kabira	5	1	N/A	N/A	1	N/A
W. Ongoro	5	1	N/A	N/A	1	N/A
J. Murugu – Representing PS Ministry of Finance	3	1	N/A	2	N/A	1

Schedule of attendance of meetings after conversion of the bank from a co-operative society to a limited liability company:

S. C. Muchiri, - Chairman	7	2	N/A	-	-	1
J. Riungu - Vice Chairman	7	N/A	N/A	-	-	N/A
G. Muriuki, Managing Director	7	2	2	-	-	1
J. Sitienei	7	N/A	N/A	-	-	N/A
F. Odhiambo Commissioner of Co-operatives	7	N/A	N/A	-	-	N/A
P. K. Githendu	N/A	2	2	-	-	N/A
G. Mburia	N/A	2	2	-	-	N/A
R. L. Kimanthi	7	N/A	N/A	-	-	N/A
E.K. Mbogo	N/A	2	2	-	-	N/A
G.J.S. Wakasyaka, Rtd Major	7	N/A	N/A	-	-	N/A
M. Malonza	7	N/A	N/A	-	-	1
S. Odhiambo (Mrs)	N/A	2	2	-	-	N/A
Dr. J. Kahunyo	N/A	2	2	-	-	N/A
C. Kabira	N/A	2	2	-	-	N/A
W. Ongoro	7	N/A	N/A	-	-	1
J. Murugu – Representing PS Ministry of Finance	4	N/A	N/A	-	-	N/A
D. Kibera	2	N/A	N/A	-	-	1

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2008, which show the state of the Group's and the Company'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 operating results of the Company's subsidiaries, Co-optrust Investment Services Limited, Co-operative Consultancy Services Kenya Limited and Co-operative House Limited have been included in the Group financial statements. Co-operative Consultancy Services Kenya Limited offers financial advisory services. Co-optrust Investment Services Limited is involved in the business of fund management. Co-operative House Limited and Co-operative Merchant Limited are both dormant.

3. Change of Legal Status

In the course of the year, vide Gazette Notice No. 7089 dated 8 August 2008, The Co-operative Bank of Kenya Limited changed its legal status from a co-operative society to a public limited liability company.

4. Results

The results of the Group for the year are set out on page 72.

5. Dividend

The directors recommend payment of a dividend of KShs 0.10 (2007 - KShs 0.08) for every ordinary share of KShs.1. The dividends will be paid on or about 15th June 2009 to the shareholders registered on the Company's Register at the close of business on 04th June 2009. The register will remain closed for one day on 05th June 2009 for the preparation of dividend warrants.

6. Reserves

The movement in the Group's reserves is shown on page 75 of these financial statements.

7. Group Directors

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

S. C. Muchiri, EBS	Chairman
J. Riungu	Vice Chairman
G. M. Muriuki, OGW	Managing Director
J. Sitienei	
R. L. Kimanthi	
Major (Rtd) G.J.S. Wakasyaka	
M. Malonza	
S. Odhiambo (Mrs)	
Dr. J. Kahunyo	
C. Kabira	
P. K. Githendu	
G. Mburia	
E.K. Mbogo	
W. Ongoro	
D. K. Kibera Appointed on 6 October 2008	
J. Murugu (representing PS, Ministry of Finance)	
Commissioner of Co-operative Development	
F. Odhiambo, DSM, MBS	

8. Auditors

The auditors, Ernst & Young, were appointed during the year in accordance with section 159(5) of the Kenyan Companies Act and 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.

9. Approval of Financial Statements

The financial statements were approved by the Board of Directors on 3 March 2009.

By order of the Board

R. Githaiga (Mrs)
Company Secretary

Statement of Directors' Responsibilities

FOR THE YEAR ENDED 31 DECEMBER 2008

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.

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

3 March 2009

Report of the Independent Auditors

TO THE MEMBERS OF THE CO-OPERATIVE BANK OF KENYA LIMITED

Report on the Financial Statements

We have audited the financial statements of The Co-operative Bank of Kenya Limited and its subsidiaries, as set out on pages 69 to 142 which comprise the Group and Company balance sheets as at 31 December 2008, and the Group and Company income statements, Group and Company statements of changes in equity and Group and Company cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Bank as of 31 December, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, 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:

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;

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;

The Group's and the Bank's balance sheet and income statement are in agreement with the books of account.

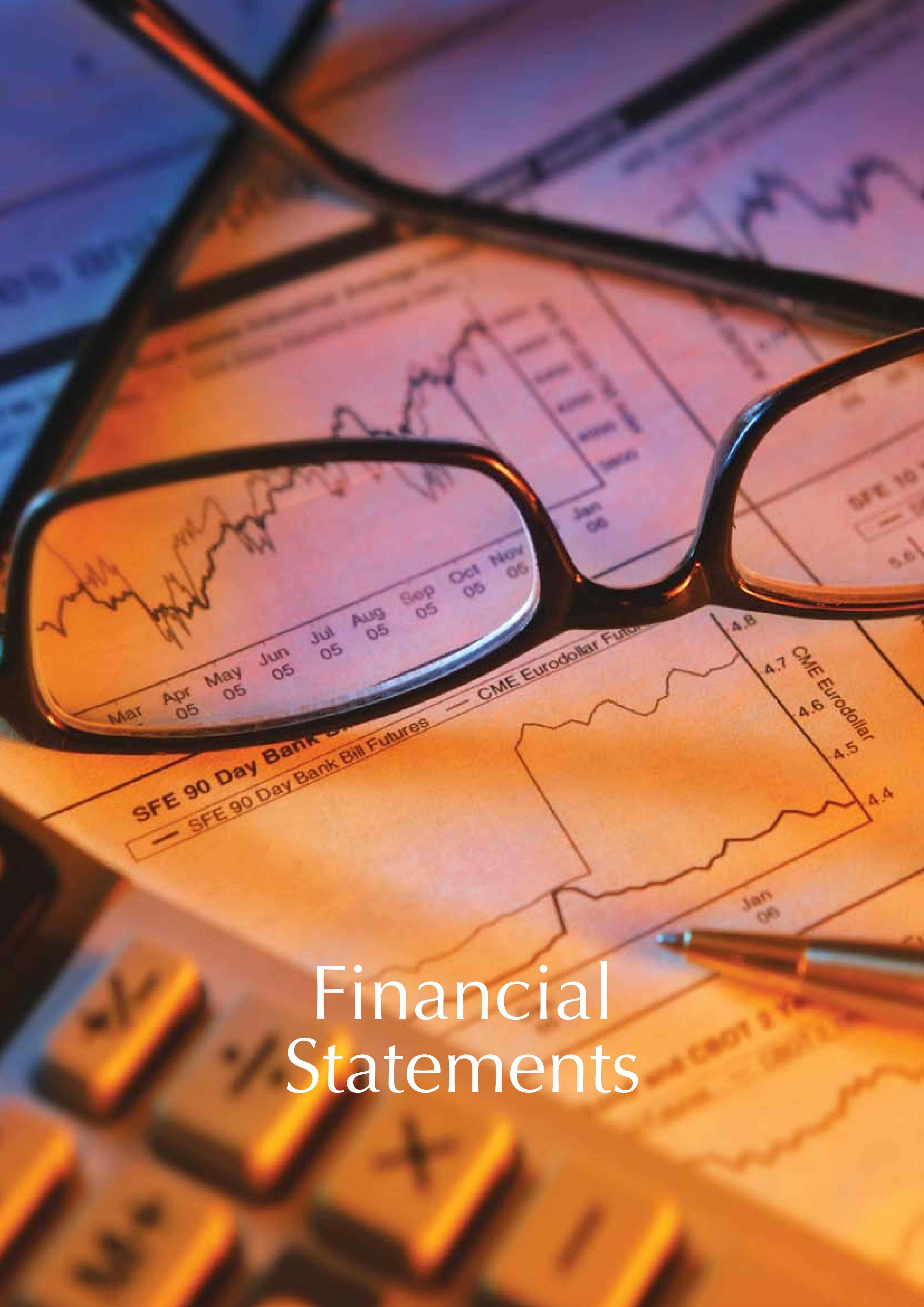
Nairobi

Ernst & Young

3 March 2009


Great things happen
when people come together
Humble beginnings mark every road to success. A group of enterprising Kenyans come together with one dream; to start a successful business. They form a co-operative society and through the Co-operative Bank, they save and borrow capital to fund the venture. Years later, the business is flourishing. This story is typical of many businesses started within the co-operative movement, and is proof that together we can go places.
CO BANK
CO-OPERATIVE
BANK OF KENYA
We are you

Financial Statements



Financial Statements

- Consolidated Balance Sheet
- Consolidated Income Statement
- Bank Balance Sheet
- Bank Income Statement
- Consolidated Statement of Changes in Equity
- Bank Statement of Changes in Equity
- Consolidated Cash Flow Statement
- Bank Cash Flow Statement
- Notes to the Financial Statements

Consolidated Balance Sheet

Consolidated Balance Sheet as at 31 December 2008

	Note	2008 KShs'000	2007 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	7	6,512,684	6,025,266
Items in the course of collection from other banks		2,273,637	1,341,237
Deposits and balances due from banks	8	2,983,683	1,773,418
Held for trading investments	9	3,725,518	3,278,530
Held to maturity investments	11	9,131,520	9,666,552
Equity investments	12	55,719	36,819
Loans and advances to customers	13(a)	52,908,543	38,044,772
Other assets	15	1,481,391	1,834,494
Intangible assets	16	249,285	156,335
Prepaid lease rentals	17	41,317	41,933
Property and equipment	18(a)	4,052,623	3,107,229
Deferred tax	19	69,935	17,620
TOTAL ASSETS		83,485,855	65,324,205
LIABILITIES			
Deposits and balances due to banks	20	1,225,427	1,422,611
Customer deposits	21(a)	65,853,725	54,775,390
Loans	22	185,968	75,658
Other borrowings	23	117,225	-
Provisions	24	272,865	312,505
Tax payable	25(b)	133,789	233,951
Other liabilities	26	2,087,715	2,043,809
TOTAL LIABILITIES		69,876,714	58,863,924
EQUITY			
Share capital	27	3,492,370	2,856,450
Share premium	28	4,286,736	-
Reserves	29	4,824,292	2,698,362
Capital grants	30	656,506	676,953
Proposed dividends	31	349,237	228,516
TOTAL EQUITY		13,609,141	6,460,281
TOTAL LIABILITIES & EQUITY		83,485,855	65,324,205

The financial statements were approved by the Board of Directors on 3 March 2009 and signed on its behalf by: -

S.C. Muchiri, EBS - Chairman

J. Riungu - Vice Chairman

G.M. Muriuki, OGW - Managing Director

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

The notes on pages 80 to 142 form an integral part of these financial statements.

Consolidated Income Statement

Consolidated Income Statement Year Ended 31 December 2008

	Note	2008	2007
		KShs'000	KShs'000
Interest income	32	7,424,648	5,850,100
Interest expense	33	(1,728,756)	(1,000,432)
NET INTEREST INCOME		5,695,892	4,849,668
Commissions	34	3,219,099	2,909,127
Foreign exchange gain		493,581	414,221
Net (losses)/ gains on re-measurement of investments		(110,905)	38,556
Changes in fair value of investments		(1,967)	(12,034)
Amortisation of investments held to maturity		4,733	(22,793)
Amortisation of capital grants	30	20,447	20,447
Other income	35	329,793	78,664
OPERATING INCOME		9,650,673	8,275,856
Operating expenses:-			
Net impairment losses on loans and advances	13(f)	403,262	699,891
Other operating expenses	36	5,888,294	5,257,440
		6,291,556	5,957,331
PROFIT BEFORE TAX	37	3,359,117	2,318,525
TAX CHARGE	25(a)	(985,181)	(768,919)
NET PROFIT FOR THE YEAR		2,373,936	1,549,606
Basic and Diluted Earnings per share (KShs.)	38	0.80	0.54
Dividend per share (KShs.)	31	0.10	0.08

The notes on pages 80 to 142 form an integral part of these financial statements.

Bank Balance Sheet

Bank Balance Sheet as at 31 December 2008

	Note	2008	2007
ASSETS		KShs'000	KShs'000
Cash and balances with Central Bank of Kenya	7	6,512,684	6,025,266
Items in the course of collection from other banks		2,273,637	1,341,237
Deposits and balances due from other banks	8	2,983,683	1,773,418
Held for trading investments	9	3,722,869	3,208,908
Held to maturity investments	11	9,131,520	9,666,552
Equity investments	12	55,719	36,819
Loans and advances to customers	13(a)	52,908,543	38,048,002
Investment in subsidiaries	14	100,000	100,000
Other assets	15	1,440,512	1,793,100
Intangible assets	16	245,868	156,335
Prepaid lease rental	17	41,317	41,933
Property and equipment	18(a)	4,047,125	3,102,932
Deferred tax	19	69,426	17,650
TOTAL ASSETS		83,532,903	65,312,152
LIABILITIES			
Deposits and balances due to banks	20	1,225,427	1,422,611
Customer deposits	21(a)	65,934,453	54,775,390
Loans	22	185,968	75,658
Other borrowings	23	117,225	-
Amount due to subsidiary company	10	-	1,250
Provisions	24	272,865	312,505
Tax payable	25(b)	133,493	234,067
Other liabilities	26	2,114,443	2,067,966
TOTAL LIABILITIES		69,983,874	58,889,447
EQUITY			
Share capital	27	3,492,370	2,856,450
Share premium	28	4,286,735	-
Reserves	29	4,764,181	2,660,786
Capital grants	30	656,506	676,953
Proposed dividends	31	349,237	228,516
TOTAL EQUITY		13,549,029	6,422,705
TOTAL LIABILITIES & EQUITY		83,532,903	65,312,152

The financial statements were approved by the Board of Directors on 3 March 2009 and signed on its behalf by: -

S.C. Muchiri, EBS - Chairman   J. Riungu - Vice Chairman

G.M. Muriuki, OGW - Managing Director   R. M. Githaiga (Mrs.) - Company Secretary

The notes on pages 80 to 142 form an integral part of these financial statements.

Bank Income Statement

Bank Income Statement Year Ended 31 December 2008

	Note	2008	2007
		KShs'000	KShs'000
Interest income	32	7,417,284	5,844,596
Interest expense	33	(1,728,756)	(1,000,432)
NET INTEREST INCOME		5,688,528	4,844,164
Commissions	34	3,134,890	2,847,002
Foreign exchange gain		493,581	414,221
Changes in fair value of investments		(1,606)	(12,599)
Net (losses)/ gains on re-measurement of investments		(111,662)	29,890
Amortisation of investments held to maturity		4,733	(22,793)
Amortisation of capital grants	28	20,447	20,447
Other income	35	325,930	76,340
OPERATING INCOME		9,554,841	8,196,672
Net impairment losses on loans and advances	13 (f)	403,262	699,891
Other operating expenses	36	5,814,299	5,209,120
OPERATING EXPENSES		6,217,561	5,909,011
PROFIT BEFORE TAX	37	3,337,280	2,287,661
TAX CHARGE	25(a)	(978,972)	(761,573)
NET PROFIT FOR THE YEAR		2,358,308	1,526,088
Basic and Diluted Earnings per share (KShs.)	38	0.79	0.53
Dividend per share (KShs.)	31	0.10	0.08

The notes on pages 80 to 142 form an integral part of these financial statements.

Consolidated Statement of Changes In Equity

For Year Ended 31 December 2008

	Share Capital KShs'000	Share Premium KShs'000	Revaluation Reserves KShs'000	General Reserve KShs'000	Share Transfer Fund KShs'000	Share Fractions KShs'000	Statutory Reserves KShs'000	Revenue Reserves KShs'000	Proposed Dividends KShs'000	Total KShs'000
Balance at 1 January 2007	2,660,363	-	309,761	3,100	522	70	-	1,030,232	133,018	4,137,066
Realisation of revaluation surplus	-	-	(4,368)	-	-	-	-	(4,368)	-	-
Net movement in revenue grants for the year	-	-	-	-	-	-	-	32,277	-	32,277
Deferred tax	-	-	1,310	-	-	-	-	-	-	1,310
Issue of shares	196,087	-	-	-	-	-	-	-	-	196,087
Dividends paid	-	-	-	-	-	-	-	-	(133,018)	(133,018)
Profit for the year	-	-	-	-	-	-	-	1,549,606	-	1,549,606
Proposed dividends	-	-		-	-	-	-	(228,516)	228,516	-
Balance at 31 December 2007	**2,856,450**	**-**	**306,703**	**3,100**	**522**	**70**	**-**	**2,387,967**	**228,516**	**5,783,328**
Balance at 1 January 2008	**2,856,450**	**-**	**306,703**	**3,100**	**522**	**70**	**-**	**2,387,967**	**228,516**	**5,783,328**
Realisation of revaluation surplus	-	-	(4,368)	-	-	-	-	4,368	-	-
Increase arising from revaluation	-		57,608	-	-	-	-	-	-	57,608
Net movement in revenue grants for the year	-	-	-	-	-	-	-	43,623	-	43,623
Issue of shares	635,920	4,736,560	-	-	-	-	-	-	-	5,372,480
IPO expenses	-	(449,824)	-	-	-	-	-	-	-	(449,824)
Transfers	-	-	-	(3,100)	(522)	(70)	-	3,692	-	-
Dividends paid	-	-	-	-	-	-	-	-	(228,516)	(228,516)
Profit for the year	-	-	-	-	-	-	-	2,373,936	-	2,373,936
Transfers to statutory reserve	-	-	-	-	-	-	210,707	(210,707)	-	-
Proposed dividends	-	-	-	-	-	-	-	(349,237)	349,237	-
Balance at 31 December 2008	**3,492,370**	**4,286,736**	**359,943**	**-**	**-**	**-**	**210,707**	**4,253,642**	**-**	**12,952,635**

The notes on pages 80 to 142 form an integral part of these financial statements

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Bank Statement of Changes In Equity

For the Year Ended 31 December 2008.

	Share Capital KShs'000	Share Premium KShs'000	Revaluation Reserves KShs'000	General Reserve KShs'000	Share Transfer Fund KShs'000	Share Fractions KShs'000	Statutory Reserves KShs'000	Revenue Reserves KShs'000	Proposed Dividends KShs'000	Total KShs'000
Balance at 1 January 2007	**22,660,363**	**-**	**309,761**	**3,100**	**522**	**70**	**-**	**1,016,174**	**133,018**	**4,123,008**
Realisation of revaluation surplus	-	-	(4,368)	-	-	-	-	4,368	-	-
Net movement in revenue grants for the year	-	-	-	-	-	-	-	32,277	-	32,277
Deferred tax	-	-	1,310	-	-	-	-	-	-	1,310
Issue of shares	196,087	-	-	-	-	-	-	-	-	196,087
Dividends paid	-	-	-	-	-	-	-	-	(133,018)	(133,018)
Profit for the year		-	-	-	-	-	-	1,526,088	-	1,526,088
Proposed dividends	-	-	-	-	-	-	-	(228,516)	228,516	-
Balance at 31 December 2007	**2,856,450**	**-**	**306,703**	**3,100**	**522**	**70**	**-**	**2,350,391**	**228,516**	**5,745,752**
Balance at 1 January 2008	**2,856,450**	**-**	**306,703**	**3,100**	**522**	**70**	**-**	**2,350,391**	**228,516**	**5,745,752**
Realisation of revaluation surplus	-		(4,368)	-	-	-	-	4,368	-	-
Increase arising from revaluation	-		57,608	-	-	-	-	-	-	57,608
Net movement in revenue grants for the year	-	-	-	-	-	-	-	36,716	-	36,716
Issue of shares	635,920	4,736,560	-	-	-	-	-	-	-	5,372,480
IPO expenses	-	(449,824)	-	-	-	-	-	-	-	(449,824)
Transfers	-	-	-	(3,100)	(522)	(70)	-	3,692	-	-
Transfers to statutory reserve	-	-	-	-	-	-	-	-	-228,516	(228,516)
Dividends paid	-	-	-	-	-	-	-	2,358,308	-	2,358,308
Profit for the year	-	-	-	-	-	-	210,707	(210,707)	-	-
Proposed dividends	-	-	-	-	-	-	-	(349,237)	349,237	-
Balance at 31 December 2008	**3,492,370**	**4,286,736**	**359,943**	**-**	**-**	**-**	**210,707**	**4,193,531**	**349,237**	**12,892,524**

The notes on pages 80 to 142 form an integral part of these financial statements

Consolidated Cash Flow Statement

Consolidated Cash Flow Statement for the Year Ended 31 December 2008

	Note	2008 KShs'000	2007 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES:-			
PROFIT BEFORE TAX		3,359,117	2,318,525
Adjustments for:			
Depreciation		425,419	332,853
Amortisation of prepaid lease rentals		57,876	55,674
Movement in provisions		(39,640)	133,339
Gain on revaluation of property		(57,608)	-
Amortisation of intangible assets		616	659
Amortisation of grants		(24,815)	(24,815)
Gain on disposal of property and equipment		(6,873)	(3)
Foreign exchange gain		(493,581)	(414,221)
Unrealised loss on re-measurement of investments		110,905	(38,556)
Amortisation of investments held to maturity		(4,733)	22,793
Changes in fair value of investments		1,606	12,599
Cash flows from operating activities before working capital changes		3,328,289	2,398,847
Advances to customers		(14,863,771)	(10,011,081)
Other assets		353,103	(954,107)
Deposits from customers		11,078,335	6,574,697
Deposits from banks		(197,184)	(856,441)
Other liabilities		43,906	694,217
Central Bank of Kenya cash ratio		178,527	(524,124)
Held to maturity investments		403,170	1,488,540
Held for trading investments		(219,037)	451,436
Equity investments held for trading		(18,900)	-
Cash generated/ (used in) from operating activities		86,438	(738,016)
Tax paid		(1,137,658)	(733,044)
Net cash flows used in operating activities		(1,051,220)	(1,471,060)
CASH FLOWS FROM INVESTING ACTIVITIES:-			
Purchase of property & equipment		(1,321,955)	(646,298)
Purchase of software		(144,678)	(70,475)
Proceeds from disposal of property		6,873	3
Net cash flows used in investing activities:-		(1,459,760)	(716,770)
CASH FLOWS FROM FINANCING ACTIVITIES:-			
Proceeds on issue of share capital		4,922,656	-
Loans received		227,535	-
Dividends paid		(228,516)	(133,018)
Net cash flows from/(used in) financing activities		4,921,675	(133,018)
Net movement in cash and cash equivalents		2,410,695	(2,320,848)
Cash and cash equivalents at the beginning of the year		8,096,589	10,003,216
Effects of exchange rate changes		493,581	414,221
Cash and cash equivalents at the end of the year	39	11,000,865	8,096,589

The notes on pages 80 to 142 form an integral part of these financial statements

Bank Cash Flow Statement

Bank Cash Flow Statement for the Year Ended 31 December 2008

	Note	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:-		KShs'000	KShs'000
PROFIT BEFORE TAX		3,337,280	2,287,661
Adjustments for:			
Depreciation		423,889	331,675
Amortisation of prepaid lease rentals		57,350	55,674
Movement in provisions		(39,640)	133,339
Gain on revaluation of property		(57,608)	
Amortisation of intangible assets		616	659
Amortisation of grants		(24,815)	(24,815)
Gain on disposal of property and equipment		(6,873)	(3)
Foreign exchange gain		(493,581)	(414,221)
Unrealised loss on re-measurement of investments		111,662	(29,890)
Amortisation of investments held to maturity		(4,733)	22,793
Changes in fair value of investments		1,606	12,599
Cash flows from operating activities before working capital changes		3,305,153	2,375,471
Advances to customers		(14,860,541)	(10,011,081)
Other assets		352,588	(954,107)
Deposits from customers		11,078,335	6,574,697
Deposits from banks		(197,184)	(856,441)
Other liabilities		46,477	694,217
Central Bank of Kenya cash ratio		178,527	(524,124)
Held to maturity investments		403,170	1,488,540
Held for trading investments		(140,888)	383,451
Equity investments held for trading		(18,900)	-
Cash generated/ (used in) from operating activities		146,737	(829,377)
Tax paid		(1,137,658)	(733,044)
Net cash flows used in operating activities		(990,921)	(1,562,421)
CASH FLOWS FROM INVESTING ACTIVITIES:-			
Purchase of property & equipment		(1,319,224)	(644,655)
Purchase of software		(140,735)	(70,475)
Proceeds from disposal of property		6,873	3
Net cash flows used in investing activities:-		(1,453,086)	(715,127)
CASH FLOWS FROM FINANCING ACTIVITIES:-			
Proceeds on issue of share capital		4,922,656	-
Loans received		227,535	-
Dividends paid		(228,516)	(133,018)
Net cash flows from/(used in) financing activities		4,921,675	(133,018)
Net movement in cash and cash equivalents		2,477,668	(2,410,566)
Cash and cash equivalents at the beginning of the year		8,026,968	10,023,313
Effects of exchange rate changes		493,581	414,221
Cash and cash equivalents at the end of the year	39	10,998,216	8,026,968

The notes on pages 80 to 142 form an integral part of these financial statements

CONTENTS OF NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Co-operative Bank of Kenya Limited is a financial institution licensed under the Kenyan Banking Act (Chapter 488) and Companies Act (Chapter 486) 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. The address of its registered office and other business outlets are set out in the Group Information section.

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. The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Consolidation

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

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

c) Changes in accounting policies

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

The Group has adopted the following new and amended International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretation (IFRIC) as of 1 January 2008.

- IAS 39 Financial instruments: Recognition and Measurement
- IFRS7 Financial instruments: Disclosure–Reclassification of financial assets (Amendments)
- IFRIC 11– Group and Treasury Share Transactions
- IFRIC 12 – Service Concession Arrangements

Adoption of these standard and interpretations did not have any effect on the financial performance or position of the Group.

d) Significant accounting estimates and assumptions

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

Estimates and assumptions

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

i) Impairment losses on loans and advances

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

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

ii) Impairment of non-financial assets

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

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

iii) Fair value of financial instruments

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

iv) Deferred tax assets

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

e) Recognition of income and expenses

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

i) Interest and similar income and expenses

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial instruments, interest income or expense is recognised at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

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

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

ii) Fee and commission income

Fee and commission income arises from financial services provided by the Bank. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party is recognised on completion of the underlying transaction.

iii) Dividend income

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

iv) Rental income

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

f) Property and equipment

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 credited to the assets revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve. Revaluation surpluses are not distributable.

Other categories of property and equipment are stated at historical cost plus any incidental cost incurred to bring the asset to working condition for its intended use, less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met. Additions and improvements that increase the operating capabilities and thus add 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%

Lease hold 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. Free hold land is not depreciated. The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

g) Intangible assets and amortisation

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

Intangible assets with finite lives are amortised on straight line basis over their useful economic life from date they are available for use, up to a maximum of five years. Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset. Periodic software maintenance costs are recognised as an expense as incurred.

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

h) Finance and Operating leases

i) Operating leases:

Where:-

- *A group company 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 income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

- *A group company is the lessor*

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

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. 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.

i) Impairment allowances for assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific loan or advance may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment, based on the net present value of future anticipated cash flows including anticipated recoveries from guarantees and collateral, discounted at effective interest rates, recognised in the income statement. 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 income statement. In particular, judgement by the directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

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

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

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

ii) International Accounting Standard (IAS) 39

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, management considers 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, management believes that their impairment allowances are reasonable and supporable.

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.

j) Foreign currency transactions

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

k) Financial Instruments

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

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

Financial assets at fair value through profit or loss

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

Held for trading

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

Held-to-maturity investments

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

Loans and receivables

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

Available-for-sale financial investments

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

Fair value

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

Amortised cost

Held-to-maturity investments and loans and receivables are measured at amortised cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

l) Employee benefits

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

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

m) Taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.
Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences, except:

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

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

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

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

(ii) or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

n) Grants

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

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

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

o) Cash and cash equivalents

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

p) Repurchase agreement transactions

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

q) Impairment of tangible and intangible assets

Assets carried at amortised cost

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

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

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

r) Offsetting

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

s) Customer Deposits

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

t) Deposits from/to other banks

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

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

u) Foreign exchange forward and spot contracts

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

v) Contingent liabilities

Guarantees, acceptances and letters of credit are written by the bank to support performance by a customer to third parties. The bank will only be required to meet these obligations in the event the customer defaults. These obligations are accounted for as off-balance sheet transactions and disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date the financial statements are approved for issue by directors. Any expected loss is charged to the income statement.

w) Dividends

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

x) Borrowing costs

Borrowings are recognised initially at fair value and borrowing costs are recognised as an expense when incurred.

y) Fiduciary assets

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

z) Segmental reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Business segments are based on the Group's management and internal reporting structure.

aa) 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.

bb) Items in the course of collection

These are cheques received by the Company from its customers for collection from other banks through the clearing house. The Company measures the asset at fair value which is the amount receivable at balance sheet date, i.e. their carrying values at this date.

cc) Issued but not effective standards and interpretations

- *IFRIC 13 Customer Loyalty Programmes* addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 becomes mandatory for the Group's 2009 consolidated financial statements and will be applicable retrospectively. The Group is currently in the process of evaluating the potential effect of this interpretation

- Amendment to *IFRS 2 Share-based Payment – Vesting Conditions and Cancellations:* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application. The Group is currently in the process of evaluating the potential effect of this amendment.

- Revised *IFRS 3 Business Combinations (2008)* incorporates the following changes that are likely to be relevant to the Group's operations: –The definition of a business has been broadened, which may result in more acquisitions being treated as business combinations. Contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss. –Transaction costs, other than share and debt issue costs, will be expensed as incurred. Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis. Revised IFRS 3, which becomes mandatory for the Group's 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior.

- *IFRS 8 Operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Group's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business. This standard will have no effect on the Group's reported total profit or loss or equity. The Group is currently in the process of determining the potential effect of this standard on the Group's segment reporting.

- *Revised IAS 1 Presentation of Financial Statements (2007)* introduces the term "total comprehensive income," which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group's 2009 financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements as the Group plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 consolidated financial statements.

- *Revised IAS 23 Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Revised IAS 23 will become mandatory for the Group's 2009 consolidated financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional requirements, the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Group's 2009 consolidated financial statements.

- *Amended IAS 27 Consolidated and Separate Financial Statements (2008)* requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

- *Amendments to IAS 32 and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 consolidated financial statements with retrospective application required, are not expected to have any significant impact on the consolidated financial statements.

- Improvements to IFRSs In May 2008, the IASB has issued its first omnibus of amendments to its standards for making non-urgent amendments to standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The Group has decided not to early adopt the following amendments which are effective for financial year beginning on or after 1 January 2009:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Plan to sell the controlling interest in a subsidiary
- IFRS 7 Financial Instruments Disclosures: Presentation of finance costs
- IAS 1 Presentation of Financial Statements: Current/non-current classification of derivatives
- IAS 8 Accounting Policies, Change in Accounting Estimates and Errors: Status of implementation guidance
- IAS 10 Events after the Reporting Period: Dividends declared after the end of the reporting period
- IAS 16 Property, Plant and Equipment: Recoverable amount & sale of assets held for rental
- IAS 18 Revenue: Costs of originating a loan
- IAS 19 Employee Benefits: Curtailments and negative past servicecosts,planadministration costs, replacement of the term 'fall due' and guidance on contingent liability
- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance: Government loans with a below-market rate of interest, and consistency of terminology with other IFRSs
- IAS 23 Borrowing Costs: Components of borrowing costs
- IAS 27 Consolidated and Separate Financial Statements: Measurement of subsidiary held for sale in separate financial statements
- IAS 28 Investment in Associates: Required disclosures when investments in associates are accounted for at fair value through profit or loss and impairment of investment in associate
- IAS29FinancialReportinginHyperinflationaryEconomies: Description of measurement basis in financial statements and consistency of terminology with other IFRSs
- IAS 31 Interest in Joint ventures Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss
- IAS 34 Interim Financial Reporting: Earnings per share disclosures in interim financial reporting
- IAS 36 Impairment of Assets: Disclosure of estimates used to determine recoverable amount
- IAS 38 Intangible Assets Advertising and promotional activities and unit of production method of amortisation
- IAS 39 Financial Instruments: Recognition and Measurement: Designation and documentation of hedges at the segment level and applicable effective interest rate on cessation of fair value hedge accounting
- IAS 40 Investment Property: Property under construction or development for future use as investment property and consistency of terminology with IAS 8, Investment property held under lease
- IAS41Agriculture:Discountrateforfairvaluecalculations, additional biological transformations and examples of agricultural produce and products.

3. FINANCIAL RISK MANAGEMENT

Introduction and overview

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

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

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

Risk management framework

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

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

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

(i) Credit risk

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

Management of credit risk

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

a. Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
b. Establishing the authorisation structure for the approval and renewal of credit facilities.
c. Reviewing and assessing credit risk.
d. Developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks.

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

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

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

3. FINANCIAL RISK MANAGEMENT

Exposure to credit risk: Loans and advances to customers

	Note	2008	2007
		KShs '000	KShs '000
Carrying amount	10(a)	60,417,500	45,415,007
Gross amount- impaired loans			
Grade 5: Loss category		1,917,463	1,902,196
Grade 4: Doubtful category		5,620,636	3,941,048
Total amount		7,538,099	5,843,244
Allowance for impairment	10(c)	(6,307,108)	(5,296,711)
Carrying amount		1,230,991	546,533
Collectively assessed for impairment			
Grade 1: Normal		49,078,124	35,309,563
Grade 2: Watch list		2,095,785	1,379,732
Gross amount		51,173,909	36,689,295
Allowance for impairment	10(c)(ii)	(384,701)	(384,701)
Carrying amount		50,789,208	36,304,594
Past due but not impaired			
Grade 3: Substandard		1,895,492	2,882,468
Allowance for impairment	10(c)	(1,007,148)	(1,685,593)
Carrying amount		888,344	1,196,875
Net carrying amount		**52,908,543**	**38,048,002**

Maximum exposure to credit risk before collateral held:

		2008	%	2007	%
Credit exposures		KShs '000		KShs '000	
On-balance sheet items					
Deposits and balances due from banking institutions		2,983,683	**4**	1,773,418	**3**
Government securities:					
	Held to maturity	9,131,520	**12**	9,666,552	**17**
	Held for trading	3,725,518	**5**	3,278,530	**6**
Interest receivable		393,210	**1**	565,595	**1**
Items in the course of collection from other banks		2,273,637	**3**	1,341,237	**2**
Loans and advances to customers		52,908,543	**69**	38,048,002	**67**
		71,416,111		54,673,334	
Off-balance sheet items					
Letters of credit, guarantees and performance bonds		5,118,882	**7**	2,064,074	**4**
TOTAL		**76,534,993**	**100%**	**56,737,408**	**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 Ksh.35,938 Million (2007-33,206 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.

Impaired loans

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

Past due but not impaired loans

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

Loans with renegotiated terms

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

Allowances for impairment

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

Write-off policy

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

Collateral on loans and advances

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

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

Discounted Value of Securities	2008	2007
	KShs '000	KShs '000
Doubtful & Loss categories	1,265,691	1,171,523
Sub-standard Loans category	852,390	1,314,931
Normal & Watch categories	15,000,000	2,355,134
Total	**17,118,081**	**4,841,588**

Settlement Risk

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

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

(ii) Liquidity risk

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

Management of liquidity risk

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

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

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

Exposure to liquidity risk

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

Details of the reported Bank ratio of net liquid assets to deposits and customers at the reporting date and during the reporting year were as follows:

	2008	2007
	%	%
At 31 December	33.10	33.5
Average for the year	28.86	37.2
Maximum for the year	37.70	42.5
Minimum for the year	19.10	33.3

(iii) Market risk

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

Management of market risk

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

Exposure to market risk – trading portfolios

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

Exposure to interest rate risk – non trading portfolios

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

(iv) Operational risk

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

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

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

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

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

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

4. CAPITAL MANAGEMENT

Regulatory capital

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

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

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

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

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

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

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

	2008	2007
Tier I Capital:	KShs'000	KShs'000
Ordinary share capital	3,492,370	2,856,450
Share Premium	4,364,373	-
Retained earnings	4,728,015	2,354,079
Other reserves	656,506	676,952
Less: Investments in equity of other institutions	-14,000	(5,720)
At 31 December	13,227,264	5,881,761
Tier II Capital:		
Revaluation reserves	171,503	76,677
Term subordinated debt	155,968	45,659
At 31 December	327,471	122,336
Total regulatory capital	13,554,735	6,004,097
Total risk weighted assets	57,134,411	41,269,105
Total capital to risk assets ratio	23.72%	14.50%
Minimum total capital to risk assets ratio	12.00%	12.00%

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.

4. CAPITAL MANAGEMENT

Capital Allocation *(Continued)*

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.

5. SEGMENT REPORTING

Segment information is presented only in respect of the Group's business segments. Geographical analysis is not relevant since all operations are carried out within Kenya. The Group is organised into two main business segments:

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.

Segment results are as follows:

Income statement for the year ended 31 December 2008	Wholesale Banking	Retail Banking	Un-allocated	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Net interest income	3,577,066	2,118,826		5,695,892
Non-funded income	1,275,630	2,072,647	606,204	3,954,481
Operating income	4,852,696	4,191,473	606,204	9,650,373
Operating expenses	(643,149)	(3,539,826)	(2,108,581)	(6,291,556)
Profit before tax	4,209,547	651,647	(1,502,377)	3,358,817

Income statement for the year ended 31 December 2007	Wholesale Banking	Retail Banking	Un-allocated	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Net interest income	2,668,863	2,180,805	-	4,849,668
Non-funded income	1,400,665	1,818,178	207,345	3,426,188
Operating income	4,069,527	3,998,983	207,345	8,275,856
Operating expenses	(1,328,127)	(2,839,470)	(1,789,734)	(5,957,331)
Profit before tax	2,741,401	1,159,513	(1,582,390)	2,318,525

5. SEGMENT REPORTING *(Continued)*

Assets Balance sheet as at 31 December 2008	Wholesale Banking KShs'000	Retail Banking KShs'000	Un-allocated KShs'000	Total KShs'000
Segment assets	28,164,757	38,921,919	-	67,086,676
Unallocated assets	-	-	16,399,179	16,399,179
Total assets	28,164,757	38,921,919	16,399,179	83,485,855
Liabilities and shareholders' equity				
Segment liabilities	43,066,175	24,589,035	-	67,655,210
Unallocated liabilities	-	-	15,629,618	15,629,618
Inter-segment lending	(14,901,419)	14,332,885	769,561	201,027
Total liabilities and shareholders' equity	28,164,756	38,921,920	16,399,179	83,485,855

Balance sheet as at 31 December 2007	Wholesale Banking KShs'000	Retail Banking KShs'000	Un-allocated KShs'000	Total KShs'000
Assets				
Segment assets	23,759,073	26,121,512	-	49,880,585
Unallocated assets	-	-	15,443,620	15,443,620
Total assets	23,759,073	26,121,512	15,443,620	65,324,205
Liabilities and shareholders' equity				
Segment liabilities	36,884,223	19,701,941	-	56,586,164
Unallocated liabilities	-	-	8,738,041	8,738,041
Inter-segment lending	(13,125,150)	6,419,571	6,705,579	-
Total liabilities and shareholders' equity	23,759,073	26,121,512	15,443,620	65,324,205

6. FINANCIAL ASSETS AND LIABILITIES:

The tables below set out classification of each class of financial assets and liabilities, and their fair values:

GROUP 31 December 2008	Held for trading KShs'000	Held to maturity KShs'000	Loan and receivables KShs'000	Other amortised cost KShs'000	Total carrying amount KShs'000	Fair value KShs'000
Assets						
Cash and balances with Central Bank of Kenya	-	-	-	6,512,684	6,512,684	6,512,684
Items in the course of collection from other banks	-	-	-	2,273,637	2,273,637	2,273,637
Deposits and balances due from other banks	-	-	2,983,683	-	2,983,683	2,983,683
Held for trading investments	3,725,518	-	-	-	3,725,518	3,744,290
Held to maturity investments		9,131,520	-	-	9,131,520	9,179,663
Equity investments held for trading	55,719	-	-	-	55,719	55,719
Loans and advances to customers	-		52,908,543	-	52,697,836	52,697,836
Other assets	-	-	-	1,481,391	1,551,326	1,551,326
Total Assets	**3,781,237**	**9,131,520**	**55,892,226**	**10,267,712**	**78,931,923**	**78,998,838**
Liabilities						
Deposits and balances due to banks	-	-	-	1,225,427	1,225,427	1,225,427
Customer deposits	-	-	-	65,853,725	65,853,725	65,853,725
Loans	-	-	185,968	-	147,225	147,225
Other borrowings	-	-	117,225	-	155,968	155,968
Other liabilities	-	-	-	137,544	137,544	137,544
Total Liabilities	**-**	**-**	**303,193**	**67,216,696**	**67,519,889**	**67,519,889**

6. FINANCIAL ASSETS AND LIABILITIES: *(Continued)*

BANK 31 December 2008	Held for trading KShs'000	Held to maturity KShs'000	Loan and receivables KShs'000	Other amortised cost KShs'000	Total carrying amount KShs'000	Fair value KShs'000
Assets						
Cash and balances with Central Bank of Kenya	-		-	6,512,684	6,512,684	6,512,684
Items in the course of collection from other banks	-	-	-	1,341,237	1,341,237	1,341,267
Deposits and balances due from other banks	-	-	-	2,273,637	2,273,637	2,273,637
Held for trading investments	3,278,530	-	-	-	3,278,530	3,278.530
Held to maturity investments	-	9,131,520	-	-	9,131,520	2,983,683
Equity investments held for trading	55,719	-	-	-	55,719	55,719
Loans and advances to customers	3,722,869	-	57,332,738	-	61,055,607	61,244,290
Other assets	-	-	-	1,834,494	1,834,494	9,179,663
Total Assets	**7,057,118**	**9,131,520**	**57,332,738**	**11,962,052**	**85,483,428**	**83,594,222**
Liabilities	-	-	1,440,512	-	1,440,512	1,440,512
Deposits and balances due to banks	-	-	-	1,225,427	1,225,427	1,225,427
Customer deposits	-	-	-	65,934,453	65,934,453	65,934,453
Loans	-	-	185,968	-	185,968	185,968
Other borrowings	-	-	117,225	-	117,225	117,225
Other liabilities	-	-	-	2,114,443	2,114,443	2,114,443
Total Liabilities	**-**	**-**	**303,193**	**69,274,323**	**69,577,516**	**69,577,516**

The estimated fair value is the amount at which an instrument could be exchanged in a current transaction between willing parties other than enforced or liquidation sale. The fair value of on-balance sheet financial instruments approximate to their carrying amounts as they bear variable interest rates determined under market conditions. The fair value of loans and advances to customers cannot be determined reliably because of a lack of a developed market for securitised assets. The fair values of off-balance sheet financial instruments are the same figures appearing as contingent liabilities and commitments. The fair values shown above are based observable market prices, where available or director's valuations.

6. FINANCIAL ASSETS AND LIABILITIES: *(Continued)*

GROUP **31 December 2007**	Held for trading KShs'000	Held to maturity KShs'000	Loan and receivables KShs'000	Other amortised cost KShs'000	Total carrying amount KShs'000	Fair value KShs'000
Assets						
Cash and balances with Central Bank of Kenya	-	-	-	6,025,266	6,025,266	6,025,266
Items in the course of collection from other banks	-	-	-	1,341,237	1,341,237	1,341,237
Deposits and balances due from other banks	-	-	1,773,418	-	1,773,418	1,773,418
Held for trading investments	3,278,530	-	-	-	3,278,530	3,278,654
Held to Maturity investments	-	9,666,552	-	-	9,666,552	9,703,371
Equity investments	36,819	-	-	-	36,819	36,819
Loans and advances to customers	-	-	38,044,772	-	38,044,772	38,045,401
Other assets	-	-	1,834,494	-	-	1,834,494
Total Assets	**3,315,349**	**9,666,552**	**41,652,684**	**7,366,503**	**60,166,594**	**62,038,660**
Liabilities						
Deposits and balances due to banks	-	-	-	1,422,611	1,422,611	1,422,611
Customer deposits	-	-	-	54,775,390	54,775,390	54,775,390
Other borrowings	-	-	-	75,658	75,658	75,658
Other liabilities	-	-	-	2,033,809	2,033,809	2,020,809
Total Liabilities	**-**	**-**	**-**	**58,307,468**	**58,307,468**	**58,294,468**

7. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	GROUP AND COMPANY	
	2008	2007
	KShs'000	KShs'000
Cash on hand	3,340,085	2,405,929
Central Bank of Kenya:		
Restricted balances (Cash Reserve Ratio)	3,309,557	3,488,084
Unrestricted balances available for use by the group	(136,958)	131,253
	6,512,684	6,025,266

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 2008, the Cash Reserve Ratio requirement was 5% of all deposits (2007-6.00%). These funds are not available for use by the bank in its day to day operations.

8. DEPOSITS AND BALANCES DUE FROM BANKS

	GROUP AND COMPANY	
	2008	2007
	KShs'000	KShs'000
Commercial banks	220,000	34,719
Foreign banks	2,763,683	1,738,699
	2,983,683	1,773,418

9. HELD FOR TRADING INVESTMENTS

	GROUP		COMPANY	
	2008	2007	2008	2007
	KShs'000	KShs'000	KShs'000	KShs'000
Treasury bonds maturing within 91 days of balance sheet date	297,149	69,621	294,500	-
Treasury bonds maturing after 91 days of balance sheet date	3,428,369	3,208,909	3,428,369	3,208,908
	3,725,518	3,278,530	3,722,869	3,208,908

The weighted average effective interest rate on government and other securities held for trading at 31 December 2008 was 10.61% (2007-11.40%).

10. AMOUNT DUE TO SUBSIDIARY COMPANY

	BANK	
	2008	2007
	KShs'000	KShs'000
Co-op Consultancy Services Kenya Limited	-	1,250

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

11. HELD TO MATURITY INVESTMENTS

	GROUP AND COMPANY	
	2008	2007
	KShs'000	KShs'000
Government treasury bills maturing within 91 days of the balance sheet date	1,243,269	1,372,859
Government treasury bills maturing after 91 days of the balance sheet date	539,231	110,941
Treasury bonds maturing within 91 days of the balance sheet date	1,000,000	1,002,273
Treasury bonds maturing after 91 days of the balance sheet date	6,349,020	7,180,479
	9,131,520	9,666,552

The weighted average effective interest rate on held to maturity investments as at 31 December 2008 was 8.61% (2007-9.54%). Investment in Government securities are intended to be held to maturity and are carried at amortised cost. Discount or premium on these securities is amortised on a pro rata basis.

12. EQUITY INVESTMENTS

	BANK	
	2008	2007
	KShs'000	KShs'000
Consolidated Bank of Kenya Ltd:-		
135,000 ordinary shares of KShs 20 each	2,700	2,700
580,000 4% non-cumulative preference shares of KShs 20 each	11,600	11,600
Co-operative Insurance Company Ltd:-		
943,388 ordinary shares of KShs 21.30 each	21,090	1,090
Kenya National Federation of Co-operatives Ltd:-		
82 shares of KShs100 each	8	8
Kenya National Housing Co-operative Union Ltd:-		
1 share of KShs 1,000	1	1
Menno Plaza Limited:-12.39% ownership	30,000	30,000
	65,399	45,399
Less: Provision for diminution in value of investment in Consolidated Bank of Kenya Ltd	(9,680)	(8,580)
	55,719	**36,819**

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

13. LOANS AND ADVANCES TO CUSTOMERS

	GROUP		BANK	
	2008	2007	2008	2007
	KShs'000	KShs'000	KShs'000	KShs'000
a) Net loans and advances				
Finance lease receivables	718,623	57,001	718,623	57,001
Overdrafts	2,463,292	1,771,429	2,463,292	1,774,659
Commercial loans	53,719,099	40,763,072	53,719,099	40,763,072
Government/Donor funded loan schemes	1,651,261	1,410,662	1,651,261	1,410,662
Credit card balances	530,002	433,330	530,002	433,330
Micro enterprises	1,335,223	976,283	1,335,223	976,283
Gross loans and advances	60,417,500	45,411,777	60,417,500	45,415,007
Impairment losses on loans and advances (note 13f)	(7,508,957)	(7,367,005)	(7,508,957)	(7,367,005)
	52,908,543	38,044,772	52,908,543	38,048,002
b) Aging:				
Repayable on demand	3,885,312	3,920,247	3,885,312	3,923,477
1-3 months	821,576	926,434	821,576	926,434
3-12 months	4,604,254	4,110,455	4,604,254	4,110,455
1-5 years	36,979,845	24,453,975	36,979,845	24,453,975
Over 5 years	6,617,556	4,633,661	6,617,556	4,633,661
Net loans and advances	52,908,543	38,044,772	52,908,543	38,048,002
c) Sectoral concentration analysis:-				
Agriculture	3,478,003	3,771,812	3,478,003	3,771,812
Manufacturing	148,847	1,001,901	148,847	1,001,901
Construction	1,248,226	2,831,570	1,248,226	2,831,570
Service	32,185,034	18,095,901	32,185,034	18,095,902
Other	15,848,433	12,343,588	15,848,433	12,346,817
	52,908,543	45,411,777	52,908,543	38,048,002

13. LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

d) The weighted average effective interest rate at 31 December was:

	2008	2007
	%	%
Finance lease receivables	14	14
Overdrafts	20	24
Commercial loans	12	15
Government/Donor funded loan schemes	4	8
Credit card balances	10	12
Micro enterprises	26	25

	GROUP AND COMPANY	
	2008	2007
	KShs'000	KShs'000
e) Analysis of finance lease receivables:		
Within one year	49,056	28,607
2-5 years	718,382	34,086
Gross Investment in finance leases	767,408	62,693
Unearned future finance income	(48,785)	(5,692)
Present value of minimum lease payments receivable	718,623	57,001

Finance lease receivables relate to a lending product (Co-op Asset Finance) that focuses on self secured financing in which the asset financed becomes the security for the facility. The leases arrangements allow a flexible repayment period of up to 48 months. The Company offers financing of all types of moveable assets such as laptops, computers, printers, saloon cars, pickups, tractors, prime movers, school buses, generators and medical equipment.

The unguaranteed residual values of assets leased under finance leases are estimated at nil (2007: nil). The accumulated allowances for uncollectible minimum lease payments receivable are nil (2007: nil).

13. LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

f) Impairment losses on loans and advances:

(i) Group & Company:	Specific impairment losses KShs'000	Collective impairment losses KShs'000	Total KShs'000
Balance at 1 January 2008	**6,982,304**	**384,701**	**7,367,005**
Impairment losses during the year through income statement	403,262	-	403,262
Interest on impaired loans not recognised as (expense) income	30,204	-	30,204
Impairment losses written off during the year	-	-	
Amounts released to income	(291,514)	-	(291,514)
Balance at 31 December 2008	**7,124,256**	**384,701**	**7,508,957**
Balance at 1 January 2007	**16,270,926**	**384,701**	**16,655,627**
Impairment losses during the year through income statement	699,891		699,891
Interest on impaired loans not recognised as (expense) income	414,138	-	414,138
Impairment losses written off during the year	(10,402,651)	-	(10,402,651)
Balance at 31 December 2007	**6,982,304**	**384,701**	**7,367,005**

g) The Bank continues to carry classified doubtful debts and delinquent accounts on its books even after making allowances for impairment in accordance with IAS 39. Interest is accrued on these accounts for contractual/litigation purposes only and accordingly not taken to income. The value of such accounts/loans at year end was KShs 9.1 billion (2007- KShs 8.3 billion).

14. INVESTMENT IN SUBSIDIARIES

The following subsidiaries are wholly owned by the bank:

Company	Ownership	Status	2008	2007
			KShs'000	KShs'000
Co-operative House Ltd:	100%	Dormant		
1,020,000 'A' ordinary shares of KShs 20 each			20,400	20,400
980,000 'B' ordinary shares of KShs 20 each			19,600	19,600
Co-op Consultancy Services Kenya Ltd				
40,000 'B' ordinary shares of KShs 20 each	100%	Active	40,000	40,000
Co-optrust Investment Services Ltd				
20,000 'B' ordinary shares of KShs 20 each	100%	Active	20,000	20,000
			100,000	100,000

The investment in the above subsidiaries is carried at cost. All the subsidiaries are incorporated in Kenya.

15. OTHER ASSETS

	GROUP		BANK	
	2008	2007	2008	2007
	KShs'000	KShs'000	KShs'000	KShs'000
Interest receivable	393,210	565,595	393,210	565,595
Deposits with default financial Institutions	43,052	43,052	43,052	43,052
Sundry debtors and prepayments	1,088,181	1,268,899	1,047,302	1,227,505
	1,524,443	1,877,546	1,483,564	1,836,152
Impairment losses on deposits with default financial institutions	(43,052)	(43,052)	(43,052)	(43,052)
	1,481,391	1,834,494	1,440,512	1,793,100

16. INTANGIBLE ASSETS

	GROUP		BANK	
	2008	2007	2008	2007
	KShs'000	KShs'000	KShs'000	KShs'000
Software in use by the group companies:				
Cost at 1 January	729,576	659,101	714,114	643,639
Transfers from Work in Progress	6,148	70,475	6,148	70,475
Additions	144,678	-	140,735	-
Cost at 31 December	880,402	729,576	860,997	714,114
Accumulated amortisation at 1 January	573,241	517,567	557,779	502,105
Transfers		-		-
Amortisation for the year	57,876	55,674	57,350	55,674
Accumulated amortisation at 31 December	631,117	573,241	615,129	557,779
Net book value at 31 December	249,285	156,335	245,868	156,335

17. PREPAID LEASE RENTALS

	GROUP AND COMPANY	
	2008	2007
Cost	KShs'000	KShs'000
At 1 January and 31 December	55,568	55,568
Amortisation:		
At 1 January	(13,635)	(12,976)
Charge for the year	(616)	(659)
At 31 December	(14,251)	(13,635)
Net book value at 31 December	41,317	41,933

18 (a) PROPERTY AND EQUIPMENT-GROUP

	Freehold land & buildings KShs'000	Capital work -in progress KShs'000	Fixtures KShs'000	Office machinery &Furniture & equip KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
COST/VALUATION							
At 1 January 2008	**1,759,087**	**338,595**	**1,163,897**	**690,445**	**128,121**	**1,590,184**	**5,670,329**
Additions	-	757,728	5,164	241,583	57,285	260,195	1,321,955
Disposals	-	-	-	(7,589)	(37,886)	(1,898)	(47,373)
Write downs	(271,591)	-	-	-	-	-	(271,591)
Transfer(from WIP)/ to fixtures	-	(481,111)	481,111	-	-	-	-
Transfer to intangible assets	-	(6,148)	-	-	-	-	(6,148)
Write offs	-	(1,767)	-	-	-	-	(1,767)
At 31 December 2008	**1,487,496**	**607,297**	**1,650,172**	**924,439**	**147,520**	**1,848,481**	**6,665,405**
Comprising:							
Cost	1,287,912	607,297	1,650,172	924,439	147,520	1,848,481	6,465,821
Valuation	199,584	-	-	-	-	-	199,584
	1,487,496	**607,297**	**1,650,172**	**924,439**	**147,520**	**1,848,481**	**6,665,405**
DEPRECIATION							
At 1 January 2008	**286,530**	**-**	**527,877**	**498,057**	**97,884**	**1,152,751**	**2,563,099**
Charge for the year	42,708	-	119,521	78,723	15,666	168,801	425,419
Disposals	-	-	-	(7,368)	(37,233)	(1,897)	(46,498)
Write back of depreciation	(329,238)	-	-	-	-	-	(329,238)
Impairment	-	-	-	-	-	-	-
At 31 December 2008	**-**	**-**	**647,398**	**569,412**	**76,317**	**1,319,655**	**2,612,782**
NET BOOK VALUE							
At 31 December 2008	**1,487,496**	**607,297**	**1,002,774**	**355,027**	**71,203**	**528,826**	**4,052,623**

18 (a) PROPERTY AND EQUIPMENT-GROUP *(Continued)*

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

ii. Land and Buildings were revalued on open market value basis by professional valuers (Manclem Valuers) as at 31 December 2008. The properties were valued at KShs 1,487,496,000. The difference (KShs 57.7 million) between recognised revaluation gains of KShs 271.5 million and depreciation of KShs 329.2 million was credited to revaluation reserves.

iii. Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs 55,426,467 (2007- KShs 55,426,467) against which no depreciation has been charged, as these are pieces of land.

iv. No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs 2,087,951,868 (2007- KShs 2,070,247,524), 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 382,682,747 (2007- KShs 388,560,810). Included in these fully depreciated assets is KShs 9,005,547 (2007-KShs.4,156,602) representing idle assets in the process of being disposed.

v. The Directors carry out an impairment review and the resultant impairment loss recognised in the income statement.

18 (a) PROPERTY AND EQUIPMENT-GROUP

	Freehold land & buildings KShs'000	Capital work -in progress KShs'000	Fixtures KShs'000	Office machinery &Furniture & equip KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
COST/VALUATION							
At 1 January 2007	**1,759,087**	**450,997**	**704,362**	**578,958**	**113,276**	**1,417,512**	**5,024,192**
Additions	-	340,893	6,240	111,652	14,843	172,670	646,298
Disposals	-	-	-	(164)	-	-	(164)
Reclassification	-	(453,295)	453,295	-	-	-	-
At 31 December 2007	**1,759,087**	**338,595**	**1,163,897**	**690,446**	**128,119**	**1,590,182**	**5,670,326**
Comprising:							
Cost	1,287,912	338,595	1,163,897	690,446	128,119	1,590,182	5,199,151
Valuation	471,175	-	-	-	-	-	471,175
	1,759,087	**338,595**	**1,163,897**	**690,446**	**128,119**	**1,590,182**	**5,670,326**
DEPRECIATION							
At 1 January 2007	**243,939**	**-**	**452,367**	**446,768**	**87,079**	**1,000,252**	**2,230,405**
Charge for the year	42,591	-	75,510	51,448	10,804	152,500	332,853
Disposals	-	-	-	(161)	-	-	(161)
Reclassification	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-
At 31 December 2007	**286,530**	**-**	**527,877**	**498,055**	**97,883**	**1,152,752**	**2,563,097**
NET BOOK VALUE							
At 31 December 2007	**1,472,557**	**338,595**	**636,020**	**192,391**	**30,236**	**437,430**	**3,107,229**

18 (a) PROPERTY AND EQUIPMENT-GROUP *(Continued)*

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

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

iii. Freehold land and buildings includes an amount of KShs 55,426,467 (2006-KShs 55,426,467) against which no depreciation has been charged, as these are pieces of land.

iv. No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs 2,070,247,524 (2006–KShs. 1,495,286,649), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs 388,560,810 (2006–KShs 231,472,145). Included in these fully depreciated assets is KShs 4,156,602 representing idle assets in the process of being disposed.

18 (b) PROPERTY AND EQUIPMENT - COMPANY

	Freehold land & buildings KShs'000	Capital work -in progress KShs'000	Fixtures KShs'000	Office machinery & Furniture & equip KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
COST/VALUATION							
At 1 January 2008	1,759,087	338,595	1,163,897	688,460	125,836	1,586,931	5,662,806
Additions	-	757,728	5,164	240,582	57,285	258,465	1,319,224
Disposals	-	-	-	(7,589)	(37,886)	(1,898)	(47,373)
Reclassification	-	(481,111)	481,111	-	-	-	-
Write down of value	(271,591)	-	-	-	-	-	(271,591)
Transfer to intangible assets	-	(6,148)	-	-	-	--	(6,148)
Write offs	-	(1,767)	-	-	-	-	(1,767)
At 31 December 2008	**1,487,496**	**607,297**	**1,650,172**	**921,453**	**145,235**	**1,843,498**	**6,655,151**
Comprising:							
Cost	1,287,912	607,297	1,650,172	921,453	145,235	1,843,498	6,455,567
Valuation	199,584	-	-	-	-	-	199,584
	1,487,496	607,297	1,650,172	921,453	145,235	1,843,498	6,655,151
DEPRECIATION							
At 1 January 2008	286,530	-	527,877	497,041	97,275	1,151,151	2,559,874
Charge for the year	42,708	-	119,521	78,313	15,209	168,138	423,889
Disposals	-	-	-	(7,368)	(37,232)	(1,898)	(46,498)
Write back of depreciation	(329,238)	-	-	-	-	-	(329,238)
Impairment	-	-	-	-	-	-	-
At 31 December 2008	**-**	**-**	**647,398**	**567,986**	**75,252**	**1,317,391**	**2,608,027**
NET BOOK VALUE	**1,487,496**	**607,297**	**1,002,774**	**353,467**	**69,983**	**526,107**	**4,047,124**

18 (b) PROPERTY AND EQUIPMENT - COMPANY

	Freehold land & buildings KShs'000	Capital work -in progress KShs'000	Fixtures KShs'000	Office machinery & Furniture & equip KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
COST/VALUATION							
At 1 January 2007	1,759,087	450,997	704,362	577,584	110,993	1,415,292	5,018,315
Additions	-	340,893	6,240	111,040	14,843	171,639	644,655
Disposals	-	-	-	(164)	-	-	(164)
Reclassification	-	(453,295)	453,295	-	-	-	-
At 31 December 2007	**1,759,087**	**338,595**	**1,163,897**	**688,460**	**125,836**	**1,586,931**	**5,662,806**
Comprising:							
Cost	1,287,912	338,595	1,163,897	688,460	125,836	1,586,931	5,191,631
Valuation	471,175	-	-		-	-	471,175
	1,759,087	**338,595**	**1,163,897**	**688,460**	**125,836**	**1,586,931**	**5,662,806**
DEPRECIATION							
At 1 January 2007	**243,939**	**-**	**452,367**	**446,015**	**86,927**	**999,110**	**2,228,358**
Charge for the year	42,591	-	75,510	51,187	10,348	152,041	331,677
Disposals	-	-	-	(161)	-	-	(161)
Reclassification	-	-	-		-	-	-
Impairment	-	-	-		-	-	-
At 31 December 2007	**286,530**	**-**	**527,877**	**497,041**	**97,275**	**1,151,151**	**2,559,874**
NET BOOK VALUE At 31 December 2007	**1,472,557**	**338,595**	**636,020**	**191,419**	**28,561**	**435,780**	**3,102,932**

19. DEFERRED TAX

Deferred tax movement and balances are analysed as follows:

	2008	Movement	2007
GROUP	KShs'000	KShs'000	KShs'000
Loan losses disallowed for tax purposes	(77,361)	(38,049)	(115,410)
Revaluation surplus	88,999	2,620	91,619
Accelerated depreciation over wear and tear	(26,129)	13,600	(12,529)
Provisions and other deferred tax assets	(55,444)	74,144	18,700
	(69,935)	52,315	(17,620)
COMPANY			
Collective allowance for impairment	(76,940)	(38,470)	115,410)
Revaluation of assets	88,999	2,620	91,619
Accelerated depreciation over wear and tear	(26,096)	13,568	(12,529)
Provisions and other deferred tax assets	(55,387)	74,057	18,670
	(69,426)	51,775	(17,650)

20. DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS

	GROUP AND COMPANY	
	2008	2007
Payable within 30 days	691,927	1,405,054
Payable after 30 days but within 1 year	533,500	17,557
	1,225,427	1,422,611

The weighted average effective interest rate on deposits from banks at 31 December 2008 was 8.98% (2007-8.46%)

21. CUSTOMER DEPOSITS

	GROUP		COMPANY	
a)	2008	2007	2008	2007
	KShs'000	KShs'000	KShs'000	KShs'000
Call deposits	4,178,102	3,252,762	4,178,102	3,252,762
Fixed deposits	15,243,709	10,802,908	15,243,709	10,802,908
Transaction accounts	22,550,673	21,225,925	22,550,673	21,225,925
Savings accounts	347,710	134,845	347,710	134,845
Current accounts	19,640,109	16,696,678	19,720,837	16,696,678
Foreign currency deposits	3,893,422	2,662,272	3,893,422	2,662,272
	65,853,725	54,775,390	65,934,453	54,775,390
b) From government and parastatals:-				
Payable on demand	4,377,771	1,539,585	4,377,771	1,539,585
Payable within 30 days	1,865,006	232,142	1,865,006	232,142
Payable after 30 days but within 1 year	5,902,901	1,958,969	5,902,901	1,958,969
	12,145,678	3,730,696	12,145,678	3,730,696
From private sector and individuals:-				
Payable on demand	38,729,093	39,045,292	38,809,821	39,045,292
Payable within 30 days	2,369,029	3,061,495	2,369,029	3,061,495
Payable after 30 days but within 1 year	12,609,925	8,937,907	12,609,925	8,937,907
	53,708,047	51,044,694	53,788,775	51,044,694
	65,853,725	54,775,390	65,934,453	54,775,390

Included in customers' deposits is an amount of KShs 12,999 million (2007- KShs 11,231 million) that have been pledged to the Company by customers as security for loans and advances.

The weighted average effective interest rate on interest bearing customer deposits as at 31 December was 2.6% (2007-1.82%).

22. LOANS

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

	GROUP AND COMPANY	
	2008	2007
	KShs'000	KShs'000
IFAD	30,000	30,000
European Investment Bank	35,968	45,658
AFD Microfinance	90,000	-
Women Enterprise Fund	30,000	-
	185,968	75,658

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 KShs.30 Million under the Eastern Produce Horticultural and Traditional Food Crops Project. The Company holds the funds for onward lending to customers.

European Investment Bank

A loan agreement was entered into on 25 November 2003 between the European Investment Bank and The Co-operative Bank of Kenya Limited for a total of KShs 220 million, which was to be disbursed on demand at a fixed interest rate of 5.8% per annum to be on lent to a number of co-operative societies on a performance related basis.

AFD Microfinance

The loan agreement was entered into on 14 February 2007 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 is 31/12/2011. The loan is being advanced in tranches based on customer demand. The loan is to be repaid within a period of 4 years.

Women Enterprise Fund

The loan agreement was entered into on 11 December 2007 between the Government of Kenya - Ministry of Gender and The Co-operative Bank of Kenya Limited for a loan of KShs 92,000,000 to be disbursed in 3 tranches, for on lending to women. The loan is advanced 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.

23. OTHER BORROWINGS

The Company undertook a short-term loan of KShs.117,225,000 from RMB International Dublin Ltd. The facility expired on 15 January 2009 and was fully settled.

24. PROVISIONS

	GROUP AND COMPANY	
	2008	2007
	KShs'000	KShs'000
Leave liability	29,119	27,747
Staff benefits	243,746	243,746
Office expenses	-	41,012
	272,865	312,505

Provisions recognised relate to leave liability and past or present legal or constructive obligations that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

The staff benefits provision has been accumulating since March 2003 when the union through a Collective Bargaining Agreement sought to obtain a 15% increase in member's staff salaries. The Management on prudence basis has provided for the staff costs using the contested 15% which was awarded by the courts. The banking industry has contested the ruling arguing that the benefits are punitive.

Movement in Provisions	GROUP AND COMPANY	
	2008	2007
	KShs'000	KShs'000
Balance at 1 January	312,505	179,166
Provisions during the year	1,372	206,290
Provisions reversed during the year	(41,012)	(72,951)
Balance at 31 December	272,865	312,505

25. TAXATION

	GROUP		COMPANY	
	2008	2007	2008	2007
	KShs'000	KShs'000	KShs'000	KShs'000
a) Income statement:-				
Current tax at 30% (2007 - 30%)				
on the taxable profit for the year	934,791	594,281	928,064	587,424
Under-provision in previous years	102,705	37,960	102,683	37,650
Deferred tax	(52,315)	136,678	(51,775)	136,499
	985,181	768,919	978,972	761,573
b) Balance sheet:-				
Balance brought forward	233,951	334,754	234,067	330,607
Charge for the year	934,791	594,281	928,064	587,424
Under-provision in previous years	102,705	37,960	102,683	37,650
Paid during the year	(1,137,658)	(733,044)	(1,131,321)	(721,614)
	133,789	233,951	133,493	234,067
c) Reconciliation of taxation expense				
to tax based on accounting profit:-				
Accounting profit	3,358,818	2,318,525	3,336,979	2,287,661
Tax applicable rate of 30 % (2007-30%)	1,007,646	695,558	1,001,094	686,298
Tax effect of items not eligible for tax	(22,465)	73,361	(22,122)	75,275
	985,181	768,919	978,972	761,573

26. OTHER LIABILITES

	GROUP		COMPANY	
	2008	2007	2008	2007
	KShs'000	KShs'000	KShs'000	KShs'000
Interest payable	3,755	4,123	3,755	4,123
Sundry creditors and accruals	2,083,960	2,039,686	2,110,688	2,063,843
	2,087,715	2,043,809	2,114,443	2,067,966

27. SHARE CAPITAL

The authorised share capital of the company at 31 December 2008 was KShs. 3,700,000,000 made up of 3,700,000,000 ordinary shares of par value KShs.1 each. The authorised share capital as at 31 December 2007 was an unlimited number of shares of par value KShs.100 each. The company split its shares in the ratio of 1 to 100 with effect from July 2008 and issued new shares numbering 635,919,900 (Including 557,242,300 shares through the Initial Public Offer) of par value KShs.1 each during the year 2008 which were fully paid for.

27. SHARE CAPITAL *(continued)*

	GROUP AND COMPANY	
	2008	2007
Issued and fully paid:-	3,492,370	2,856,450

The number of issued and fully paid shares for year ended 2007 have been restated to reflect the share split of 1 to 100.

28. SHARE PREMIUM

In 2008, the Company issued 557,242,300 new shares through an Initial Public Offering. The shares with a par value KShs.1 each were issued at KShs. 9.50.

	GROUP AND COMPANY	
	2008	2007
	KShs'000	KShs'000
Share premium	4,736,559	-
IPO expenses	(449,823)	-
Share premium	4,286,736	-

29. RESERVES

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.

General Reserve

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

Share Transfer Fund

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

Share Fractions

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

Revenue Reserves

This includes retained earnings, general reserves, share transfer fund, share fractions and the capitalised portion of interest from grant loans.

29. RESERVES *(continued)*

Revenue Reserves

	GROUP		COMPANY	
	2008	2007	2008	2007
	KShs'000	KShs'000	KShs'000	KShs'000
Retained earnings	4,249,950	2,387,967	4,189,839	2,350,391
General reserve	3,100	-	3,100	-
Share transfer fund	522	-	522	-
Share fractions	70	-	70	-
	4,253,642	2,387,967	4,193,531	2,350,391

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 profits. These reserves are not distributable.

30. CAPITAL GRANTS

	GROUP AND COMPANY	
	2008	2007
	KShs'000	KShs'000
Grant net of amortisation at 1 January	676,953	697,400
Amortisation for the year	(20,447)	(20,447)
At 31 December	656,506	676,953

Capital grants relate to computers, fixtures and equipment donated by USAID, in 2004, in respect of the Bank's Micro Finance Project and rehabilitation work on Co-operative House financed by USAID following the August, 1998 bomb blast.

31. PROPOSED DIVIDENDS AND DIVIDENDS PER SHARE

	GROUP AND COMPANY	
	2008	2007
	KShs'000	KShs'000
First and final dividend for 2007	-	228,516
Proposed for approval at AGM (not recognised as a liability as at 31 December)	349,237	-

(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 2008 financial statements, a first and final dividend in respect of year 2008 of KShs 0.10 (2007- KShs 0.08) for every ordinary share of KShs.1 is to be proposed by the directors and is subject to approval by shareholders

31. PROPOSED DIVIDENDS AND DIVIDENDS PER SHARE *(continued)*

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

32. INTEREST INCOME

	GROUP		COMPANY	
	2008	2007	2008	2007
	KShs'000	KShs'000	KShs'000	KShs'000
Loans and advances to customers	5,819,612	4,190,870	5,819,612	4,190,870
Finance leases	49,407	230	49,407	230
Held to maturity	819,729	926,150	812,365	920,646
Investments designated at fair value through Income statement.	408,129	365,203	408,129	365,203
Deposits and balances due from other banks	36,258	37,373	36,258	37,373
Accrued on impaired assets (Unwinding of discount)	291,513	330,274	291,513	330,274
	7,424,648	5,850,100	7,417,284	5,844,596

33. INTEREST EXPENSE

	GROUP AND COMPANY	
	2008	2007
	KShs'000	KShs'000
Call deposits	225,133	132,285
Fixed deposits	922,655	503,164
Savings accounts	174,944	158,377
Current accounts	207,433	104,589
Deposits and balances due to banks	159,081	55,998
Loans	31,608	40,253
Other borrowings	7,902	5,766
	1,728,756	1,000,432

34. COMMISSIONS

	GROUP		COMPANY	
	2008	2007	2008	2007
	KShs'000	KShs'000	KShs'000	KShs'000
Fees and commissions on loans and advances	524,377	435,719	524,377	435,719
Ledger fees & service charges	1,139,358	1,088,327	1,139,358	1,088,327
Other fees and commissions	1,555,364	1,385,081	1,471,155	1,322,956
	3,219,099	2,909,127	3,134,890	2,847,002

35. OTHER INCOME

	GROUP		COMPANY	
	2008	2007	2008	2007
	KShs'000	KShs'000	KShs'000	KShs'000
Gains on disposal of property and equipment	5,998	(4)	5,998	(4)
Dividend income	1,389	-	1,389	-
Franchise project	26,702	16,706	26,702	16,706
Rental income (net)	46,098	45,695	46,098	45,695
Insurance premium rebate	20,000	-	20,000	-
VISA Card fees refund	77,100	-	77,100	-
Miscellaneous	152,506	16,267	148,643	13,943
	329,793	78,664	325,930	76,340

36. OTHER OPERATING EXPENSES

Salaries and wages (36 b)	2,939,470	2,442,879	2,903,462	2,417,756
Depreciation on property and equipment	425,419	332,853	423,889	331,675
Rent for branch premises	342,396	184,123	340,314	182,041
Motor vehicle running & Other equipment maintenance	292,599	245,874	291,422	245,327
Stationery	136,967	113,698	135,997	113,054
Travelling	121,994	105,276	115,444	102,450
Telephone & postage	160,175	120,937	159,804	120,417
Contribution to Deposit Protection Fund	79,418	70,421	79,418	70,421
Amortisation of intangible assets	57,876	55,674	57,350	55,674
Directors' emoluments	64,868	55,679	57,127	48,074
Other administrative expenses	485,933	788,196	485,933	788,196
Other operating expenses	781,179	741,830	764,139	734,035
	5,888,294	5,257,440	5,814,299	5,209,120

(b) Salaries and wages				
Basic salaries	2,089,227	1,712,661	2,067,334	1,697,195
Allowances	366,879	312,200	359,606	306,710
Pension scheme contribution	244,539	197,108	241,700	195,087
Medical expenses	109,465	88,445	107,371	86,842
Others	129,360	132,465	127,451	131,922
	2,939,470	2,442,879	2,903,462	2,417,756

37. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging:-

	GROUP		COMPANY	
	2008	2007	2008	2007
	KShs'000	KShs'000	KShs'000	KShs'000
Staff costs	2,939,470	2,442,879	2,903,462	2,417,756
Directors' emoluments				
Fees	13,215	11,344	11,638	9,794
Others	51,653	44,335	45,489	38,280
Depreciation on property and equipment	425,419	332,853	423,889	331,675
Amortisation of leasehold land	616	659	616	659
Amortisation of intangible assets	57,876	55,674	57,350	55,674
Auditors' remuneration	7,950	7,550	7,000	6,600
Impairment of loans and advances	403,262	699,891	403,262	699,891
Contribution to Deposit Protection Fund	79,418	70,421	79,418	70,421
Contribution to staff retirement benefit scheme	244,539	197,108	241,700	195,087

and after crediting:-

Foreign exchange gains	493,581	414,221	493,581	414,221
Gains on disposal of property and equipment	5,998	(4)	5,998	(4)
Net rental income	46,098	45,695	46,098	45,695
Amortisation of capital grants	20,447	20,447	20,447	20,447
Accrued interest on impaired assets (Unwinding of discount)	291,513	330,274	291,513	330,274

38. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share for the Group and the Company 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. There were no potentially dilutive shares outstanding at the respective balance sheet dates, hence diluted earnings per share was the same as basic earnings per share.

	GROUP		COMPANY	
	2008	2007	2008	2007
	KShs'000	KShs'000	KShs'000	KShs'000
Net profit for the year attributable to shareholders	2,373,637	1,549,606	2,358,007	1,526,088
Weighted average number of ordinary shares at 31 December	2,969,393	2,856,450	2,969,393	2,856,450
Basic earnings per share (KShs)	0.80	0.54	0.79	0.53

39. CASH AND CASH EQUIVALENTS

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

	GROUP		COMPANY	
	2008	2007	2008	2007
	KShs'000	KShs'000	KShs'000	KShs'000
Cash on hand	3,340,085	2,404,929	3,340,085	2,404,929
Cash with Central Bank of Kenya	3,172,599	3,620,336	3,172,598	3,620,336
Deposits and balances due from banks	2,983,683	1,773,418	2,983,683	1,773,418
Items in the course of collection from other banks	2,273,637	1,341,237	2,273,637	1,341,237
Government securities and other investments maturing within 91 days	2,540,418	2,444,753	2,537,770	2,375,132
	14,310,422	11,584,673	14,307,773	11,515,052
Less CBK cash ratio	(3,309,557)	(3,488,084)	(3,309,557)	(3,488,084)
	11,000,865	8,096,589	10,998,216	8,026,968

40. 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, staff and other related parties:-

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

	GROUP AND COMPANY	
	2008	2007
	KShs'000	KShs'000
Directors	148,834	128,847
Employees	2,575,090	1,769,491
	2,723,924	1,898,338

The weighted average interest on loans to related parties during the year was 4% (2007-4%). The interest income earned on loans and advances to directors, employees and associates amounted to KShs.97,038,956 (2007-KShs 68,620,899) 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 (2007-Nil).

(b) Inter-company balances:-

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

	COMPANY	
	2008	2007
	KShs'000	KShs'000
Due to:-		
Other balances due to subsidiaries	-	1,250

40. RELATED PARTY TRANSACTIONS *(continued)*

(b) Inter-company balances:-

Deposits from subsidiary companies held as at 31 December 2008 was KShs 80,728,000 (2007-(KShs 3,230,000). These transactions with related parties were at arm's length. No interest is charged on transactions between the parent and its subsidiaries. At 31 December 2008, deposits from directors and employees amounted to KShs 215,505,159 (2007-203,726,040). Interest expense paid on deposits from directors and employees amounted to KShs 2,871,562 (2007-KShs 2,648,796).

(c) Compensation of key management personnel

	GROUP AND COMPANY	
	2008	2007
	KShs'000	KShs'000
Directors	63,697	55,678
Senior managers	401,433	232,538

(d) Co-operative Bank Foundation

The Foundation is a registered trust established to assist bright needy students from the co-operative movement in paying school fees. In 2008, KShs 15 Million (2007- KShs 15 Million) was disbursed to the Foundation. At 31 December 2008, the Foundation held deposits of KShs.13,421,683 (2007-1,406,235) with the Company.

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

This is a defined contribution scheme and provides, under the rules of the scheme, retirement benefits for the staff of The Co-operative Bank of Kenya Limited and its subsidiaries. The Group contributed KShs 245,015,655 (2007- KShs 200,888,234). At 31 December 2008. under the terms of their appointment, Co-optrust Investment Services Limited is responsible for the investment of funds. There were no deposits held by the Company on behalf of the Scheme (2007-Nil).

(f) The number of employees at the year end was:

	GROUP AND COMPANY	
	2008	2007
	KShs'000	KShs'000
Management	236	195
Supervisory and unionisable	1,969	1,475
	2,205	1,670

41. GROUP INTEREST RATE RISK MANAGEMENT

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

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non interest bearing	Total
ASSETS	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cash and balances with Central Bank of Kenya	(136,958)			-	-	6,649,642	6,512,684
Items in the course of collection from other banks				-	-	2,273,637	2,273,637
Deposits and balances due from other banks	427,652	2,556,031	-	-	-	-	2,983,683
Held for trading investments	100	894,500	1,249,370	373,352	1,208,196	-	3,725,518
Held to maturity investments	255,000	1,001,000	272,450	7,032,793	570,277	-	9,131,520
Equity investments				-	-	55,719	55,719
Loans and advances to customers	3,599,642	821,576	4,604,254	37,024,808	6,858,263	-	52,908,543
Other assets	-	-	-	-	-	1,481,391	1,481,391
Intangible assets	-	-	-	-	-	249,285	249,285
Prepaid lease rentals	-	-	-	-	-	41,317	41,317
Property and equipment	-	-	-	-	-	4,052,623	4,052,623
Deferred tax	-	-	-	-	-	69,935	69,935
Total assets	4,145,436	5,273,107	6,126,074	44,430,953	8,636,736	14,873,549	83,485,855
LIABILITIES							
Deposits and balances due to banks	1,225,427						1,225,427
Customer deposits	47,652,568	15,441,538	2,658,496		101,123	-	65,853,725
Loans	-	-	-	-	185,968	-	185,968
Other borrowed funds	117,225	-	-	-	-	-	117,225
Provisions	-	-	-	-	-	272,865	272,865
Tax payable	-	-	-	-	-	133,789	133,789
Other liabilities	-	-	-	-	-	2,087,715	2,087,715
Share capital	-	-	-	-	-	3,492,370	3,492,370
Share premium	-	-	-	-	-	4,286,736	4,286,736
Reserves	-	-	-	-	-	4,824,292	4,824,292
Capital grants	-	-	-	-	-	656,506	656,506
Proposed dividends	-	-	-	-	-	349,237	349,237
Total liabilities	48,995,220	15,441,538	2,658,496	-	287,091	16,103,510	83,485,855
Interest sensitivity gap at 31 December 2008	(44,849,784)	(10,168,431)	3,467,578	44,430,953	8,349,645	(1,229,961)	-
Interest sensitivity gap at 31 December 2007	35,784,016	5,655,783	1,805,707	(31,483,538))	(4,706,987)	(3,443,548)	-

42. GROUP LIQUIDITY RISK MANAGEMENT

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

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
ASSETS	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cash and balances with Central Bank of Kenya	3,203,127	-	-	-	3,309,557	6,512,684
Items in the course of collection from other banks	2,273,637	-	-	-	-	2,273,637
Deposits and balances due from banks	427,652	2,556,031	-	-	-	2,983,683
Held for trading investments	100	894,500	1,249,370	373,352	1,208,196	3,725,518
Held to maturity investments	255,000	1,001,000	272,450	7,032,793	570,277	9,131,520
Equity investments	-	-	-	-	55,719	55,719
Loans and advances to customers	3,599,642	821,576	4,604,254	37,024,808	6,858,263	52,908,543
Other assets	84,967	-	1,396,424	-	-	1,481,391
Intangible assets	-	-	-	-	249,285	249,285
Prepaid lease rentals	-	-	615	2,462	38,240	41,317
Property and equipment	-	-	-		4,052,623	4,052,623
Deferred tax	-	-	-	69,935	-	69,935
Total Assets	9,844,125	5,273,107	7,523,113	44,503,350	16,342,160	83,485,855
LIABILITIES						
Deposits and balances due to banks	1,225,427	-	-	-	-	1,225,427
Customers' deposits	47,652,568	15,441,538	2,723,496	-	36,123	65,853,725
Loans	-	-	-	185,968	-	185,968
Other borrowings	117,225	-	-	-	-	117,225
Provisions	-	-	-	272,865	-	272,865
Tax payable	-	-	133,789		-	133,789
Other liabilities	2,087,715	-	-	-		2,087,715
Share capital	-		-	-	3,492,370	3,492,370
Share premium	-	-	-	-	4,286,736	4,286,736
Reserves	-	-	-		4,824,292	4,824,292
Capital grants	-	-	-	-	656,506	656,506
Proposed dividends	-	-	-	-	349,237	349,237
Total liabilities	51,082,935	15,441,538	2,857,285	458,833	13,645,264	83,485,855
Net liquidity gap at 31 December 2008	(41,238,810)	(10,168,431)	4,665,828	44,044,517	2,696,896	-
Net liquidity gap at 31 December 2007	(30,146,442	(5,655,783	2,993,988	31,660,146	1,148,089	-

43. FOREIGN CURRENCY EXPOSURE

THE BANK

CURRENCY TYPE	USD	GBP	EURO	JPY	ZAR		
EXCHANGE RATE	78.15	112.99	109.99	0.8658	8.3628	Ohers	Total
Foreign Currency Assets:	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000
Cash and balances with banks abroad	2,163,587	117,565	707,303	1,627	4,915	17,524	3,012,521
Loan and advances	1,325,803	-	315	-	7	-	1,326,125
Other foreign assets	-	2,353	84,267	-	450	-	87,070
Off balance sheet items	6,531	-	-	-	-	-	6,531
Total Foreign Assets	3,495,921	119,918	791,885	1,627	5,372	17,524	4,432,247
Foreign Currency Liabilities:							
Deposits	3,320,213	105,937	766,536	1,019	4,637	8,879	4,207,221
Other foreign liabilities	163,786	14,593	29,463	608	696	8,655	217,801
Off-balance sheet items	-	-	-	-	-	-	-
Total Foreign liabilities	3,483,999	120,530	795,999	1,627	5,333	17,534	4,425,022
Net Exposure at 31 December 2008	11,922	(612)	(4,114)	-	39	(10)	7,225
Net Exposure at 31 December 2007	8,661	485	(884)	-	27	(26)	8,261

44. SENSITIVITY ANALYSIS

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

(i) Interest rate risk

Interest rate risk is the risk of loss resulting from changes in interest rates, including changes in the shape of yield curves. The Group bases its analysis on the interest sensitivity gap (Note 41). The sensitivity computations assume that financial assets maintain a constant rate of return from one year to the next. The effect on profit due to reasonable possible changes in interest rates, with all other variables held constant, is as follows:

	COMPANY	
	2008	2007
	KShs'000	KShs'000
Effect on profit before tax of a +3% change in interest rates	80,178	92,976
Effect on profit before tax of a -3% change in interest rates	(74,930)	(72,315)

(ii) Currency risk

Currency risk is the risk of loss resulting from changes in exchange rates. The Group bases its analysis on the interest sensitivity gap (Note 43). The Group has assets and liabilities in various currencies; however, the most significant exposure arises from assets denominated in the US dollar. The following table demonstrates the sensitivity to reasonably possible change in the KShs/ US dollar exchange rate, with all other variables held constant, of the Group's profit before tax.

	GROUP	
	2008	2007
	KShs'000	KShs'000
Effect on profit before tax of a +5% change in exchange rates	596	478
Effect on profit before tax of a -5% change in exchange rates	(270)	(302)

45. OPERATING LEASE COMMITMENTS

As Lessor

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

	GROUP AND COMPANY	
	2008	2007
	KShs'000	KShs'000
Within One year	2,673	2,789
Between 2 and 5 years	113,781	115,750
Over 5 years	4,585	890
	121,039	119,429

Leases are negotiated for an average term of six (6) years and rentals are reviewed every two (2) years.

As Lessee

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

	GROUP AND COMPANY	
	2008	2007
	KShs'000	KShs'000
Within One year	7,181	656
Between 2 and 5 years	647,198	2,625
Over 5 years	142,639	41,341
	797,018	44,622

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.

46. COMMITMENTS

	GROUP AND COMPANY	
	2008	2007
	KShs'000	KShs'000
i) Capital: Authorised and contracted for	217,100	56,558
ii) Capital: Authorised and not contracted for	2,128,867	1,114,282
iii) Loans committed but not disbursed at year end	3,834,030	636,547

47. CONTINGENT LIABILITIES

	GROUP AND COMPANY	
	2008	2007
	KShs'000	KShs'000
a) Off balance sheet		
Letters of credit, guarantees, acceptances, and other engagements entered into on behalf of customers	5,118,882	2,064,074

Guarantees are documents written by a 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 a 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: -

1) Jackie Distributors Vs The Company

The plaintiff filed a suit against the Company seeking special damages amounting to KShs 25,866,564 plus general damages to be quantified by the court for loss of business and profit arising out of Company's refusal to honour cheque for KShs 1,072,279 made out in favour of a third party.

ii) Wycliffe Oduor Omungala Vs The Company

The plaintiff filed a suit against the Company seeking restitution of KShs 31 million on account of alleged fraud, collusion and breach of contract arising out of alleged negligent clearance of forged cheques leading to illegal withdrawals in the period 1998 –1999 together with general damages. Matter has been investigated by the Company's Security Department and private investigator commissioned to interview payees of the cheques, which report forms part of the Company's evidence.

iii) Inchape Shipping Services Limited Vs The Company

The suit was instituted by the plaintiff It relates to some cheques which were allegedly paid to the wrong parties. The plaintiff is demanding damages amounting to KShs 7,466,616. The matter came up for hearing on several occasions but was adjourned for several reasons.

iv) Beatrice Nthenya and 29 others (ex-staff) Vs The Company

The claimants demand severance/redundancy pay, salary amounting to KShs 22,038,068 in lieu of notice and medical claims deducted. Defence is that the claimants were summarily terminated as a result of their dishonest and/or fraudulent action of lodging forged medical claims.

v) Kenya Continental Hotel Vs The Company

This is a claim for KShs 404,785,225 against the Company seeking injunction against sale of Company's security alleging fraud and misrepresentation on the part of the Company. The Company has a counterclaim amounting to KShs 521,318,439.35 against the debtor.

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.

48. 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 1,221 million (2007-1,346 million). The Group, through Co-op Trust Investment Services manages securities with a value of KShs 15,571 million (2007- KShs 15,660 million) on behalf of customers. The income from trust activities was KShs 55,104,274 (2007- KShs 47,900,060).

49. SIGNIFICANT EVENTS

At the annual General meeting of The Co-operative Bank of Kenya Limited (Society) held on 25 April 2008, the Society split its shares in the ratio of 1 to 100. This effectively increased the number of shares to 2,935,127,600.

The Co-operative Bank of Kenya Limited (registered as a co-operative society under the Co-operative Societies Act) changed its status to a public limited liability company under the Companies Act vide Gazette Notice No. 7089 dated 8 August 2008. In effect all the business, assets, liabilities, agreements and contracts were transferred to the new entity. After this transfer of the business, assets and liabilities, the Society subsequently changed its name to Coop Holdings Co-operative Society Limited. The performance of the entity for the year was as follows:

49. SIGNIFICANT EVENTS *(continued)*

	2008			2007
	Society	Company	Combined	Society
	KShs'000	KShs'000	KShs'000	KShs'000
Interest income	3,942,508	3,474,776	7,417,284	5,844,596
Interest expense	(946,858)	(781,898)	(1,728,756)	(1,000,432)
NET INTEREST INCOME	2,995,650	2,692,878	5,688,528	4,844,164
Commissions	1,871,136	1,263,754	3,134,890	2,847,002
Foreign exchange gain	330,866	162,715	493,581	414,221
Changes in fair value of investments	(1,071)	(535)	(1,606)	(12,599)
Net (losses)/ gains on re-measurement of investments	(74,441)	(37,221)	(111,662)	29,888
Amortisation of investments held to maturity	(12,331)	17,064	4,733	(22,793)
Amortisation of capital grants	11,927	8,520	20,447	20,447
Other income	217,287	108,643	325,930	76,340
OPERATING INCOME	5,339,023	4,215,818	9,554,841	8,196,672
Net impairment losses on loans and advances	475,253	(71,991)	403,262	699,891
Other operating expenses	3,381,930	2,432,369	5,814,299	5,209,120
OPERATING EXPENSES	3,857,183	2,360,378	6,217,561	5,909,011
PROFIT BEFORE TAX	1,481,839	1,855,441	3,337,280	2,287,661

The Company's Initial Public Offering (IPO) of 701,300,000 shares commenced on 30 October 2008 and closed on 13 November 2008. The public acquired 557,242,300 shares during the IPO. The Company listed all its issued shares totalling 3,492,369,900 on the Nairobi Stock Exchange on 22 December 2008.

50. CREDIT CRISIS

Over the last one year, a growing "credit crisis" has significantly affected the global financial markets. What began as a deterioration of credit quality in the subprime mortgage sector has rapidly spread, causing adverse conditions throughout the mortgage banking industry, the broader U.S. housing market, and the global credit markets. Governments around the world have taken significant steps to address the impacts of the financial crisis and recession.

As at 31 December 2008 the group has taken measures to reduce possible exposure in future especially those arising from bank balances held abroad. The Group holds its bank balances with high credit rating. The positions are monitored on an ongoing basis to cater for any emerging challenges. The Group is also monitoring the Kenyan economic situation to ensure timely responses are made. The Group is ready to work with Kenyan authorities and its customers, to deal with the crisis in a way which is consistent with the group's obligations to shareholders.

51. ASSETS PLEDGED AS SECURITY

As at 31 December 2008, there were no assets pledged by the Group to secure liabilities.

52. HOLDING ENTITY

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

53. POST BALANCE SHEET EVENTS

The directors are not aware of any material adjusting or non adjusting post balance sheet events, which should be disclosed in this report.

54. COMPARATIVES

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

55. INCORPORATION

The Company is incorporated in Kenya under the Companies Act.

56. CURRENCY

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

Shareholder Information

Shareholder Information

Communication with shareholders

Communication with shareholders is given high priority. Extensive information about The Co-operative Bank of Kenya Limited and its activities is provided in the audited Annual Report and Accounts which is sent out to all shareholders. The bank's results are published in the daily newspapers every quarter in line with the Central Bank of Kenya requirements and are also available on the company's website: www.co-opbank.co.ke.

Shareholders also have direct access to the Company Secretary. There is regular dialogue with individual and institutional investors and enquiries on matters relating to their shareholdings and the business of The Co-operative Bank of Kenya Limited. These are welcomed and are dealt with in an informative and timely manner. The Bank has engaged the services of a professional Registrar to facilitate quick responses to shareholder queries and smooth transfer of shares.

All shareholders are encouraged to attend the Annual General Meeting (AGM) to discuss the progress of The Co-operative Bank of Kenya Limited. At the AGM, shareholders have the opportunity to ask questions on any matter relating to the Bank and to 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 Bank's Articles and Memorandum of Association.

Shareholding Information:

	2008	2007
The number of shareholders as at 31 December:	116,068	55,477

The top 10 shareholders, based on the Bank's share register as 31st December 2008 are as follows:

	NAME	NO. OF SHARES	%
1	Co-opHoldings Co-operative Society Limited	2,254,592,500	64.56
2	Gideon Maina Muriuki	68,121,000	1.95
3	Kenya Commercial Bank Nominees Limited A/C 771A	47,000,000	1.35
4	Stanbic Nominees Kenya Ltd A/C R57601	30,000,000	0.86
5	NIC Bank Limited A/C 077	20,000,000	0.57
6	Kenya Commercial Bank Nominees A/C 816	10,700,000	0.31
7	Kenya Commercial Bank Nominees Limited A/C 747	10,000,000	0.29
8	Barclays (K) Nominees Ltd A/C 9298	8,200,000	0.23
9	Stanley Charles Muchiri	8,000,000	0.23
10	Julius M Riungu	7,700,000	0.22
	Total	**2,464,313,500**	**70.40**

Shareholder Information

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 over 3,805 Co-operative Societies covering millions of Kenyans.

The top 10 shareholders of Co-opHoldings Co-operative Society Limited are as follows;

NAME	NO OF SHARES	%
1 Harambee Cooperative Savings & Credit Society Ltd	83,374,900	3.70
2 Telepost Co-operative Savings & Credit Society Ltd	66,853,800	2.97
3 Afya Cooperative Savings & Credit Society Ltd	66,306,900	2.94
4 Masaku Teachers Coop Savings & Credit Society Ltd	65,314,900	2.90
5 Kipsigis Teachers Coop Savings & Credit Society Ltd	55,414,000	2.46
6 Kenya Police Sacco Society Ltd	52,539,200	2.33
7 Kiambu Unity Finance Co-operative Union Ltd	51,205,700	2.27
8 Nandi Teachers Coop Savings & Credit Society Ltd	40,161,800	1.78
9 Aembu FCS Ltd	40,005,000	1.77
10 Mungania Tea Growers Coop Savings & Credit Society Ltd	35,453,200	1.57

Directors' interest in the ordinary share capital of the Company on 31 December 2008 was as follows:

DIRECTOR	NUMBER OF SHARES	PERCENTAGE (%) OF OWNERSHIP
S. C. Muchiri, EBS - Chairman	8,000,000	0.23
J. Riungu - Vice Chairman	7,700,000	0.22
G. M. Muriuki, OGW - Managing Director	68,121,000	1.95
J. Sitienei	5,000,000	0.14
P. K. Githendu	5,073,700	0.15
G. Mburia	5,051,000	0.14
R. L. Kimanthi	2,310,000	0.07
E.K. Mbogo	5,010,000	0.14
G.J.S. Wakasyaka, Rtd Major	2,300,000	0.07
M. Malonza	5,110,000	0.15
S. Odhiambo (Mrs)	5,080,000	0.15
Dr. J. Kahunyo	5,000,000	0.14
C. Kabira	5,000,000	0.14
W. Ongoro	1,400,000	0.04
F. Odhiambo - Commissioner of Co-operatives	2,750,000	0.08
J. Murugu - Representing PS Ministry of Finance	1,000,000	0.03
R.Githaiga - Company Secretary	5,090,000	0.15
TOTAL	**138,995,700**	**3.99**

Shareholder Information

Shareholding distribution Schedule:

Category	No. of shareholders	No. of shares	%
1-500 shares	Nil	Nil	0
501-5,000 shares	89,780	268,662,300	7.69
5,001-10,000 shares	16,310	146,990,800	4.21
10,001-100,000 shares	9,390	229,762,200	6.58
100,001-1,000,000 shares	469	113,210,800	3.24
1,000,001 shares and over	119	2,733,743,800	78.28
TOTAL	**116,068**	**3,492,369,900**	**100.00**

Shareholder profile:

Category	No. of shareholders	No. of shares	%
Kenyan individual investors	112,774	939,112,300	26.89
Kenyan institutional investors	3,196	2,552,051,600	73.08
East African individual investors	27	275,300	0.01
East African institutional investors	4	6,000	0.00
Foreign individual investors	66	921,700	0.03
Foreign institutional investors	1	3,000	0.00
TOTAL	**116,068**	**3,492,369,900**	**100.00**

Performance on the Nairobi Stock Exchange (NSE):

	2008
Share Price:	
High for the year	13.50
Low for the year	9.10
31st December 2008	10.60
Shares Traded:	
Number of shares	5,902,100
Value of shares traded (Kshs.)	61,634,145
Turnover in shares traded as a percentage of issued shares	0.17%
Number of shares in issue	3,492,369,900
Market Capitalisation as at 31st December 2008 (Kshs.)	37,019,120,940

The Co-operative Bank of Kenya share was listed on the Nairobi Stock Exchange (NSE) on 22nd December 2008.

NOTICE OF ANNUAL GENERAL MEETING
TO SHAREHOLDERS OF THE CO-OPERATIVE BANK OF KENYA LIMITED

Notice is hereby given that the first Annual General Meeting of the Co-operative Bank of Kenya limited will be held at the **Kasarani Sports Complex Nairobi on Friday, 29th May 2009 at 11.00 a.m.** for the transaction of the following business: -

Ordinary Business

To read the notice convening the meeting.

To receive and consider the Audited Financial Statements for the financial year ended 31st December 2008 together with the Directors' and Auditors' report thereon.

To declare a first and final dividend of Kshs. 0.10 per share in respect of the year ended 31st December 2008, to be paid to the shareholders on the register on Thursday, 4th June 2009.

Election of Directors

In accordance with Article 102 of the Articles of Association, the Board appointed Mr. Donald Kibera to fill a casual vacancy on the Board. Mr. Kibera is therefore due to retire from office at the Annual General Meeting, and being eligible, he offers himself for re-election as an additional director.

Election of one additional director from duly nominated candidates.

To authorize the Board to fix the Directors' remuneration.

To re-appoint Ernst and Young, Auditors of the Company, having expressed their willingness to continue in office, and to authorize the directors to fix their remuneration.

Special Business

Acquisition of shares in Bob Mathews Stockbrokers Limited

To consider and if found fit to pass the following resolution as an ordinary resolution: -

THAT subject to all relevant regulatory approvals being obtained, the Company purchases and acquires 12, 000,000 shares being 60% of the issued share capital in Bob Mathews Stockbrokers Limited, in accordance with the terms and conditions of the Share Purchase Agreement entered into between the bank and the shareholders of Bob Mathews Stockbrokers Limited.

Regional Expansion

To consider and if found fit to pass the following resolution as an ordinary resolution: -

THAT subject to all relevant regulatory approvals being obtained, the Company incorporates subsidiaries and/or enters into joint ventures as the Board of Directors may deem appropriate to carry out banking business in Southern Sudan, Uganda and any other country in the region.

Transact any other business, which may be properly transacted at an Annual General Meeting.

By order of the Board

GIDEON MURIUKI – OGW
MANAGING DIRECTOR & CEO
P. O. Box 48231- 00100
Nairobi.

15th April 2009

NB: A member entitled to attend and vote at this meeting is entitled to appoint a proxy who need not be a member of the Company.

PROXY FORM

I/We: ____

____

being a member/members of The Co-operative Bank of Kenya Limited and entitled to __________

____

votes hereby appoint: ____

of (address): ____

or failing him/her: ____

of (address): ____

to be my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the company to be held on Friday 29th May 2009 at 11.00 a.m. at the Kasarani Sports Complex or any adjournment thereof.

As witness my/our hand/hands this day of 2009 ______________________________

Signature(s) of: ______________________________

Note:

1. The completed Form of Proxy must either be lodged at the offices of the company or the Co-operative Bank Shares Registrar, 13th Floor, Co-operative Bank House, Haile Selassie Avenue, Nairobi not later than **11.00 a.m. on Wednesday 27th May 2009**, failing which it shall be invalid.

2. In case of a corporation, the proxy must be under its common seal.