ANNUAL REPORT & FINANCIAL STATEMENTS 2009

To contact us, visit your nearest
Co-op Bank Branch or call us on:
Tel No: 020 2776000
Mobile: 0729 277600 / 0736 690101
E-mail: customerservice@co-opbank.co.ke
Website: www.co-opbank.co.ke

Innovating today for your needs tomorrow

CO-OP BANK

The Co-op Bank Foundation has really helped me in a great way. All I have to do now is work hard and make sure I am the best.

Abdulatiff Mohammed
Alliance Boys High School

The Foundation is kind and generous and I will pay them back by working hard and achieving my dreams.

Margaret Chao
Alliance Girls High School

I take this as new hope and a new chance in life. Am delighted that I will now get a chance thanks to Co-operative Bank.

Njogu Michael
Kerugoya Boys High School

I am grateful to Co-op Bank Foundation because right now I don't have to worry about my school fees. I just go to school and work hard.

Faith Kwamboka
Moi Girls High School

A total of 1,182 children are beneficiaries of full four year secondary education sponsorship from The Co-operative Bank Foundation.

We believe we can build a better Kenya by investing in their dreams, and our future.

THE CO-OPERATIVE BANK FOUNDATION. HELPING CHILDREN REACH FOR THEIR DREAM.

Tumefika, River Rori!

Co-operative Bank is open for business near Tea Room on River Road. Our banking halls are spacious, and our services and products as diverse as our surroundings.

Karibuni nyote.

Keroka

If you thought sweet banana is good wait till you sample our products and services. Karibu Co-op Keroka!

Co-operative Bank is now in Busia.

We are located in the heart of the town and have two ATMs, spacious banking halls and secure parking. Busia can now enjoy our services and products.

We have landed in Nanyuki

Co-op Bank salutes the residents of Nanyuki as we land in town. We welcome you to sample our products and services.

Tumerudi Githurai!

Tawi letu la Githurai limefunguliwa tena! Huduma zetu ni zile zile mzijuazo na zifaazo kwa ubora.

Karibuni wenyeji wa Githurai!

3 New Branches!

We are proud to introduce our newest kids on the block. Embakasi, Kajiado and Kangemi branches. They all have spacious banking halls, two ATMs each and secure parking space.

Karibu and enjoy the good old Co-op Bank services in our all new branches.

Content

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

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

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

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

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

LAWYERS
Various
A list is available at the Bank

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


This is Kingdom business
Welcome to Kingdom Securities, the new stock brokerage firm that has ushered in a new frontier in securities trading. Where every investor big and small is secure, with your investments guaranteed by The Co-operative Bank.
The Kingdom is here. Call us on tel: +254 20 3276676 or visit any Co-operative Bank branch today.
KINGDOM SECURITIES
A subsidiary of The Co-operative Bank of Kenya Limited.

Chairman's Report

Dear Shareholders,

I am pleased to present the Co-operative Bank Group Annual Report and Financial Statements for the year ended 31st December 2009.

Operating Environment

The year 2009 was acknowledged as a difficult year for the business community. The global economic downturn had spiral effects on the Kenyan economy which was struggling to come out of a slump due to post-election crisis of January 2008. The country experienced a severe drought, volatile and high oil prices for most of 2009, escalating food prices and general inflation.

Efforts were instituted in 2009 aimed at returning the country on the path to recovery. It is expected that the year 2010 will record a higher growth rate estimated at 3% as compared to the modest growth of 2.5% in 2009. The government has commenced implementation of the Economic Stimulus Programme (ESP) in order to overcome socio-economic challenges, with the objective of boosting the country's economic recovery and setting it back on the path of medium and long term growth projections in line with the Vision 2030.

Whereas there are concerted efforts to stabilize the business environment with the appropriate policies, inflation is still an area of concern with fuel and food prices remaining high and putting the basic necessities out of reach of ordinary Kenyan consumers. However, the overall 12-month inflation maintained a downward trend through out the year raising the prospects for year 2010.

Banking Sector

The banking sector remained relatively stable in 2009 and continued to record growth both in balance sheet and profitability. The sector recorded high capital adequacy and liquidity ratios and a decline in the level of non-performing loans. Assets grew by 12.5% which was mainly attributed to increased economic activities in the household and corporate sectors. The sectors' deposit liabilities increased by 13.9% on account of receipts from exports and remittances from abroad.

The Central Bank of Kenya remained keen on a lower interest rate regime. This saw the benchmark Central Bank lending rate lowered further to 7.0% as at end of 2009 and the cash ratio requirement for banks to 4.5% boosting the liquidity in the banking sector.

Bank's Performance

The bank has once again delivered exemplary performance in 2009. This was achieved through proper execution of our growth strategies resulting in increased revenues. Our aggressive expansion strategy saw the bank open over 27 branches in strategic locations around the country during the year.

Shareholders will also be pleased to learn that our regional expansion plans are continuing and we expect to start operations in Southern Sudan later this year. The bank will work with the Government of Southern Sudan to develop the co-operative movement in the country which will form the backbone of our penetration to the market.

These developments came on the back of a timely and successful recapitalization of the bank and it is laying the foundation for the next phase in our growth. The 2008 IPO has been awarded "The Best African IPO" in the 2009 African Investors Awards hosted at the New York Stock Exchange, USA.

Dividends

The bank's improved performance will see us continue to grow our returns to the shareholders. The board is therefore pleased to propose a dividend of 20% which is a well deserved 100% improvement from last year's payout.

Corporate Social Responsibility

The bank has continued to contribute to the sustainable development in the country through various activities. For instance, through the Co-operative Bank Foundation, the bank is assisting over 1,182 students with full secondary school fees. The foundation targets student who are bright but needy from all the eight provinces. It is our belief that our efforts have made the lives of these young Kenyans meaningful. We will continue with our role of assisting these needy children attain quality education.

Board Changes

In 2009, we welcomed Mrs. Rose Simani to the Board as a non-executive director.

Appreciation

I would like to thank the management and staff of the bank for the excellent performance achieved in the last year. To our customers who have chosen to bank with us, and the shareholders, we are grateful for the continued support and confidence you have shown in 'The Kingdom Bank'.

I also take this opportunity to express my gratitude to the Government and the regulatory authorities for maintaining a healthy environment which has enabled us to continue rendering our services thus contributing to the development of this nation.

Yours faithfully,

Stanley C. Muchiri, EBS
Group Chairman

Wapendwa Wenyehisa,
Ni furaha yangu kuu kuwasilisha kwenu Ripoti na Taarifa ya Shughuli za Kifedha za Benki ya Co-operative ya kipindi kilichomalizika tarehe 31 mwezi Desemba mwaka wa 2009.

Mazingira ya Kikazi

Mwaka wa 2009 ulikuwa mwaka wenye changamoto nyingi kwa wafanyi biashara. Mdororo wa uchumi duniani uliathiri pakubwa uchumi wa nchi uliokuwa ukijizatiti kujikwamua kutoka kwa athari za machafuko ya uchaguzi yalioikumba nchi hii Januari 2008. Mwaka uliopita nchi hii ilikumbwa na hali ya ukame, gharama ya juu ya mafuta pamoja na mfumko wa bei za bidhaa muhimu.

Kufuatia hali hiyo, juhudi za dharura zilizinduliwa kuirejesha nchi hii katika mkondo wa ukuaji. Uchumi wa nchi hii ulikadiriwa kukua kwa asilimia 3 mwaka wa 2010 ikilinganishwa na asilimia 2.5 mnamo mwaka 2009. Serikali imeanzisha Mpango wa Ufufuzi wa Uchumi ili kuthibiti changamoto za kijamii na kiuchumi zinazokumba nchi hii, kwa madhumuni ya kuirejesha katika mkondo wa ukuaji kuambatana na Ruwaza ya Maendeleo ya Nchi hii Kufikia Mwaka 2030.

Ingawaje juhudi zinafanywa kuboresha mazingira ya kufanyia biashara kwa kubuni sera mwafaka, kupanda kwa gharama ya maisha pamoja na bei ghali ya bidhaa bado ni changamoto kwa mwananchi wa kawaida. Hata hivyo, kwa ujumla gharama ya maisha imeanza kupungua katika kipindi cha miezi kumi na miwili iliyopita, ishara kwamba mambo yatakuwa afadhali katika mwaka wa 2010.

Sekta ya Benki

Sekta ya benki iliendelea kushamiri katika kipindi cha mwaka 2009, ambapo ilipata faida licha ya changamoto zilizokuwepo.Sekta hiyo iliimarika kimtaji na pia katika uwiano wa ukwasi, huku kiwango cha madeni yasiyolipwa kikipungua. Raslimali za benki kijumla ziliongezeka kwa asilimia 12.5, hasa kutokana na kupanuka kwa shughuli miongoni mwa watu binafsi na pia mashirika. Akiba katika sekta pia iliongezeka kwa asilimia 13.9, hasa kutokana na mapato ya mauzo nje ya nchi na pesa ziletwazo nchini kutoka ng'ambo.

Benki kuu imeendelea kuwa makini kupunguza viwango vya riba, hatua ambayo imepelekea kupunguzwa kwa kiwango rasmi cha riba hadi asilimia 7.0 na hivyo kuleta uthabiti wa kifedha katika sekta ya benki.

Utendakazi wa Benki

Benki yetu kwa mara nyingine ilifanya vizuri kibiashara katika mwaka wa 2009. Ufanisi huo ulitokana na utekelezaji kimakini wa mipango yetu ya biashara, ambayo matokeo yake yalikuwa kuimarika kwa mapato. Chini ya mpango wetu mahususi wa upanuzi, benki yetu ilifungua zaidi ya matawi 30 mapya katika maeneo kadha katika kipindi cha mwaka uliopita.

Sina shaka wenye hisa watafurahia kutambua kwamba mpango wetu wa upanuzi katika eneo hili pia umeanza kuzaa matunda, kwani tumepata idhini ya kufungua matawi Sudan Kusini. Benki yetu itafanya kazi bega kwa bega na Serikali ya Sudan Kusini kusitawisha vyama vya ushirika, ambavyo vitakuwa uti wa mgongo katika harakati zetu za kupenyeza katika soko la eneo hilo.

Habari hizo njema zimejiri wakati ambapo benki yetu inajiimarisha kimtaji na kuweka mikakati ya kuiwezesha kukua kwa kasi siku za usoni. Toleo la hisa za benki yetu la mwaka 2008 lilitambulika kuwa bora zaidi kati ya makala yote ya hisa barani nzima Afrika kwa mwaka 2009. Hilo tuzo liliamuliwa na shirika la Mwekezaji Bora katika tamasha iliyoandaliwa katika Soko la Hisa la New York nchini Marekani.

Mgao wa Faida

Jinsi mapato ya benki yanavyozidi kuimarika ndivyo tutazidi kuongeza mgao wa faida kwa wenyehisa. Bodi ya benki yenu hivyo basi inayo furaha kupendekeza mgao wa faida wa asilimia 20, ambao ni sawa na nyongeza ya asilimia 100 ikilinganishwa na mwaka uliopita.

Wajibu kwa Jamii

Benki yetu inaendelea kuchangia miradi mbali mbali inayolenga kuifaidi jamii hapa nchini. Kupitia Wakfu wa Co-operative Bank, benki inawalipia kikamilifu karo zaidi ya wanafunzi 1,182 katika shule mbali mbali nchini. Kwa mfano, wakfu huu unawafadhili hususan wanafunzi werevu kutoka familia maskini katika mikoa yote minane nchini.

Ni matumaini yetu kwamba msaada huu unasaidia pakubwa kubadilisha maisha ya Wakenya hao chipukizi. Hatutakoma kuwasaidia wanafunzi wanaohitahi usaidizi ili kuwawezesha kutimiza ndoto zao maishani.

Mabadiliko katika Bodi ya Benki

Katika mwaka 2009, Bi Rose Simani alijiunga na bodi yetu kama mkurugenzi.

Shukrani

Ningependa kutoa shukrani zangu za dhati kwa wasimamizi na wafanyikazi wa benki yetu kwa kazi mulwa waliotenda mwaka uliopita. Na kwa wateja wetu na wenye hisa, twawashukuru kwa kuendelea kutuunga mkono na kuwa imani katika 'The Kingdom Bank'.

Kadhalika nachukua fursa hii kuishukuru serikali na pia halmashauri za kuthibiti sekta ya benki hapa nchini kwa kudumisha mazingira bora ya kufanyia biashara, ambayo yametuwezesha kuendelea kutoa huduma zetu na pia kuchangia maendeleo ya taifa letu tukufu la Kenya.

Asanteni,

Stanley C. Muchiri, EBS
Mwenyekiti

Growing our Partnership with Co-operatives

H.E. the President Hon. Mwai Kibaki is received by the Co-op Bank Group Chairman, Mr Stanley Muchiri also the Vice President of International Co-operative Alliance (ICA) during the ICA Conference held in Nairobi. Co-op Bank retains an enduring commitment to the Co-operative Movement.

Stanley C. Muchiri, (63), EBS Chairman

Has served the Board as Director since 1986 and Chairman since 2002. He is the Chairman of Kingdom Securities Limited, Co-op Trust Investment Services Limited and Co-op Consultancy Services Limited- all subsidiaries of the Bank. 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 co-operative movement in various capacities for over 30 years. He is Chairman of the Co-operatives Alliance of Kenya (CAK), Vice-President of the International Cooperative Alliance (ICA), and President of the International Co-operative Alliance Africa. Has served in verious boards including the Coffee Board of Kenya and the Kenya Planters Co-operative Union Limited. 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, (61), Vice Chairman

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

Gideon Muriuki, OGW, (45), Group Managing Director & CEO

Appointed Managing Director in 2001 and has presided over the Bank's turnaround of the bank from a massive loss position of KShs. 2.3 billion in the year 2001, to a profit before tax of KShs. 3.74 billion in 2009. 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 20 years experience in banking and finance.

He is also the Managing Director of Co-op Trust 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), Executive Committee Member of the Kenya Bankers Association 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 contribution to development of rural finance in Africa.

Julius Sitienei, (55), Director
Joined in 2003. He is a business man and an educationist with over 20 years experience in the teaching profession before he took leadership positions in the management of co-operative societies. He is a Director of Co-op Holdings Co-operative Society Limited.

Major (Rtd) Gabriel J. S. Wakasyaka, (67), Director
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, (39), Director
Joined in 2005. Holds a Bachelor of Arts degree, a Masters in Organizational Change and Development, post graduate diploma in Management and Information systems, Certificate in Strategic Planning and Management and CPS 1. He has served in various positions in the Civil service and is Chairman of Harambee Co-operative Society Limited that serves the employees of the various Government departments under the Office of the President.

Richard L. Kimanthi, (53), Director
Joined in 1994. He is a businessman and has served in various leadership positions in the co-operative movement for a considerable period. He holds a diploma in Co-operative Management. He a Director of Co-op Holdings Co-operative Society Limited.

John K. Murugu, (59),
(Representing Permanent Secretary, Treasury), Director
Joined in 2008 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, 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, (55), Director
Joined in 2006. He is an educationist with over 20 years experience, and has served the co-operative movement in various positions. He is currently the Chairman of one of the largest Teachers Saccos in Kenya. He a Director of Co-op Holdings Co-operative Society Limited.

Rose Simani (Mrs), (51), Director
Joined on 29th May 2009. She is a Human Resources Consultant, currently the Managing Partner, Simcorp Human Resources Solution and has over 20 years of broad experience in human resources management. She has previously served for 9 years as Director of Human Resources at Housing Finance and also with British American Tobacco in senior positions of Manpower and Planning. She holds a Bachelor of Arts in Social Sciences and is undertaking an MBA in Human Resources. She is a member of the Institute of Human Resource (K) and Associate Member of Psychometrics Africa Limited.

Fredrick F. Odhiambo, MBS, (56),
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-operatives sector. He holds a Bachelor of Science degree. He a Director in Kenya Union of Savings and Credit Co-operatives (KUSCCO) and Co-op Holdings Co-operative Society Limited.

Donald K. Kibera, (62), Director
Joined in 2009. He is a former Government of Kenya Director of External Resources Department at the Ministry of Finance and served in various other capacities like Deputy Secretary Cabinet Office - Office of the President, Chairman of the National Youth Service Task Force. He holds a Bachelor of Arts Degree and is a consultant at the Ministry of Finance, is Chairman of the Financial Committee of the Humanitarian Fund for Mitigations of Effects and Resettlement of victims of Post-2008 election violence, and also Chairman of the Government Task Force on Transport Policy.

Rosemary Majala Githaiga (Mrs), (46), Company Secretary
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 & Co-operative 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, (55), Director
Joined the boards of the subsidiaries in 2009. He is a leading educationist and currently a Lecturer at the Kabete Campus of the University of Nairobi. He holds a Bachelor of Veterinary Medicine degree and a Master of Science degree, and is also involved in providing leadership at Chuna Co-operative Savings and Credit Society.

Elijah K. Mbogo, (66), Director
Joined the boards of the subsidiaries in 2009. 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 Co-operative Union Limited.

Patrick K. Githendu, (56), Director
Joined the board of Co-optrust Investment Services Limited in 1998 and Co-operative Consultancy Services (K) Limited in 2009. He is a businessman, with vast experience, particularly in the coffee industry.

Cyrus N. Kabira, (67), Director
Joined the board of Co-operative Consultancy Services in 2005 and the board of Co-optrust Investment Services in 2009. He is a businessman and has served as Chairman of Bingwa Sacco (formerly Kirinyaga Tea Sacco), - the first Sacco to start a FOSA in Central Province- for over 20 years.He has been a Director of Kenya Tea Development Authority (KTDA).

Scholastica Odhiambo (Mrs), (49), Director
Joined the boards of the subsidiaries in 2009. She continues to work with the Kenya Revenue Authority as a Revenue Officer, where she has served for over 10 years. She holds a Bachelor of Business Administration and is currently undertaking a diploma course on Corporate Governance offered by the KCA University.

Godfrey Mburia, (53), Director
Joined the boards of the subsidiaries in 2004. He is an Accountant by profession and served as Head of Finance, Meru Central Farmers Union.

Group Managing Director & CEO Mr G. Muriuki launching the bank's key investment - Kingdom Securities Limited. Co-op Bank ventured into stock broking to enhance the level of professionalism and protect the interest of investors in the stock market. Investors now enjoy convenient access to services through the bank's outlets spread countrywide.

With the Sacco Link card, Members of Saccos can access their money through Co-op Bank ATMs. That's over 260 ATMs all over the country!

The Sacco Link ATM card is specially designed to give you access to your Sacco account without you having to open a Co-op Bank Account.

Ask about it at your Sacco today!

Chief Executive's Report

Introduction

The year 2009 was instrumental in building the infrastructure that will see the bank sustain the growth momentum achieved over the last few years. We have utilized the enhanced capital base from the IPO of 2008 by increasing the branch network by 27 in 2009 to 79 branches as well as the ATM network to 260 ATMs. The expansion will see the bank offer increased and efficient financial services through a wider network. We have diversified our product offering to include mortgage finance, asset finance and brokerage services. Our core banking platform is under review aimed at positioning it for future growth. These strategic investments are poised to guarantee sustainable profitability growth.

Financial Performance

It gives me great pleasure to report to you that the bank made an incredible profit before tax of Kshs3.74 billion which is 11.2% improvement from Kshs3.4 billion in 2008. Our transaction volumes increased resulting to a strong revenue growth mainly driven by interest income. Interest income rose by 26% to Kshs7.05 billion up from Kshs5.7 billion in the previous year. Our continued diversification of products and services resulted to our non funded income increasing by 18% to Kshs 4.68 billion from Kshs3.95 billion. The good performance is attributed to excellent performance by personal and business banking, trade finance, institutional banking, treasury operations and electronic payment systems. Total income for the bank thus rose to Kshs11.7 billion from Kshs 9.65 billion in 2008, a 21% growth.

During the year, our balance sheet recorded an impressive growth surpassing the Kshs100 billion mark, with total assets increasing by a significant 33% to Kshs110.7 billion compared to Kshs83.5 billion registered at the end of 2008. The remarkable growth is attributed to growth in loans and advances by 18% to Kshs62.3 billion up from Kshs52.9 recorded in 2008. Despite the impressive growth of the loan portfolio, the quality of loan book as measured by impaired loans as a percentage of gross advances improved to 6.5% from 12.4% last year mainly as a result prudent credit risk management.

Customer deposits grew from Kshs65.8 billion to Kshs91.5 billion, a commendable 39% increase. Through the increased network notably branches, ATMs and the Managing Director's Liability Campaign, the bank grew its number of customers to over 1.2 million from 700,000 achieved over the last 40 years the bank has existed.

The tremendous improvement in our results is a clear indication of our commitment to increasing shareholders return. These results have enabled further enhancement of our capital base through retention of profits while at the same time improving dividend payout. Our shareholders funds increased from Kshs13.66 billion to Kshs16.3 billion, a 20% growth. The board is therefore recommending a dividend of 20% equivalent to 20 cents per share being 100% increase from 10 cents per share paid last year.

Business Development

Over time, we have built a strong foundation which will deliver sustainable value to our shareholders, now and into the future. There are still many exciting opportunities that need to be tapped as we endeavour to enhance access to financial services to over 38% of Kenyans classified as unbanked.

In line with our strategy, we have successfully launched the mortgage finance product dubbed "Good Home". The product is already gaining momentum to ensure that as many Kenyans own a home especially those in our key market segment, the co-operative movement.

Our investment in stock brokerage business was another milestone in year 2009. Through Kingdom Securities Limited acquired in 2009, we are consolidating our position as the leading institution offering financial services under one roof "supermarket" model. Kingdom Securities is expected to make fair contribution to the group's performance by taking stock broking services to the common mwananchi with institutional agents countrywide mainly Saccos.

In order to give improved customer service, we enhanced our development of alternative banking channels. The M-banking product was revamped adding more features and making it friendlier to our customers. We increased our ATM network to 260 including deposit-taking and intelligent ATMs with more being rolled out in 2010. Through the use of our ICT platform we inaugurated the point of sale (POS) project with an initial 200 POS terminals, ensuring increased outreach and service to our customers.

To enhance value to our customers, develop coffee sub-sector and boost returns to the coffee farmers, the bank assited in the formation of Kenya Co-operatives Coffee Exporters Limited (KCCE). This initiative is expected to increase our Forex business and strengthen our customer base.

The bank continued in its focus to do business in the region and improve the co-operatives sector by starting the incorporation process of The Co-operative Bank of Southern Sudan. Initiatives for entry to other countries in East Africa region are ongoing.

Our People

The bank continues to be an equal opportunity and an employer of choice and thus continued to attract and retain the right people in their roles. During the year, the bank's total staff compliment rose to 2,239. The staff have a wealth of experience which will enable the bank meet any challenges as we continue to grow locally and into new frontiers in the region.

To better our ways of doing business, align to current practices including the statutory requirements, our bank structures, processes and systems have continued to change. Through our dedicated training facility at Co-operative Bank Management Training Centre and a host of external training, we have maintained a well trained team focused on serving our customers. The bank has therefore continued to maintain high levels of employee satisfaction thereby retaining the best talent in the market. The result is creation of well motivated leaders thereby ensuring business continuity and sustainability.

In conclusion

In spite of the difficult economic times in 2009, the bank returned impressive results and we are confident of better performance going forward.

I take this opportunity to thank the staff for their commitment, dedication and support and particularly their service to our customers.

I sincerely thank the Board of Directors for the oversight and the guidance they have given the bank.

I wish to express my deep gratitude to all our stake holders for your unwavering support and are elated to count on your support in our endeavour to make the "Kingdom Bank" the leading bank in Kenya.

Thank you and may God richly bless you all.

Gideon Muriuki, OGW
Group Managing Director & CEO

Utangulizi

Mwaka wa 2009 ulikuwa muhimu katika kuweka mikakati ya kuiwezesha benki yetu kudumisha kima cha ukuaji ambacho kimeshuhudiwa katika miaka kadhaa iliyopita. Tumetumia mtaji wetu ulioimarishwa na toleo la hisa mnamo mwaka wa 2008 kupanua mtandao wetu kwa kufungua matawi 27 mpya na kufikisha matawi 79, na pia kuongezea mitambo ya ATM na kufikia 260. Upanuzi huu unalenga kuboresha zaidi huduma za benki yetu. Tumepanua huduma zetu kwa kujumuisha ufadhili wa rehani za nyumba, ununuzi wa raslimali na udalali wa hisa. Mtambo ulio uti wa mgongo wa kusimamia huduma za benki pia unafanyiwa uchanganuzi kwa lengo la kuuimarisha na kuuandaa usitili haja za upanuzi mkubwa tunaoutarajia katika siku za usoni. Madhumuni ya kuwekeza katika miradi hiyo ni kupanua shughuli zetu na kuhakikisha kwamba benki yetu inaendelea kupata faida.

Matokeo ya Kifedha

Ninayo furaha tele kuwafahamisha kwamba benki yetu ilipata faida ya shilling bilioni 3.74 kabla ya kulipia ushuru, hii ikiwa nyongeza ya asilimia 11.2 ikilinganishwa na shilingi bilioni 3.4 ambazo benki ilipata katika mwaka wa 2008. Miamala yetu kibiashara pia iliongezeka na hivyo kuwezesha mapato ya benki kuimarika, haswa kutokana na mapato ya riba. Mapato ya riba yaliongezeka kwa asilimia 20 na kufikia shilingi bilioni 5.7 ikilinganishwa na mwaka uliotangulia. Huduma zetu zilizopanuliwa pia zilichangia kuongezeka kwa mapato yasiotokana na mikopo kwa asilimia 18 hadi shilingi bilioni 4.68 kutoka shilingi bilioni 3.95. Matokeo hayo ya kutia moyo yalitokana na kushamili kwa huduma kwa wateja binafsi, sekta ya biashara, ufadhili wa biashara, huduma kwa mashirika, biashara ya hati za dhamana na huduma za malipo wa kielektroniki. Mapato jumla ya benki yaliongezeka na kufikia shilingi bilioni 11.7 kutoka shilingi bilioni 9.65 mnamo mwaka wa 2008, hii ikiwa nyongeza ya asilimia 21.

Katika kipindi hiki, raslimali za benki kwa jumla ziliongezeka kwa asilimia 33 na kufikia shilingi bilioni 110.7 kutoka shilingi bilioni 83.5 katika mwisho wa mwaka 2008. Matokeo hayo bora yalitokana na kuongezeka kwa mikopo kwa asilimia 18 hadi shilingi bilioni 62.3 kutoka shilingi bilioni 52.9 katika mwaka uliotangulia. Licha ya kuongezeka kwa mikopo kwa ujumla, kiwango cha mikopo isiyolipwa ilipungua kutoka asilimia 12.4 katika mwaka wa 2008 hadi asilimia 6.5 mwaka wa 2009 kutokana na usimamizi bora.

Akiba za wateja pia ziliongezeka kutoka shilingi bilioni 65.8 hadi shilingi bilioni 91.5, hii ikiwa nyongeza ya asilimia 39.

Kutokana na ongezeko la matawi na mitambo ya ATM na pia kampeini kabambe ya mauzo iliozinduliwa na mkurugenzi mkuu, idadi ya wateja wa benki iliongezeka na kufikia zaidi ya milioni 1.2 kutoka laki saba, hili likiwa ongezeko la wingi zaidi tangu benki yetu ifungue milango yake katika kipindi cha miaka 40 iliyopita.

Kuimarika kwa matokeo kulioshuhudiwa ni dhihirisho la kujitolea kwetu kuboresha mapato kwa wenye hisa. Matokeo haya yametuwezesha kuimarisha mtaji wa benki kupitia utengaji wa iasi cha faida, na wakati huo huo kuongezea mgao wa faida kwa wenye hisa.

Raslimali ya wenye hisa kwa jumla iliongezeka kutoka shilingi bilioni 13.66 hadi shilingi bilioni 16.3, hii ikiwa nyongeza ya asilimia 20. Bodi ya benki hivyo basi imependekeza mgao wa faida wa asilimia 20, kiasi sawa na senti 20 kwa kila hisa, hii ikiwa nyongeza ya asilimia 100 kutoka senti kumi mwaka uliopita.

Ustawi wa Kibiashara

Kwa muda mrefu sasa, tumeweka msingi thabiti unaowahakikishia manufaa makubwa wenye hisa wetu sasa na hata baadaye. Hata hivyo bado kuna nafasi nyingi za kibiashara hapa nchini, na ndio sababu tunajizatiti kuwafikishia huduma, zaidi ya asilimia 38 ya Wakenya ambao hawajafikiwa na huduma za benki.

Chini ya mpango wetu wa upanuzi, tumefanikiwa kuzindua huduma ya rehani ya nyumba inayojulikana kama "Good Home". Huduma hii inazidi kupata umaarufu, huku Wakenya wengi hasa katika sekta ya ushirika wakipata fursa ya kumiliki nyumba.

Uwekezaji katika udalali wa hisa ni huduma nyingine muhimu ambayo tulizindua katika mwaka wa 2009. Kupitia kampuni ya Kingdom Securities tuliyoinunua mwaka wa 2009, tunajiandaa kuwa taasisi inayoongoza katika utoaji huduma za benki kupitia kwa mfumo wa uuzaji wa kijumla wa huduma zote za benki. Kampuni ya Kingdom Securities inatarajiwa kutoa mchango kamili kwenye biashara ya benki, kwa kupeleka huduma za udalali wa hisa kwa wananchi katika pembe zote za nchi, kupitia vyama vya ushirika.

Tukiwa na lengo la kutimiza matarajio ya wateja wetu, tumeendelea kuwa msitari wa mbele katika ubunifu wa huduma mbadala za benki. Huduma yetu ya benki kupitia simu ya rununu yaani "M-banking" imeboreshwa na kurahisishwa ili kuwezesha wateja wengi zaidi kuitumia. Tumeongezea mitambo ya ATM hadi kufikia 260, ikiwemo pia ile ya kisasa inayoweza kutumiwa kuwekea pesa, huku ingine ikitarajiwa kuwekwa sehemu tofauti nchini mwaka huu. Kupitia teknolojia ya mawasiliano, tumezindua vituo 200 vya mauzo ili kupeleka huduma zetu karibu na wateja wetu.

Ili kuongezea manufaa kwa wateja wetu na kuimarisha mapato kwa wakuzaji kahawa, benki yetu ilichangia katika kubuniwa kwa chama cha ushirika cha wauzaji kahawa katika nchi za nje. Hii twatarajia itapanua biashara yetu ya fedha za kigeni na pia kuongezea idadi ya wateja.

Katika jitihada zake za kupanua biashara katika eneo hili na kuisaidia sekta ya ushirika kuafikia kima cha juu cha ukuaji, benki yetu inafanya mipango kufungua matawi Sudan Kusini. Mashauri ya kufungua matawi katika nchi nyingine za Afrika Mashariki pia yanaendelea.

Watendakazi Wetu

Benki yetu imedumisha desturi yake ya kuwa muajiri asiyebagua wala kupendelea, na ndio sababu inawavutia na kuwadumisha wafanyikazi wenye ustadi mkubwa, ambao wanafahamu bara bara majukumu yao. Katika kipindi hiki, idadi ya wafanyikazi wetu iliongezeka na kufikia 2,239. Wafanyikazi wetu wana utajiri wa ujuzi, na benki inawategemea kuhimili changamoto zinazoikumba tunapoendelea kupanua huduma zetu sio tu hapa nchini, bali pia nchi jirani.

Ili kulainisha shughuli zetu za kibiashara kuambatana na kanuni zinazosimamia sekta ya benki, zikiwemo zile za kisheria, tunaendelea kufanyia marekebisho mfumo wa usimamizi na utenda kazi wetu.

Kupitia kituo chetu cha kutoa mafunzo ya usimamizi pamoja na mpango wa mafunzo ziada katika nchi za kigeni, tunao wafanyikazi wenye ujuzi, na ambao wamejitolea kuwahudumia wateja wetu kwa uadilifu. Benki pia imeweka mikakati ya kuhakikisha kwamba wafanyikazi wake wanaridhika, hali ambayo imeiwezesha kuwadumisha wafanyikazi wenye uzoefu mkubwa kuhusu sekta ya benki.

Kwa Kukamilisha

Licha ya hali ngumu kiuchumi katika mwaka wa 2009, matokeo ya fedha ya benki yaliimarika, na ni matumaini yetu kwamba tutafanya vyema hata zaidi katika miaka ijayo. Naichukua fursa hii kuwashukuru wafanyikazi wetu kwa juhudi zao, haswa kwa kuhakikisha kwamba wateja wetu wanaridhika na huduma zetu.

Pia naishukuru kwa dhati Halmashauri ya Wakurugenzi kwa ushauri wao wa busara kwa benki.

Na kwa wenye hisa na wadau wengine, nawashukuru kwa kuendelea kutuunga mkono, katika jitahada zetu za kuifanya "The Kingdom Bank" kuwa benki bora zaidi nchini Kenya.

Asanteni sana na Mwenyezi Mungu awabariki nyote.

Gideon Muriuki, OGW
Mkurugenzi Mkuu

Gideon Muriuki, OGW, (45), Group Managing Director & CEO
Appointed Managing Director in 2001. Joined the bank in 1996 as a Senior Corporate Manager then Director, Corporate and Institutional Banking in 1999. Holds a Bachelor of Science degree in Mathematics and is a Fellow of the Kenya Institute of Bankers. He has over 20 years experience in banking and finance.

Lawrence Karissa, (54), Director, Operations Division
Has over 25 years experience in banking having joined the bank in January 1995. He has previously worked for PricewaterhouseCoopers. He is Chairman of the bank's Board of Trustees of the Pension Scheme. He holds a Bachelor of Commerce degree in Accounting and is a Certified Public Accountant of Kenya.

Zachariah Chianda, (52), Director, Corporate & Institutional Banking Division
A career banker with 30 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.

Rosemary M. Githaiga, (46), Company Secretary
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 Birech, (46), Director, Retail Banking Division
Has extensive banking experience spanning over 20 years having joined the bank in 2002. He has spent his banking career in Retail Banking across several banks in the industry. He holds a Bachelor of Commerce degree and has attended various local and international courses.

Weda Welton, (52), Director, Human Resources Division
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 Human Resources Committee of Kenya Bankers Association and a member of IPM (K) as well as Kenya Institute of Management. She is also a Trustee of the Bank's Pension Fund.

Anthony Mburu, (44), Director, Credit Management Division
A career banker with over 20 years of banking experience both in Kenya and in the region. Most of these years were spent in the line of Credit and Risk Management. He holds a Bachelors degree in Commerce and has attended various proprietary and international Credit courses.

Patrick Nyaga, (42), Director, Finance & Administration Division
He has extensive experience in banking having joined the banking industry in 2002. Previously in KPMG (EA) where he was involved in auditing various banks in the industry and in the region. He holds an MBA from Strathmore Business School, a Bachelors of Commerce degree in Accounting, is a Certified Public Accountant (K) and a member of ICPAK.

Catherine Munyiri, (46), Director, Co-operatives Banking Division
Joined the bank in 2002 and is a Corporate Banker with a wide range of experience having worked in several banks in the industry and in the region. She holds a Bachelor of Business Education degree and has attended various local and international courses.

FINANCIAL REPORT

Our financial results for the year 2009 reflect the continuing strong growth in our business achieved through commitment to our strategic objectives. Below is a table showing financial information which includes key performance measures and trends over the last five years.

Five Year Financial Review	2005	2006	2007	2008	2009
Balance sheet			**KShs million**		
Total Assets	49,938	57,435	65,324	83,486	110,678
Advances to Customers (net of Provisions)	27,195	27,783	38,045	52,909	62,274
Government Securities	11,348	15,439	12,982	12,856	26,444
Cash and short term funds	6,420	8,715	7,759	8,430	13,535
Property and equipment	2,556	2,794	3,107	4,053	5,651
Customer Deposits	43,602	48,183	54,775	65,854	91,519
Shareholders Equity	4,067	4,834	6,460	13,609	16,185
Income Statement					
Net Interest Income	2,743	3,339	4,849	5,695	7,054
Non-Interest Income	2,556	3,578	3,426	3,954	4,664
Operating Expenses	3,421	4,236	5,257	5,888	7,354
Provision for loans impairment	1,164	1,425	700	403	628
Profit before Tax	714	1,256	2,319	3,359	3,736
Profit after tax	446	867	1,550	2,373	2,968
Earnings per share	0.15	0.30	0.54	0.80	0.85
Key Ratios (%)					
Return on shareholders Equity	17.6	26.0	35.9	24.9	23.1
Return on Total Assets	1.4	2.2	3.5	4.0	3.4
Impairment Provision to Advances	4.3	5.1	1.8	0.8	1.0
Operating cost to Income	64.6	61.2	63.5	61.0	62.8
Liquidity Ratio	35.7	41.4	33.5	33.1	34.9

Profitability

Net Interest Income: Our group's net interest income increased by Kshs.1,358 Million (24%) as compared to the previous year as a result of increased lending to customers and higher investment in government securities. We are keen to maintain and even increase this momentum in 2010 and subsequent years.

Non-Interest Income: Non-interest income includes fees and commissions from transactions, foreign exchange income and other non-margin based operating incomes. This income grew by Ksh.710 million reflecting 18% growth within the year. The trend over the last five years has seen us grow this income from 2.6 billion in year 2005 to 4.7 billion in year 2009, a cumulative growth of close to 100%. Our continued investment in ATM network, diverse product offering and links with FOSAs through Saccolink will continue to support this stream of income.

Operating Expenses: Operating expenses are incurred in the ordinary course of running the business to generate income. Our operating expenses have risen over the years in line with growth in both our asset base and total income. Initial costs arising from tremendous expansion of our branch network in the year by more than 27 service outlets also significantly contributed to the growth in operating expenses. As new branches book more business, we expect our cost to income ratio to improve steadily, reflecting improved efficiency.

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 2005, 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 its books, resulting in lower impairment losses hitting the bottom-line in subsequent years.

Total Assets

Our total assets stood at Ksh.111 Billion at close of year 2009, an increase of 32% from Ksh.84 billion in 2008. This has been a result of cumulative effort of a strong business growth strategy in branch expansion, growth in our loan book and deposit base. We plan to build this further as we concentrate on the specific mix of assets comprising the loans, government securities, cash and short term funds and other assets.

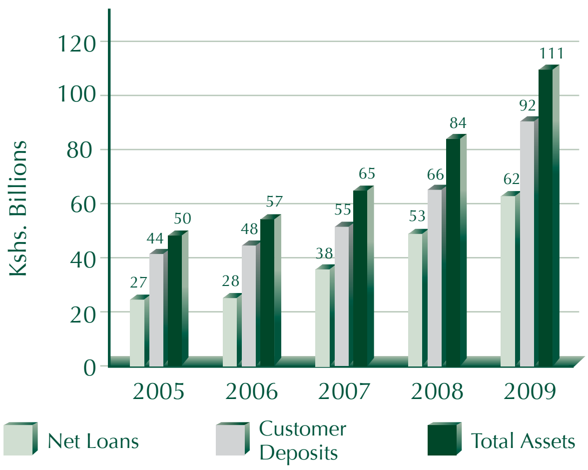
Loans to Customers

Our net loans to customers grew in the period from Kshs.52.9 billion to Kshs.62.3 billion with a well diversified loan portfolio as hereunder:-

Sacco Banking (Mainly check off based)	21%
Corporate Banking	28%
Agribusiness	2%
Personal Banking (Mainly Check off based)	43%
SME & MCU	6%

This growth was achieved while ensuring that loans booked are healthy and consistent with our prudent credit risk management system and controls. We plan to grow the loan book in line with our business growth strategies and particular emphasis will be placed on both the quality of the book and industry spread.

Loans, Customer Deposits and Total Assets



Government Securities

Government securities include treasury bills and treasury bonds issued by the central government. They are held for the dual purpose of managing our liquidity position and for earning interest income. During the year, the securities market was vibrant and saw floating of competitive infrastructure bonds. These were quite attractive investments and we increased our holding of securities from Ksh.13 billion to Ksh.26 billion an increase of 100%.

We shall continue our strategy to use the portfolio primarily as a liquidity management tool while maximising on interest earned from this stream.

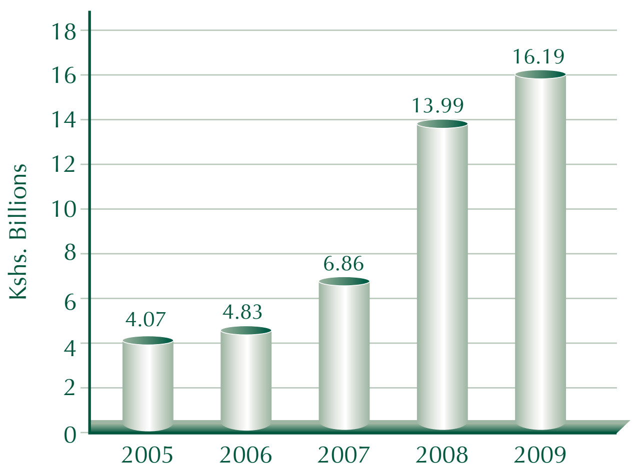
Customer Deposits

Our continued emphasis in offering quality service to customers has led to a growth in our deposits from Ksh.65 billion in 2008 to Ksh.91 billion as we closed year 2009, an impressive growth of 39%. During the year, we embarked on an aggressive customer growth campaign aimed at increasing our customer base. The all inclusive bank staff initiative grew our customer base from 700,000 customers to over 1.2 million customers registering a 71% growth. Our customer base has also diversified to include all sectors across the demographic and economic divide. With our strong core capital, we have great potential to grow to an even higher deposits level and this will continue to be a key business focus area going into the future.

Shareholders Equity

Shareholders equity comprises of share capital and earnings retained by the company over time. Our shareholders' equity has steadily grown from Ksh.3.3 billion in 2004 to stand at Ksh.16 billion as at close of year 2009. We are determined to maintain sustainable growth as our key objective of deepening shareholder value through higher returns on capital. We shall balance the need to retain adequate internally generated funds to meet our expansion strategies and the need for shareholders to receive handsome dividends.

Growth in Shareholders' Equity



Divisional Performance

Co-operatives Division

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. Through Saccolink and FOSA rollout, financial systems in the co-operative movement have been integrated with those of the bank to bring society members into mainstream banking, including access to ATM services. In order to meet and exceed service delivery expectations of the movement, we have in place a Co-operative Centre in Nairobi which offers one-stop-shop service for diverse financial needs. At this Centre and across regions are relationship managers who interact with clients on a day-to-day basis towards provision of a flawless banking experience.

To reinforce co-operatives' leadership with skills necessary to tackle modern-day opportunities and challenges, we provide tailor-made training at our dedicated Co-operative Bank Management Centre (CBMC) in Karen. We offer financial consultancy services through our wholly-owned corporate finance and investment advisory subsidiary-Co-operative Consultancy Services 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 Communication Technology (ICT), 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.

Retail Banking Division

In 2009, the bank committed significant resources towards country-wide expansion, bringing our branch outlets to 79 and ATMs to 260. This is in an effort to reach out to a wider market and bring services closer to existing customers. We also embarked on a business strategy that nearly doubled customer numbers, leading to growth in non-funded commissions, booking of low-cost funds and laying a foundation for future lending. During this period, we launched various tailor-made products including mortgage finance, group lending, executive current account, Mpesa super agency products, among others. Personal loan products were revamped to further appeal to the target market and these activities have been instrumental in enhancing our brand image and customer satisfaction. This is a significant milestone in the bank's ambition to be a one-stop-shop offering a full range of financial services.

In 2010, we are enhancing alternative delivery channels by venturing into Merchant Acquiring where Point of Sale (POS) machines will be deployed at shops and malls as an outreach strategy to compliment existing channels of branches, ATMs, Mobile Banking and Internet Banking. We remain one of the largest issuers of Visa-backed debit and credit cards in Kenya, and command a growing and significant share of lending to Small and Medium Enterprises (SME).

Corporate and Institutional Banking Division

We have a strong foothold in large corporate business, underpinned by our capacity and reputation to deliver banking solutions that are customised 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.

Investment Services

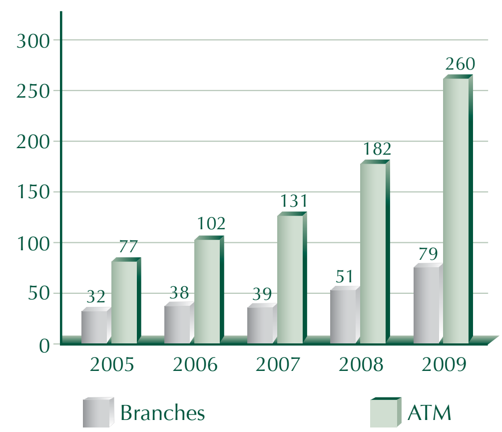
We offer fund management services through our wholly-owned subsidiary, Co-optrust Investment Services Limited. Co-optrust is the leading locally owned fund management company with total assets under its watch valued at over Kshs.17 billion and a client base of over 120 corporate schemes and 600 retail 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 licensed as a Custodian by the Capital Markets Authority (CMA) and Retirement Benefits Authority (RBA) respectively and holds asset security documents worth over Ksh.5 Billion on behalf of customers. We also offer scheme administration services to custodians, fund managers, brokers as well as individual clients. The value of assets administered currently stands at over Ksh.3.5 Billion. Through our subsidiary Kingdom Securities Limited, we are a Central Depository Agent for over 50,000 customers trading at the Nairobi Stock Exchange (NSE). 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.

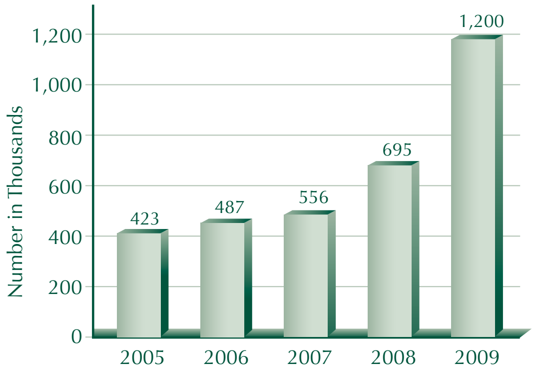
Jumbo Junior for all children

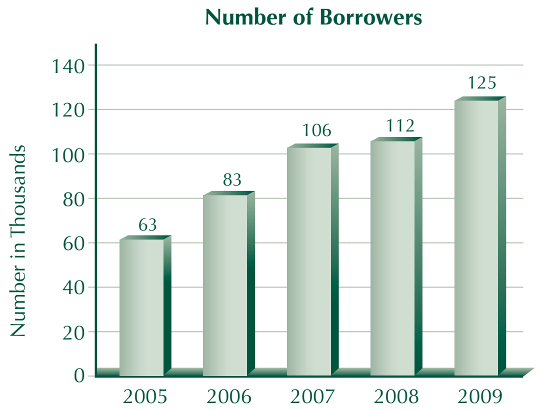
Bank Group Chairman Mr S. Muchiri and Group Managing Director & CEO Mr G. Muriuki, assist children to cut the cake during the annual Jumbo Junior Family Fun Day. Co-op Bank pioneered children banking in Kenya with the launch of Jumbo Junior Account in 1995, and today remains the most popular children account in Kenya.

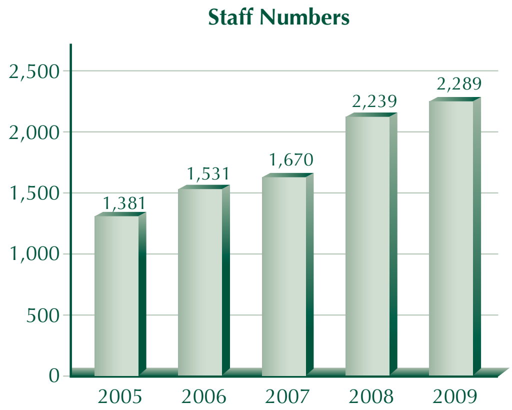
Branch and ATM Network



Customer Numbers



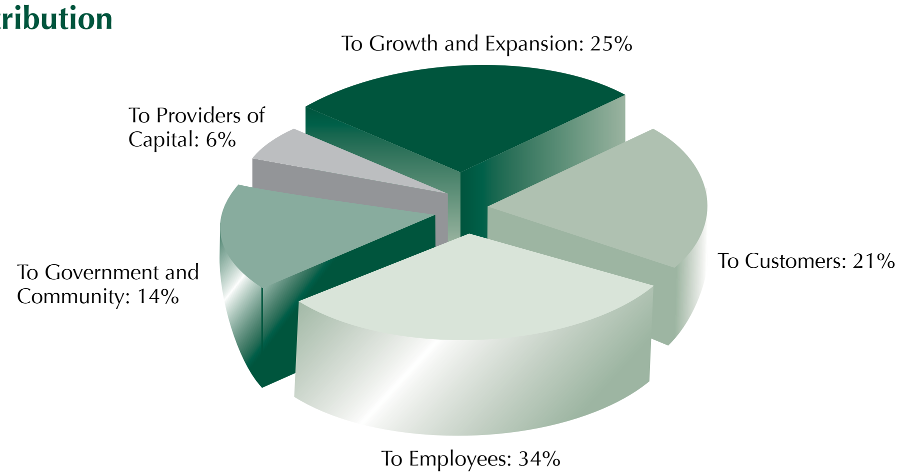




Value Added Statement

	2009		2008	
Value added	Shs. Mn	%	Shs. Mn	%
Gross Interest Income	9,348		7,133	
Fees and commissions	3,416		3,219	
Other Operating Income	1,533		1,037	
Net Operating expenses	(2,731)		(2,282)	
Value added by Group	**11,566**	**100**	**9,107**	**100**
To Customers	**2,388**	**21**	**1,660**	**18**
Interest Paid (net of Taxes)	2,294		1,590	
Contribution to Deposit protection fund	94		70	
To Employees	**3,844**	**34**	**2,908**	**32**
Salaries and other benefits	3,379		2,467	
Contribution to Retirement benefit scheme	356		246	
Employee Training and Welfare	109		195	
To Government and Community	**1,649**	**14**	**1,683**	**19**
Corporation Tax	777		1,037	
Taxes witheld on payments	826		594	
Business Operating Licenses	21		21	
Donations	25		31	
To Providers of capital	**737**	**6**	**401**	**4**
Dividends to Shareholders	698		350	
Interest Paid on Government/Donor Loans	39		51	
To Growth and expansion	**2,948**	**25**	**2,455**	**27**
Retained Income	2,270		2,023	
Depreciation and armortisation	688		483	
Deferred Tax	(10)		(51)	
	11,566	**100**	**9,107**	**100**

Value Distribution



Risk Management

Introduction

In the business of banking, risk is inherent in all activities and is critical to our bank's continuing profitability. The bank has established a comprehensive framework for risk management that has been implemented across all business units through which each individual within the bank is accountable for risk exposures relating to his or her responsibilities. Risk is managed through a process of continuous identification, measurement and monitoring, subject to risk limits and other controls set up to ensure appropriate and timely intervention in line with the bank's objectives, strategies and current market conditions. This process is co-ordinated by Risk Management Department and includes managing an identified range of possible risks, indicating their drivers, frequency, impact, trends and respective measures on how to mitigate them.

Risk Management Structure

- Board of Directors - Board of Directors is responsible for overall risk management approach and approval of risk management strategies and principles.

- Risk and Finance Board Committee - This committee has the overall responsibility for development of the bank's risk strategy and implementing principles, frameworks, policies and limits. This includes managing risk decisions and monitoring risk levels.

- Board of Management - Board of Management has the responsibility to monitor overall risk processes within the bank.

- Risk Management Department - This department has an independent and direct reporting line to the Board of Directors and is responsible for implementing and maintaining risk-related procedures to ensure an independent control process is maintained.

- Business-User Support Committee (BUSCO) and Asset and Liability Committee (ALCO) - These are risk control units responsible for monitoring compliance with risk principles, policies and limits across the bank. This includes management of bank assets and liabilities and overall financial structure. ALCO is specifically responsible for funding and liquidity risks of the bank.

- Board Audit Committee - Audit Board Committee oversees how management monitors compliance with the bank's risk management policies and procedures and reviews adequacy of risk management processes in relation to risks faced by the bank.

- Internal Audit Department - Internal Audit function undertakes annual and ad hoc independent assessments of risk management policies and procedures throughout the bank and discusses findings with management before reporting the findings and recommendations to the Audit Board Committee.

Risk Classifications

Major risks the bank is exposed to include credit risk, liquidity risk, market risk and operational risk. Qualitative and quantitative disclosures on these risks are located in Notes to the Financial Statements.

Details of other risks classifications and their management are as outlined below:

Product and Service Risk

This is the risk of reductions in earnings and/or value, through financial or reputation loss, from the inherent characteristics, management or delivery of products or services, or from failure to meet or exceed customer expectations and competitor offerings. The bank has set up a Business Change Management Department (BCM) that continuously assesses new and existing products to ensure they meet clearly defined customer needs and are in line with the bank's risk appetite and strategy. Products are designed to be in full compliance with applicable regulations. Where found necessary, technical advice and approval is sought from specialist functions for provision of professional support.

Strategic Risk

Strategy risk is the risk arising from developing a strategy that does not maximise bank's value or fails to achieve the initiatives in the agreed strategic plan due to changing or flawed assumptions. In assessing strategic risk, consideration is given to external factors such as:

• Economic	• Environmental
• Technological	• Market expectations
• Political	• Reputation
• Social and ethical	• Competition
• Legal and regulatory	

These factors are not under the bank's risk control arms and are monitored through our strategic planning process. An annual strategic planning process is conducted, reviewed and approved by the Board. Regular reports are provided to the Board of Directors on progress of the bank's key strategies and plans.

a) Reputation Risk - This is the risk of failing to meet the standards of performance or behaviour required or expected by stakeholders in the way in which business is conducted. Reputation risks arise as a result of poor management of problems occurring in core banking risk areas (credit, market, liquidity or operational risk areas) or from social, ethical or environmental risk issues. Reputation risk is assessed by the Board of Directors and Board of Management during establishment of standards for all aspects of business and formulation of policy communicated to members of staff through operating manuals and statements of policy, internal communication and training.

b) Competition - The bank is currently among the top five banks in Kenya by asset base and market share. Competition in the banking sector is at an all time high and is expected to grow even more as technological advances bridge differences in product offering and offer countrywide reach. However, the potential market is still largely untapped since banking services bear a low penetration rate, especially among the rural people. Therefore, whilst competition is not a

Rewarding Outstanding Performance

Co-op Bank Group Managing Director & CEO Mr G. Muriuki presents the Overall Achievement Award to Esther Matu for having opened the greatest number of customer accounts in the MD Liability Growth Campaign. Mr S. Birech, Director Retail Banking looks on.

primary risk in the foreseeable future, the group has actively engaged vigorous mitigating strategies to safeguard our market share, key among them being diversification into non-traditional markets.

c) Political Risk –This is the potential negative impact arising from government or political actions leading to military instability, ethnic, religious or social unrest that exposes the business to potentially catastrophic and unanticipated losses that could not have been reasonably predicted in any business plan. The Group derives all of its revenues from Kenya, its entire infrastructure and other assets are located in Kenya and all of the officers and directors are resident in Kenya.

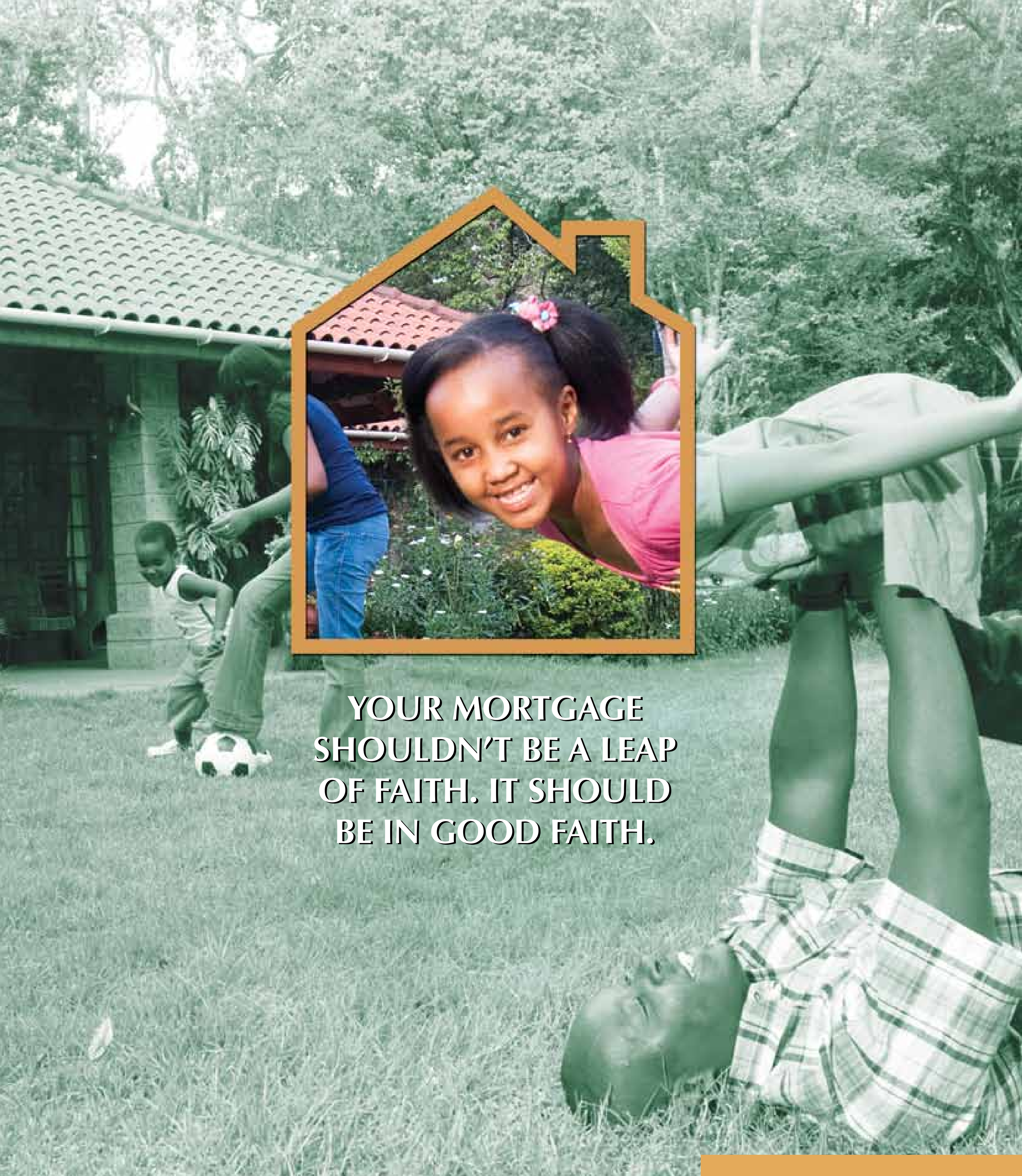
In the past, performance of the Kenyan economy has been affected by its political situation. This was most evident following the outcome of, and reaction to the 2007 elections when Kenya experienced a period of social and political turmoil, including civil unrest, riots, protests and street demonstrations. A power sharing agreement reached in 2008 helped calm the tension and fears of the public, but all sectors of the economy, banking sector included, have faced a difficult economic climate since then.

There is always the risk that changes in government, government policy and subsequently regulations and legislation may 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 our bank.

d) Compliance, Regulatory and Legal Risk - Compliance and 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. Compliance Department is responsible for developing, maintaining and controlling compliance policies and procedures. It is the responsibility of all managers to ensure compliance with these policies and procedures.

Legal risk refers to the possibility of loss arising from defective transactions or contracts, claims and events resulting in liability, changes in the law and jurisdictional risk. Legal risk is controlled through Legal Department's internal professional resources, legal risk policies and external lawyers.

e) Economic Risk – This is the possibility of an economic downturn happening and adversely changing financial circumstances that negatively impact rates of return on investment. More precisely, the bank is exposed to inflation as a risk since high levels of inflation weaken the purchasing power of money, consequently reducing the amount of savings available as deposits. High inflation would also increase 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.


YOUR MORTGAGE
SHOULDN'T BE A LEAP
OF FAITH. IT SHOULD
BE IN GOOD FAITH.

Introduction

The Co-operative Bank was formed in 1965 at a time when Kenya was a newly born country and indigenous Kenyans were only beginning to enjoy equal access to opportunities of financial freedom and wellbeing. At this time, the banking sector was dominated by multinationals that were reluctant to lend to indigenous individuals and institutions. With this challenge in mind, a group of visionary Kenyans came together to start a bank that would cater for the growing members of the co-operative movement comprising mostly of peasant farmers. Despite widespread ridicule and doubts on the viability of a 'peasant' bank, Co-operative Bank began on a sound footing to become a leading financial institution over the decades. The original dream of its founders has not been lost and a core part of our vision is to empower Kenyans financially primarily by supporting the co-operative movement through mobilisation and facilitation of access to financial resources. Co-operative societies and SACCOs directly impact on millions of Kenyans and our bank is proud to be an active stakeholder in this movement.

As a financial services group, the bank has 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. Our sustainability initiatives are aimed at helping 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 and contribute to overall economic growth and poverty reduction through sustainable development of the society as a whole. The business case for sustainability-approach to business is clear as this is fundamental to delivering a successful 21st century blue-chip.

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

Vision

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

Mission

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

Our Core Values

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

Enhancing Access to Innovative & Value-Adding Financial Services

A survey conducted by the Central Bank of Kenya (CBK) in 2009 revealed that only 23% of Kenya's population is served by commercial banks. An additional 18% are served by Savings and Credit Co-operative Societies (SACCOs), microfinance institutions and building societies while 27% depend primarily on informal rotating savings and credit associations. 32% 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 bank has implemented its expansion strategy through additional branches as well as ATM's. We have grown from a single branch in 1968 to 79 branches, 27 of which were opened in 2009 alone.

Sacco-Link & Fosa Facility

The co-operative movement is a key component of Kenya's economy, with diverse membership of over 7 million Kenyans. Since inception in 1968, our bank has identified this movement as the channel through which to contribute to Kenya's economic development. By supporting co-operatives, it is our firm belief that Kenyans currently not within reach of banking and financial services will be accessed.

In line with this strategy, the bank invested in the SaccoLink facility which has integrated the bank's and SACCOs' financial systems. This has facilitated sharing of our ATM network with other co-operative bodies and provision of front-office services through FOSAs. In this partnership, we offer wholesale banking services to co-operative bodies which then provide retail services to their members. SACCO members are issued ATM cards with which they can receive services across our network of over 260 ATMs and from Visa branded ATMs located in other banks. The cards can also be used to purchase goods at VISA-accepting outlets. To date, we have enlisted over 100 SACCOs in this partnership, thus facilitating provision of services to over 200,000 co-operative members. SaccoLink is in the process of evolution into a fully integrated payment and transfer solution through which Mobile Banking, point of sale (POS) channels and Internet banking will be provided.

Tailor-Made Basket of Products

The bank recognizes that innovation in product development to improve systems and enhance service delivery is a key differentiating factor in an increasingly competitive banking environment. At our bank we have resolved to focus on providing customers with products and brand propositions that far exceed their expectations and respond to diversification and sophistication of customer needs as well as changes in the business environment.

The bank offers tailor-made services to niche segments of the market to enhance benefits that accrue to our clients. We encourage a savings culture among children through the Jumbo Junior account. The YEA! savings account targets young adults and is designed to empower the youth manage their finances and start their own businesses. The bank has great confidence in this future generation and is determined to unlock their potential as many developed economies have been built by the contribution of small businesses. The bank has for a long time appreciated the contribution of the small saver, the small business owner and the upcoming entrepreneur. We nurture their growth by providing affordable products such as the Haba na Haba account and Biashara Plus Loan.

We are positioning our business model to offer customers 'one-stop-shopping' for various financial services including securities, trust services, scheme and custody services and much more as the regulatory framework is set-up. Our acquisition of Kingdom Securities through which we are offering stock-brokerage services is a step in this direction.

Mobile and Internet Banking

Mobile and wireless products and services are the fastest growing markets in the world. We pioneered Mobile Banking in 2004, enabling customers transact bank accounts from their cell phones. We are now collaborating with telecommunication firms on provision of money transfer services and inter-linking them to bank accounts. This has allowed wide acceptance of mobile phones as a cost-effective delivery channel for bank services. Since there is now a deep mobile phone penetration, this has enhanced access to financial services across the country. Services offered through the mobile phone include various bank transactions, water and electricity utility payments, transactions with Mpesa and airtime purchase. The bank has in its product offering the CoopNet product that provides convenient banking privileges to customers. This product is expected to contribute to growth in the client base especially for Kenyans in the diaspora.

Excellence in Customer Service

Our customer service program is designed around the concept of delivering enhanced customer value and provision of excellent customer service under the theme of 'We are You''. To enhance customer experiences of our brand, we engage in continuous re-engineering of business processes to make them simpler and more efficient without diminishing their integrity. We have invested in information technology enhancements and modern customer relationship management software to facilitate timely and exceptional client satisfaction. Our Call Centre facility has boosted efficiency in customer interactions through efficient logging, tracking and monitoring of enquiries to conclusion. In the recent past we have increased business channels and branches substantially which has led to increased customer numbers and improved customer service.

Regional Expansion

Through the Co-operative Alliance of Kenya (CAK), the bank is active in International Co-operative Alliance Africa whose primary objective is to promote the welfare and growth of co-operative societies in the continent. The bank is expanding operations in Uganda, Tanzania and Southern Sudan in partnership with co-operative movements in those countries. The first regional operation will be in Southern Sudan where The Co-operative Bank of Southern Sudan is under registration as a joint venture with their government which will hold shares on behalf of the movement. Negotiations for similar strategic partnerships are underway in Uganda and Tanzania.

Caring for the Environment

Towards a Healthy Environment

Protecting the global environment is one of the most critical issues of our time as a result of global warming which has triggered rising sea levels, climate change, heat waves, melting of glaciers and heavy flood-causing rainfall. In Kenya, this has been blamed for erratic weather patterns in recent years which have caused regular drought and challenges in access to water by millions of Kenyans. Kenya's economy is agricultural-based and these factors have impacted negatively on its growth.

Reducing Environmental Impact

Our bank's environmental policy is aimed at conducting business in a responsible, fair and straightforward manner and in supporting government endeavours towards environmental protection as part of our social responsibility. We are committed to nurturing an environmental conservation culture, both in our activities and among parties with which we have business association. Among the means we have devised to reduce levels of environmental risk posed by our own activities is through optimal use of resources, energy saving mechanisms and the reduction of waste.

Sustainable Consumption

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. Kenya is a water scarce country and the Bank will enhance means of water harvesting at its properties to reduce reliance on public utility firms and free that capacity for access to currently un-connected citizenry. Renewable energy and more specifically solar power is the next frontier in sustainable energy consumption. In appreciation of this, the bank has migrated from diesel-powered generators as backup for ATM machines and is now using solar powered machinery.

Business Process Automation

Another key environmental initiative is reduction of paper consumption through use of information communication technology (ICT) and implementation of modern business process reviews. Establishment of ICT 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, mobile phones and electronic banking through the Internet as additional means to reduce the use of paper, thereby conserving forests.

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. Collectively, these may look like modest efforts, but the collective impact of many other companies doing the same will change the direction of environmental degradation that the world faces today.

Growing Human Capital

Employer of Choice

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

Principle of Diversity

The bank endeavours to preserve gender and cultural diversity in our employee mix and takes pride as an equal opportunity employer for all qualified persons. This has created an inclusive environment where individuals and teams harness strengths in diversity to maximise potential and excel in performance. Females make up 44% of our staff numbers; 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% currently. Due to countrywide expansion, our staff numbers have doubled since year 2004 and 78% of our staff is below the age of 35. This has emphasised our role towards realisation of Vision 2030 through youth employment and empowerment. By way of departmental forums, the bank raises employee understanding of strength in diversity and ascertains the spirit of patriotism and oneness to maintain all-round staff wellbeing.

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 in bringing out the best of each team-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. Our people-management processes operate under open-door policy where information to and from employees flows freely, thus creating an environment of confidence, satisfaction and security. We undertake to communicate a compelling vision of success that inspires our people to see the world from our customers' perspective in delivery of world-class customer experiences.

We Grow our People

We believe that human capital is the most valuable asset of a great company and our employee retention strategies are aligned along this mantra. We strive to bring out the collective best as this is the art of winning in an increasingly competitive environment. 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. Towards this objective, the bank offers interest-free education loans to employees for use in their preferred learning or certification program.

Our training arrangement begins with an induction course for new staff which consists of knowledge on bank products, processes and general corporate culture characteristics. This training is carried out in-house at our dedicated Management Centre in Karen. Thereafter we undertake to grow talent through mentoring, on-job-training and structured programs both locally and abroad designed to meet specific skill requirements. Further, we have set up an e-learning facility and robust intranet that facilitates self-learning by bringing information right to the office desk.

Staff Welfare and HIV/AIDS Policy

At Co-op Bank, we view each other as part of one big family and each member's welfare is our collective responsibility. We continue to invest in out-of-office staff activities such as sports events, team-building and other group activities in reflection of our deep commitment to staff welfare. Another of our prime concerns is provision of a safe and secure working environment and work-spaces are specifically designed with this in mind.

Our bank has developed a HIV/AIDS policy based on the understanding that we are a caring institution with staff welfare at heart. As a policy, the bank does not screen for HIV during employee recruitment. Additionally, the bank does not discriminate in any way against HIV positive staff and such cases are treated like any other health condition for purposes of medical cover. 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.

Healthy bodies, sharp minds

Staff from several Co-op Bank divisions celebrate after a team building session.

Co-op Bank offers keen sponsorship to sports teams organised by staff and which also include some non-staff players. Both the Bank's Volleyball and Basketball teams remain consistent top contenders for national league and regional championships over the years.

All these programs are supported through a Staff Welfare & Sports Club that works to build a spirit of fraternity and community amongst staff.

Staff Profile

	2009	2008
No. of employees:**	**2,288**	**2,239**
Male	1,289	1,284
Female	999	955
No. of employees of age 35 or under:	**1,781**	**1,771**
Male	1,038	1,047
Female	743	724
Average years of service for current staff:	**5**	**4**
Male	4	4
Female	6	5
No. of senior management positions:	**69**	**68**
Male	46	45
Female	23	23

**Figures as at reporting date

Safeguarding Financial System Security

Anti-Money Laundering

The bank has in place an 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. Doubtful transactions are highlighted through an elaborate internal reporting procedure for purposes of verification, tracking and control. The bank is also in compliance with the Central Bank of Kenya (CBK) regulations on Anti-Money Laundering. In efforts to educate our customers on means to avoid money laundering exposure, we encourage them to maintain proper records of transactions and insist on acquiring identification details of trade partners especially for regular and high-value business deals.

Financial Fraud

In recent years, the financial services sector in Kenya has noted a spike in cases of financial crimes including stolen, altered or forged cheques, skimmed and counterfeit card transactions, fraudulent loan applications and identity theft.

The bank collaborates with other industry players and government agencies towards frustrating financial crimes. Collaboration is mostly in the area of monitoring, tracking, sharing and reporting of information and changing crime trends. We are also keen to implement new and up to date processes and technologies that assist us meet this objective. Beginning 2009, the Central Bank of Kenya (CBK) implemented a Real Time Gross Settlement (RTGS) system which capped the value for which money can be transferred through cheques. This has eliminated circulation of high-value cheques, thus reducing cases of cheque-related fraud. Our bank now processes high-value inter-bank transactions through this electronic and secure system.

Internet, Mobile Phone and ICT-Based Financial Services

Mobile-phone based banking services, Internet banking and online business transacting is now a widespread practice and can only increase as mobile phone and computer accessibility improves and under-sea fibre-optic cable's capabilities are fully realised. While offering convenience and speed, accessing financial services through the Internet introduces potent risks such as loss of confidentiality, identity theft through phishing and resultant fraudulent activities.

The bank has installed modern and robust software programs, anti-viruses and firewalls to guarantee safe and flawless online transacting. Our Information Security, Compliance and Risk Management departments consistently evaluate internal procedures and participate in review of new products and processes with a view to closing any gaps that can expose the bank to fraudulent activities. This ensures that our anti-crime mechanisms maintain standards that meet international best practice.

Raising Fraud Awareness among Staff

It is prudent to focus more efforts on prevention and frustration of financial crimes than on investigation albeit both being important. Branch and front-line staff are our first line of defence and have been adequately equipped for this role through regular training and refresher courses. The training is based on Know Your Customer (KYC) principles to ensure bank processes capture adequate customer information that facilitate positive customer identification during transactions and protection of customer details. This training includes updates on bank processes specifically designed to prevent fraud. Through these measures and high level of vigilance, our staff have frustrated many high-value attempts of fraud. The bank has in place a whistle-blowing program through which staff can report cases of fraud or suspected fraud and any other potential risk. The program includes procedures to pass information to relevant authority for action in a secure manner that protects their identity. A dedicated email address has been set up to receive anonymous e-messages from staff.

Celebrating key Partnerships

The Minister for Co-operatives Development and Marketing the Hon. Joseph Nyagah (Right) hands the winner's trophy to Mr. Gerald Ojunga, Chairman of Bandari Sacco on their recognition as a leading and loyal client of Co-op Bank.

Customer Awareness

The security and privacy of customers' financial information is a bank priority. While we have invested in world-class and sophisticated Information Communication Technology (ICT) infrastructure, the customer is in custody of key documents that could facilitate fraudulent activity if accessed by 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. Through in-house training and tailor-made courses at our Management Centre, the bank trains customers with high-value and large-volume transactions on operational strategies to tackle financial fraud. We reiterate to customers that the bank does not request for sensitive personal information through email or mobile phone communication. We enlighten clients that legitimate online transactions can only be accessed through our official website and if in doubt, reference should be made using official telephone contacts including our call centre.

Co-operative Bank Foundation

The bank 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 as a key contributor to poverty in the society. Our bank recognizes the challenges posed by a growing population and has committed resources to making a meaningful contribution to education in Kenya. We believe in a vibrant, well educated society that will propel Kenya to the next level of development and have therefore devoted considerable resources towards enhancing access to school.

Since inception, the bank has funded the Foundation with over Kshs. 60 Million to facilitate access

We Live Together

Janet Mutheu, a pupil at Riverbank Primary School Nairobi with Gakii Mugambi of Co-op Bank together plant a tree during the bank's tree planting campaign at the school to encourage children to get involved in taking care of the environment for their future.

In the conduct of our business operations, Co-op Bank has an enduring commitment to the highest standards of sustainable business practice to ensure that current operations do not put future generations in jeopardy.

to education for needy children. The funding is a full secondary school and college scholarship which caters for school fees, uniforms and text books. The Foundation is currently supporting 1,182 students from all provinces of Kenya and we will continue to support them through to completion of secondary school education.

Staff Community Participation

Our employees 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.

National and Community Projects

Over and above funds disbursed through Co-operative Bank Foundation and staff shilling-for-shilling program, our bank contributed Kshs. 10 million in year 2009 to various charities. These donations were made out to organisations involved in poverty eradication, advancement of education and those engaged in activities towards addressing local challenges such as access to health services. Key among these was Kshs. 5 million handed to Kenya Red Cross to assist in supporting victims of calamities including famine.

Supporting Community Programmes

Co-op Bank Director Retail Banking Mr. Sam Birech presents a cheque to Edah Maina of Kenya Society for the Mentally Handicapped in support of their 10km Charity Walk. The donation went towards creating a Carer's Fund that is meant to provide monthly income support to persons with mental disabilities in the country.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Statement on Corporate Governance

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

Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya sets out corporate governance requirements which listed companies should adhere to. 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 bank continues to adhere to best practices in corporate governance and also report on its compliance on a regular basis. Our high standards of corporate governance are not an exercise in compliance, but a means of driving the performance of the business in accordance with international best practise whilst managing and mitigating risk.

The Board is responsible for the bank's corporate governance practices and 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.

Code of Conduct

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

The Board

Board Composition

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

Appointments and induction to the Board

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

Board Responsibilities

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

- Setting the strategic direction of the bank and putting in place appropriate policies, systems and structures for their successful implementation;
- Establishing and maintaining the Bank's overall systems of planning, accounting and internal controls that facilitate prudent risk assessment and management;
- Setting policy guidelines for management and ensuring competent management of the business including the selection, supervision and remuneration of Senior Management;
- Assessments of risks faced by the bank and ensuring mitigating action and strategies;
- Ensuring that the business of the Bank is conducted in compliance with relevant laws and regulations; and
- Monitoring the bank's performance and reporting this to shareholders especially at the Annual General Meeting;
- Ensuring evaluation of board performance and continuous improvements.

Board Meetings

An annual plan of scheduled board meetings is prepared each year, including meetings for the sub-committees. The full Board meets at least six times a year and special meetings may be convened when need arises. Boards of subsidiaries of the bank meet on a quarterly basis. Guidelines are in place concerning the content, presentation and delivery of papers for each Board meeting to ensure that directors have adequate information and sufficient time for appropriate briefing ahead of each meeting.

Board Chairman and Managing Director

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

Board Performance Evaluation

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

Directors' Remuneration

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

Internal Control

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

The Board reviews effectiveness of internal control systems in place by taking into account results of work carried out to audit and review activities of the Group by both external and internal assurance providers. Internal assurance is carried out by an independent Internal Audit Department that reports to the Board Audit Committee and provides confirmation that the bank's business standards, policies and procedures set by the Board are being complied with.

The Board has reviewed the Group's system of internal control and is satisfied that the system is effective. However, the Board recognises that any system of internal control can provide only reasonable and not absolute assurance against material misstatement or loss.

Board Sub-committees

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

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

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

Board Audit Committee

This Committee meets at least six times in a year. In line with regulatory requirements, membership of this committee consists of three non-executive members of the Board who are independent of day-to-day management of the Bank. Current members are:

- Mr. Julius Riungu - Chairman;
- Mrs. Rose Simani; and
- Mr. John Murugu - PS Treasury's representative

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

Staff and Nomination Committee

This committee meets at least four times in a year. The current members are:

- Mr. Stanley Muchiri,
- Mr. Julius Riungu,
- Mr. Gideon Muriuki,
- Mr. Fredrick F. Odhiambo,
- Mr. Julius Sitienei; and
- Major (Rtd) Gabriel Wakasyaka.

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

Risk and Finance Committee

The current members are:

- Mr. Stanley Muchiri;
- Mr. Gideon Muriuki;
- Mr. Macloud Malonza;
- Mr. Wilfred Ongoro;
- Mr. Richard L Kimanthi; and
- Mr. Donald K. Kibera.

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

Management Committees

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

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

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

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

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

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

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

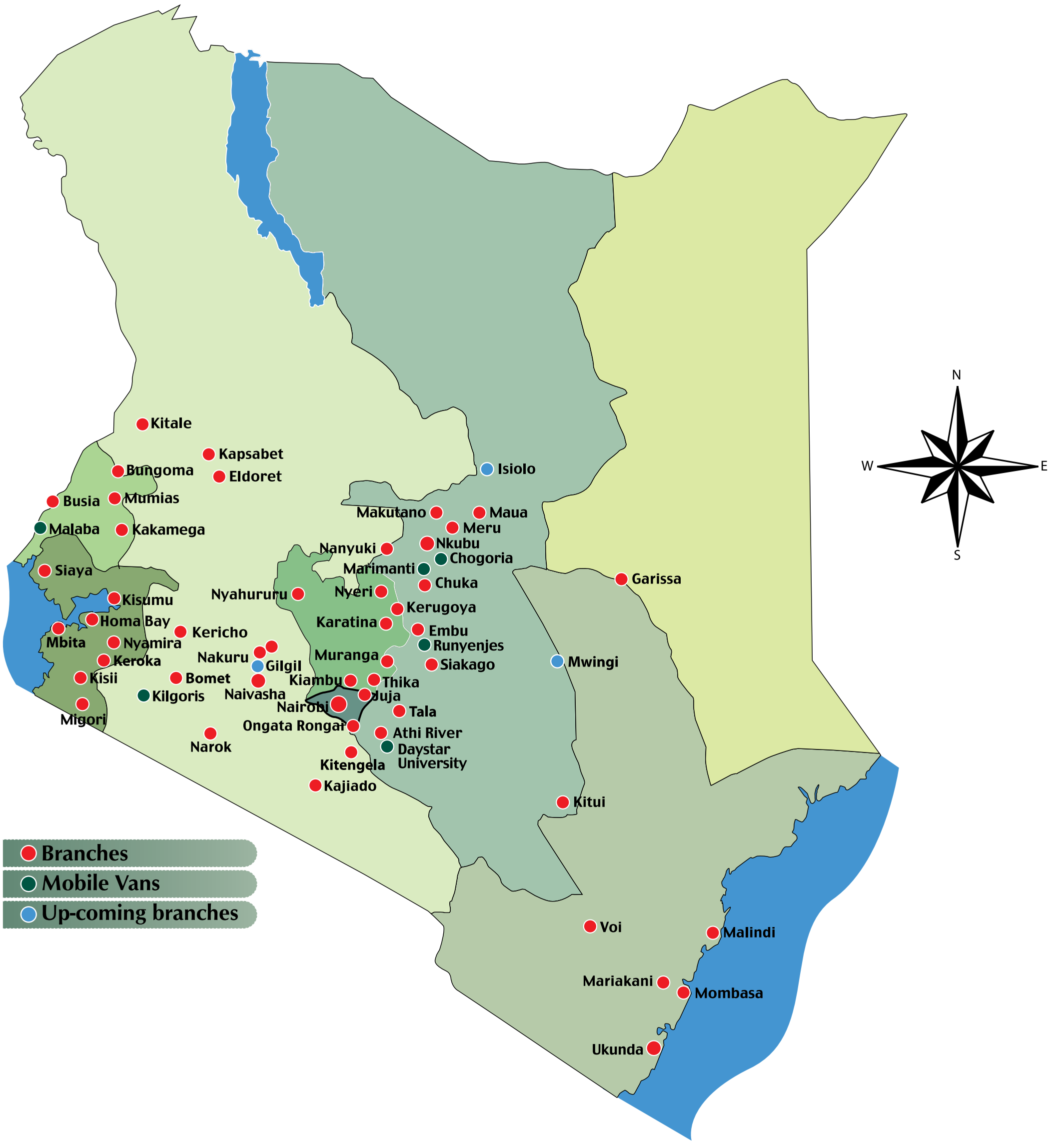
Schedule of attendance of Board meetings during the period:

Directors of Bank	Full Board	Board Sub-committees		
		Board Audit Committee	Staff and Nomination Committee	Risk and Finance
Schedule of meetings:	**7**	**4**	**2**	**3**
S. C. Muchiri, EBS - Chairman	7	N/A	2	3
J. Riungu - Vice Chairman	7	4	2	N/A
G. M. Muriuki, OGW - Managing Director	7	N/A	2	3
J. Sitienei	7	N/A	2	N/A
F. Odhiambo - Commissioner of Co-operatives	7	N/A	2	N/A
R. L. Kimanthi	7	N/A	N/A	3
G.J.S. Wakasyaka, Rtd Major	7	N/A	2	N/A
M. Malonza	7	N/A	N/A	3
W. Ongoro	7	N/A	N/A	3
D. Kibera	7	N/A	N/A	3
R. Simani (Mrs)*	2	2	N/A	N/A
J. Murugu – Representing PS Ministry of Finance	4	4	N/A	N/A

Directors of Subsidiaries	Co-op Consultancy Services	Co-op Trust Investment
Schedule of meetings:	**4**	**4**
S. C. Muchiri, EBS - Chairman	4	4
G. M. Muriuki, OGW - Managing Director	4	4
P. K. Githendu	4	4
G. Mburia	4	4
E.K. Mbogo	4	4
S. Odhiambo (Mrs)	4	4
Dr. J. Kahunyo	4	4
C. Kabira	4	4

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

*R. Simani (Mrs) joined the board on 29 May 2009.



Existing Service Outlets

1 Athi River
2 Bungoma
3 Busia
4 Chuka
5 City Hall
6 Co-op House
7 Digo Rd, Msa
8 Eldoret
9 Embu
10 Enterprise Rd, Nbi
11 Garissa
12 Dandora
13 Githurai
14 Homa Bay
15 Industrial Area
16 Keroka
17 Kajiado
18 Kakamega
19 Kangemi
20 Kapsabet
21 Karatina
22 Kariobangi
23 Kawangware
24 Kericho
25 Kerugoya
26 Kiambu
27 Kimathi
28 Kisii
29 Kisumu
30 Kitale
31 Kitui
32 Machakos
33 Makutano, Meru
34 Mariakani
35 Maua
36 Meru
37 Migori
38 Moi Avenue, Nbi
39 Mumias
40 Muranga
41 Nacico
42 Naivasha
43 Nakuru
44 Nakuru East
45 Nanyuki
46 Narok
47 NBC, Ngong Rd
48 Nkrumah Rd, Msa
49 Embakasi
50 Nyahururu
51 Nyeri
52 Parliament Rd
53 River Road
54 Siakago
55 Stima Plaza
56 Tala
57 Thika
58 Ukulima
59 University Way
60 Wakulima
61 Ukunda
62 Mtwapa
63 Eastleigh
64 Westlands
65 Buru Buru
66 Kayole
67 Upperhill
68 Ongata Rongai
69 Nkubu
70 Mbita
71 Nyamira
72 Kitengela
73 Gikomba
74 Voi
75 Bomet
76 Malindi
77 Siaya
78 Zimmerman
79 Aga Khan Walk

Upcoming Branches

1 Tom Mboya St, Nbi
2 Kibera Ayany, Nbi
3 Donholm, Nbi
4 Kenyatta Ave , Msa
5 Likoni, Msa
6 Gilgil
7 Mwingi
8 Ruaka, Nbi
9 Isiolo

The directors submit their report together with the audited financial statements for the year ended 31 December 2009, 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, Kingdom Securities Limited and Co-operative House Limited have been included in the Group financial statements excluding Co-operative Merchant Limited. Co-operative Consultancy Services Kenya Limited offers financial advisory services. Co-optrust Investment Services Limited is involved in the business of fund management. Kingdom Securities Limited provides stock broking and investment advisory services. Co-operative House Limited is a dormant company.

3. Results

The results of the Group for the year are set out on pages 49 and 50.

4. Dividend

The directors recommend payment of a dividend of 20 cents (2008 - 10 cents) for every ordinary share of KShs 1. The dividends will be paid on or about 25 June 2010 to the shareholders registered on the Company's Register at the close of business on 3 June 2010. The register will remain closed for one day on 4 June 2010 for the preparation of dividend warrants.

5. Reserves

The movement in the Group's reserves is shown on page 53 of these financial statements.

6. Group Directors

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

S. C. Muchiri, EBS - Group Chairman
J. Riungu - Vice Chairman
G. Muriuki, OGW - Group Managing Director & CEO
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 Kibera
R. Simani - Appointed 29 May 2009
J. Murugu - (representing PS, Ministry of Finance)
F. Odhiambo, DSM, MBS - Commissioner of Co-operative Development

7. Auditors

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

8. Approval of Financial Statements

The financial statements were approved by the Board of Directors on 10 March 2010.

By order of the Board

G. Muriuki
Group Managing Director & CEO

The Kenyan Companies Act requires 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. It also requires 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. The directors 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.

Stanley C. Muchiri, EBS - Chairman

Julius Riungu - Vice Chairman

Gideon Muriuki, OGW - Group Managing Director & CEO

Rosemary M. Githaiga (Mrs) - Company Secretary

Date 10 March 2010

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 46 to 107 which comprise the Group and Company statements of financial position as at 31 December 2009, and the Group and Company statements of comprehensive income, Group and Company statements of changes in equity and Group and Company statements of cash flows 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.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Company as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on Other Legal Requirements

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

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

Ernst & Young

ERNST & YOUNG

19 March 2010

	Note	2009 KShs'000	2008 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	8	8,551,464	6,512,684
Items in the course of collection from other banks		340,550	2,273,637
Deposits and balances due from banks	9	4,642,338	2,983,683
Held-for-trading investments	10	4,416,800	3,781,237
Held-to-maturity investments	11	22,081,293	9,131,520
Loans and advances to customers	12(a)	62,274,194	52,908,543
Other assets	14	2,058,462	1,481,391
Intangible assets	15	541,265	249,285
Prepaid lease rentals	16	40,704	41,317
Property and equipment	17(a)	5,651,410	4,052,623
Deferred tax	18	79,611	69,935
TOTAL ASSETS		**110,678,091**	**83,485,855**
LIABILITIES & EQUITY			
LIABILITIES			
Deposits and balances due to banks	19	1,010,216	1,225,427
Customer deposits	20(a)	91,518,733	65,853,725
Loans	21	208,827	185,968
Other borrowings	22	-	117,225
Provisions	23	59,176	272,865
Tax payable	24(b)	110,843	133,789
Other liabilities	25	1,478,704	2,087,715
TOTAL LIABILITIES		**94,386,499**	**69,876,714**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT			
Share capital	26	3,492,370	3,492,370
Share premium	27	4,286,736	4,286,736
Reserves	28	7,071,328	4,824,292
Capital grants	29	636,058	656,506
Proposed dividends	30	698,474	349,237
		16,184,966	13,609,141
Non-controlling interest		106,626	-
TOTAL EQUITY		**16,291,592**	**13,609,141**
TOTAL LIABILITIES & EQUITY		**110,678,091**	**83,485,855**

The financial statements were approved by the Board of Directors on 10 March 2010 and signed on its behalf by: -

Stanley C. Muchiri, EBS - Chairman

Julius Riungu - Vice Chairman

Gideon Muriuki, OGW - Group Managing Director & CEO

Rosemary M. Githaiga (Mrs) - Company Secretary

The notes on pages 57-109 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Note	2009	2008
		KShs'000	KShs'000
Interest income	31	9,348,095	7,424,648
Interest expense	32	(2,294,340)	(1,728,756)
NET INTEREST INCOME		7,053,755	5,695,892
Commissions	33	3,415,474	3,219,099
Foreign exchange gain		375,887	493,581
Gain/(loss) on sale of financial instruments		99,168	(110,905)
Changes in fair value of financial instruments held-for-trading		67,350	(1,967)
Amortisation of financial instruments held-to-maturity		101,056	4,733
Amortisation of capital grants	29	20,447	20,447
Other income	34	585,048	329,793
OPERATING INCOME		11,718,185	9,650,673
Operating expenses:-			
Net impairment losses on loans and advances	12(f)	628,384	403,262
Other operating expenses	35	7,354,106	5,888,294
OPERATING EXPENSES		7,982,490	6,291,556
PROFIT BEFORE TAX	36	3,735,695	3,359,117
INCOME TAX EXPENSE	24(a)	(767,733)	(985,181)
PROFIT FOR THE YEAR		2,967,962	2,373,936
Other comprehensive income, net of income tax:-			
Revaluation surplus	24(d)	-	57,608
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX		-	57,608
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF INCOME TAX		**2,967,962**	**2,431,544**
Profit attributable to:-			
Equity holders of the parent entity		2,975,831	2,373,936
Non-controlling interest		(7,869)	-
		2,967,962	2,373,936
Total comprehensive income attributable to:-			
Equity holders of the parent entity		2,975,831	2,431,544
Non-controlling interest		(7,869)	-
		2,967,962	2,431,544
Basic and Diluted Earnings per share (KShs)	37	0.85	0.80

The notes on pages 57-109 form an integral part of these financial statements

	Note	2009 KShs'000	2008 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	8	8,551,464	6,512,684
Items in the course of collection from other banks		340,550	2,273,637
Deposits and balances due from other banks	9	4,642,338	2,983,683
Held-for-trading investments	10	4,324,459	3,778,588
Held-to-maturity investments	11	22,081,293	9,131,520
Loans and advances to customers	12(a)	62,274,421	52,908,543
Investment in subsidiaries	13	250,000	100,000
Other assets	14	2,035,171	1,440,512
Intangible assets	15	286,454	245,868
Prepaid lease rental	16	40,704	41,317
Property and equipment	17(b)	5,625,875	4,047,125
Deferred tax	18	78,644	69,426
TOTAL ASSETS		**110,531,373**	**83,532,903**
LIABILITIES & EQUITY			
LIABILITIES			
Deposits and balances due to banks	19	1,010,216	1,225,427
Customer deposits	20(a)	91,552,508	65,934,453
Loans	21	203,974	185,968
Other borrowings	22	-	117,225
Provisions	23	59,176	272,865
Tax payable	24(b)	116,347	133,493
Other liabilities	25	1,485,893	2,114,442
TOTAL LIABILITIES		**94,428,114**	**69,983,873**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT			
Share capital	26	3,492,370	3,492,370
Share premium	27	4,286,736	4,286,736
Reserves	28	6,989,621	4,764,181
Capital grants	29	636,058	656,506
Proposed dividends	30	698,474	349,237
TOTAL EQUITY		**16,103,259**	**13,549,030**
TOTAL LIABILITIES & EQUITY		**110,531,373**	**83,532,903**

The financial statements were approved by the Board of Directors on 10 March 2010 and signed on its behalf by: -

Stanley C. Muchiri, EBS - Chairman

Julius Riungu - Vice Chairman

Gideon Muriuki, OGW - Group Managing Director & CEO

Rosemary M. Githaiga (Mrs) - Company Secretary

The notes on pages 57-109 form an integral part of these financial statements.

	Note	2009	2008
		KShs'000	KShs'000
Interest income	31	9,347,172	7,417,284
Interest expense	32	(2,294,340)	(1,728,756)
NET INTEREST INCOME		7,052,832	5,688,528
Commissions	33	3,298,725	3,134,890
Foreign exchange gain		375,887	493,581
Gain/(losses) on sale of financial instruments		78,253	(111,662)
Changes in fair value of financial instruments held-for-trading		67,350	(1,606)
Amortisation of financial instruments held-to-maturity		101,056	4,733
Amortisation of capital grants	29	20,447	20,447
Other income	34	560,218	325,930
OPERATING INCOME		**11,554,768**	**9,554,841**
Operating expenses:-			
Net impairment losses on loans and advances	12(f)	628,384	403,262
Other operating expenses	35	7,199,531	5,814,299
OPERATING EXPENSES		7,827,915	6,217,561
PROFIT BEFORE TAX	36	3,726,853	3,337,280
INCOME TAX EXPENSE	24(a)	(767,997)	(978,972)
PROFIT FOR THE YEAR		2,958,856	2,358,308
Other comprehensive income, net of income tax:-			
Revaluation surplus	24(d)	-	57,608
OTHER COMPREHENSIVE INCOME NET OF INCOME TAX		**-**	**57,608**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF INCOME TAX		**2,958,856**	**2,415,916**
Basic and Diluted Earnings per share (KShs)	37	0.85	0.79

The notes on pages 57-109 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share Capital KShs'000	Share Premium KShs'000	Revaluation Reserves KShs'000	Statutory Reserves KShs'000	Proposed Dividends KShs'000	Retained earnings KShs'000	Other reserves KShs'000	Attributable to equity holder of the company KShs'000	Non-controlling interest KShs'000	Total equity KShs'000
Balance at 1 January 2008	2,856,450	-	306,703	-	228,516	2,387,967	3,692	5,783,328	-	5,783,328
Total comprehensive income	-	-	57,608	-	-	2,373,936	-	2,431,544	-	2,431,544
Net movement in revenue grants for the year	-	-	-	-	-	43,623	-	43,623	-	43,623
Issue of shares	635,920	4,736,560	-	-	-	-	-	5,372,480	-	5,372,480
Realisation of revaluation surplus	-	-	(4,368)	-	-	4,368	-	-	-	-
IPO expenses	-	(449,824)	-	-	-	-	-	(449,824)	-	(449,824)
Transfer to retained earnings	-	-	-	-	-	3,692	(3,692)	-	-	-
Transfers to statutory reserve	-	-	-	210,707	-	(210,707)	-	-	-	-
Dividends paid	-	-	-	-	(228,516)	-	-	(228,516)	-	(228,516)
Proposed dividends	-	-	-	-	349,237	(349,237)	-	-	-	-
Balance at 31 December 2008	3,492,370	4,286,736	359,943	210,707	349,237	4,253,642	-	12,952,635	-	12,952,635
Balance at 1 January 2009	3,492,370	4,286,736	359,943	210,707	349,237	4,253,642	-	12,952,635	-	12,952,635
Total comprehensive income	-	-	-	-	-	2,975,831	-	2,975,831	(7,869)	2,967,962
Realisation of revaluation surplus	-	-	(9,071)	-	-	9,071	-	-	-	-
Deferred tax	-	-	1,814	-	-	(1,814)	-	-	-	-
Under provision in prior year deferred tax	-	-	1,310	-	-	-	-	1,310	-	1,310
Transfer to revaluation reserve	-	-	43	-	-	(43)	-	-	-	-
Net movement in revenue grants for the year	-	-	-	-	-	(31,631)	-	(31,631)	-	(31,631)
Transfers to revenue reserve	-	-	-	(7,688)	-	7,688	-	-	-	-
Acquisition of Kingdom Securities Limited	-	-	-	-	-	-	-	-	114,495	114,495
Dividends paid	-	-	-	-	(349,237)	-	-	(349,237)	-	(349,237)
Proposed dividends	-	-	-	-	698,474	(698,474)	-	-	-	-
Balance at 31 December 2009	3,492,370	4,286,736	354,039	203,019	698,474	6,514,270	-	15,548,908	106,626	15,655,534

The notes on pages 57-109 form an integral part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2009

	Share Capital KShs'000	Share Premium KShs'000	Revaluation Reserves KShs'000	Statutory Reserve KShs'000	Proposed Dividends KShs'000	Other reserves KShs'000	Retained earnings KShs'000	Total KShs'000
Balance at 1 January 2008	2,856,450	-	306,703	-	228,516	3,692	2,350,391	5,745,752
Total comprehensive income	-	-	57,608				2,358,308	2,415,916
Realisation of revaluation surplus	-	-	(4,368)	-	-	-	4,368	-
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)
Transfer to retained earnings	-	-	-	-	-	(3,692)	3,692	-
Transfers to statutory reserve	-	-	-	210,707	-	-	(210,707)	-
Dividends paid	-	-	-	-	(228,516)	-	-	(228,516)
Proposed dividends	-	-	-	-	349,237	-	(349,237)	-
Balance at 31 December 2008	3,492,370	4,286,736	359,943	210,707	349,237	-	4,193,531	12,892,524
Balance at 1 January 2009	3,492,370	4,286,736	359,943	210,707	349,237	-	4,193,531	12,892,524
Total comprehensive income	-	-	-	-	-	-	2,958,856	2,958,856
Realisation of revaluation surplus	-	-	(9,071)	-	-	-	9,071	-
Deferred tax	-	-	1,814	-	-	-	(1,814)	-
Under provision in prior year deferred tax	-	-	1,310	-	-	-	-	1,310
Transfer to revaluation reserve	-	-	43	-	-	-	(43)	-
Net movement in revenue grants for the year	-	-	-	-	-	-	(36,252)	(36,252)
Transfer to revenue reserve	-	-	-	(7,688)	-	-	7,688	-
Dividends paid	-	-	-	-	(349,237)	-	-	(349,237)
Proposed dividends	-	-	-	-	698,474	-	(698,474)	-
Balance at 31 December 2009	3,492,370	4,286,736	354,039	203,019	698,474	-	6,432,563	15,467,201

The notes on pages 57-109 form an integral part of these financial statements.

CASH FLOWS FROM OPERATING ACTIVITIES:-	Note	2009 KShs'000	2008 KShs'000
Profit before tax		3,735,695	3,359,117
Adjustments for:-			
Depreciation		605,389	425,419
Amortization of prepaid lease rentals		613	616
Gain on revaluation of property		-	(57,608)
Net impairment on property, equipment and intangible assets		(3,892)	-
Net gain on acquisition		(17,142)	-
Net movement in revenue grants		(31,631)	(43,623)
Movement in provisions		(272,866)	(39,640)
Amortization of intangible assets		84,495	57,876
Amortization of capital grants		(20,447)	(20,447)
Gain on disposal of property and equipment		(1,345)	(6,873)
Foreign exchange gain		(99,168)	(493,581)
Changes in fair value of financial instruments held-for-trading		(67,350)	1,606
Unrealised loss on re-measurement of investment		-	110,905
Amortisation of financial instruments held-to-maturity		(101,056)	(4,733)
Cash flows from operating activities before working capital changes		3,811,296	3,289,034
Advances to customers		(9,365,651)	(14,863,771)
Other assets		(575,571)	353,103
Deposits from customers		25,665,008	11,078,335
Deposits from banks		(215,212)	(197,184)
Other liabilities		(609,011)	43,906
Central Bank of Kenya cash ratio		(535,611)	178,527
Held-to-maturity investments		(10,204,943)	403,170
Held-for-trading investments		(650,386)	(179,782)
Equity investments held-for-trading		1,400	(18,900)
Cash generated by operating activities		7,321,319	86,438
Tax paid		(800,320)	(1,137,658)
Net cash flows from/ (used in) operating activities		6,520,999	(1,051,220)
CASH FLOWS FROM INVESTING ACTIVITIES:-			
Purchase of property and equipment		(2,301,714)	(1,321,955)
Purchase of software		(55,874)	(144,678)
Proceeds from disposal of property and equipment		25,827	6,873
Acquisition of a subsidiary, net of cash acquired	5	(145,291)	-
Net cash flows used in investing activities:-		(2,477,052)	(1,459,760)
CASH FLOWS FROM FINANCING ACTIVITIES:-			
Proceeds on issue of share capital		-	4,922,656
Loan received		62,000	237,225
Dividends paid		(349,237)	(228,516)
Loans paid		(156,365)	(9,690)
Net cash flows used in financing activities		(443,602)	4,921,675
Net movement in cash and cash equivalents		3,600,345	2,410,695
Cash and cash equivalents at the beginning of the year		11,000,865	8,096,589
Foreign exchange gain		99,168	493,581
Cash and cash equivalents at 31 December	38	14,700,377	11,000,865
Operational cash flows from interest and dividends			
Interest paid		2,134,689	1,602,820
Interest received		8,836,351	7,589,669
Dividend received		7,154	1,389

The notes on pages 57-109 form an integral part of these financial statements.

CASH FLOWS FROM OPERATING ACTIVITIES:-	Note	2009 KShs'000	2008 KShs'000
Profit before tax		3,726,853	3,337,280
Adjustments for:-			
Depreciation		600,100	423,889
Amortization of prepaid lease rentals		613	616
Gain on revaluation of property		-	(57,608)
Net impairment on property, equipment and intangible assets		(4,583)	-
Net movement in revenue grants		(36,252)	(36,716)
Movement in provisions		(213,689)	(39,640)
Amortization of intangible assets		82,383	57,350
Amortization of capital grants		(20,447)	(20,447)
Gain on disposal of property and equipment		(1,345)	(6,873)
Foreign exchange gain		(78,253)	(493,581)
Changes in fair value of financial instruments held-for-trading		(67,350)	1,606
Unrealised loss on re-measurement of investment		-	111,662
Amortisation of financial instruments held-to-maturity		(101,056)	(4,733)
Cash flows from operating activities before working capital changes		3,886,974	3,272,805
Advances to customers		(9,365,878)	(14,860,541)
Other assets		(594,659)	352,588
Deposits from customers		25,618,055	11,078,335
Deposits from banks		(215,211)	(197,184)
Other liabilities		(628,549)	46,477
Central Bank of Kenya Cash ratio		(535,611)	178,527
Held-to-maturity investments		(10,211,020)	403,170
Held-for-trading investments		(625,395)	(108,540)
Equity investments held-for-trading		1,400	(18,900)
Cash generated by operating activities		7,330,106	146,737
Tax paid		(794,363)	(1,137,658)
Net cash flows from /(used in) operating activities		6,535,743	(990,921)
CASH FLOWS FROM INVESTING ACTIVITIES:-			
Purchase of property and equipment		(2,278,962)	(1,319,224)
Purchase of software		(54,477)	(140,735)
Proceeds from disposal of property and equipment		20,060	6,873
Acquisition of a subsidiary		(150,000)	-
Net cash flows used in investing activities		(2,463,379)	(1,453,086)
CASH FLOWS FROM FINANCING ACTIVITIES:-			
Proceeds on issue of share capital		-	4,922,656
Loans received		62,000	237,224
Dividends paid		(349,237)	(228,516)
Loans paid		(161,219)	(9,690)
Net cash flows (used in)/ from financing activities		(448,456)	4,921,674
Net movement in cash and cash equivalents		3,623,908	2,477,667
Cash and cash equivalents at the beginning of the year		10,998,216	8,026,968
Foreign exchange gain		78,253	493,581
Cash and cash equivalents at 31 December	38	14,700,377	10,998,216
Operational cash flows from interest and dividends			
Interest paid		2,134,689	1,602,820
Interest received		8,836,351	7,589,669
Dividend received		7,154	1,389

The notes on pages 57-109 form an integral part of these financial statements.

1. GENERAL INFORMATION

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

2. ACCOUNTING POLICIES

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

a) Basis of Preparation

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

b) Basis of Consolidation

IFRS 3 (revised), 'Business combinations' was early adopted by the Group in 2009. The revised standard continues to apply the acquisition method to business combinations. 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, Kingdom Securities Limited and Co-operative House Limited is a dormant company.

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The acquisition method involves recognizing identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the consideration transferred over the total of the fair value acquired, is recognised as goodwill. The fair value acquired is the total of the identifiable net assets at fair value less the non-controlling interest (measured at fair value or their proportion of the net asset) less the fair value of the acquirer's previously held interest in the acquiree if it is a step acquisition. If the consideration transferred is less than the fair value acquired, the discount on acquisition is recognised directly in profit or loss in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the consideration transferred in the business combination over the fair value acquired.

Inter-company transactions, balances and intra-group gains on transactions between group companies are eliminated. Intra-group losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Transactions and Non-Controlling Interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Interests in the equity of subsidiaries not attributable to the parent are reported in consolidated equity as non-controlling interest. Profits or losses attributable to non-controlling interests are reported in the consolidated statement of comprehensive income as profit or loss attributable to non-controlling interests.

c) Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except as below. The Group has adopted the following new and amended International Financial Reporting Standards (IFRS) as of 1 January 2009.

IAS 1 Presentation of Financial Statements

This standard requires an entity to present all owner changes in equity and all non-owner changes to be presented in either in one statement of comprehensive income or in two separate statements of income and comprehensive income. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements.

The Bank has elected to present comprehensive income in a single statements approach. Information about the individual components of comprehensive income net of tax effects have been disclosed in the notes to the financial statements. The Bank has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made a retrospective restatement or retrospectively reclassified items in the financial statements.

IFRS 8 Operating Segments

This standard requires disclosure of information about the Bank's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Bank. The Bank concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 6.

IFRS 3 (Revised 2008) Business Combinations and IAS 27 (Revised 2008) Consolidated and Separate Financial Statements (early adopted)

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3 (revised), 'Business combinations' was early adopted by the Group in 2009. The revised standard applies the acquisition method to business combinations, with some significant changes from the purchase method as applied by the previous version of IFRS 3. It introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, for future business combinations, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (Revised 2008) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction.

The standard was applied to the acquisition of the controlling interest in Kingdom Securities Limited on 11 June 2009.

Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments

The amendments to IFRS 7 were issued in March 2009 to enhance fair value and liquidity disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management.

Standards and interpretations issued but not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements:

- IAS 39, 'financial instruments: Recognition and measurement – Eligible hedged items' (effective 1 July 2009). The amendment 'Eligible hedged items' was issued in July 2008. It provides guidance for two situations. On the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. This will not give rise to any changes to the Group's financial statements.

- IFRIC 17, 'Distribution to non-cash assets to owners' (effective 1 July 2010). IFRIC 17 was issued in November 2008. It addresses how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognised when the dividend was authorised by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognised at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in profit and loss. Additional disclosures are to be made if the net assets being held for distribution to owners meet the definition of a discontinued operation. The application of IFRIC 17 will not impact the financial statements of the Group.

- IFRIC 18, 'Transfers of assets from customers' (effective 1 July 2009). IFRIC 18 was issued in January 2009. It clarifies how to account for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment, and the entity must then use that item to provide the customer with ongoing access to supply of goods and/or services. The Group will not be impacted by applying IFRIC 18.

- IFRS 9, 'Financial instruments part 1 (effective 1 January 2013): Classification and measurement' IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:
- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

Amendments that are part of the IASB's annual improvement project published in April 2009 (not addressed above) are:

	Effective date
• IFRS 2 (amendment), 'Share-based payments'	1 July 2009
• IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'	1 January 2010
• IFRS 8 (amendment), 'Operating segments'	1 January 2010
• IAS 1 (amendment), 'Presentation of financial statements'	1 January 2010
• IAS 7 (amendment), 'Statement of cash flows'	1 January 2010
• IAS 17 (amendment), 'Leases'	1 January 2010
• IAS 18 (amendment), 'Revenue'	1 January 2010
• IAS 36 (amendment),'Impairment of assets'	1 January 2010
• IAS 38 (amendment), 'Intangible assets'	1 July 2009
• IAS 39 (amendment), 'Financial instruments: recognition and measurement'	1 January 2010
• IFRIC 9 (amendment), 'Reassessment of embedded derivatives'	1 July 2009
• IFRIC 16 (amendment), 'Hedges of a net investment in a foreign operation'	1 July 2009

The Group anticipates that adoption of these amendments when effective, will have no material impact on the financial statements of the Group.

d) Significant accounting estimates and assumptions

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

Estimates and Assumptions

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

Going Concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Impairment Losses on Loans and Advances

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

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

Impairment of Non-Financial Assets

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

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

Fair Value of Financial Instruments

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

Deferred Tax Assets

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

e) Recognition of Income and Expenses

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

i) Interest and Similar Income and Expenses

For all financial instruments measured at amortised cost and interest bearing 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 assets or financial liabilities is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amounts 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 profit or loss for all interest bearing instruments on an accrual basis taking into account the effective yield on the asset. Interest income is not recognised where recoverability of the advances of the Group's own funds is uncertain. Interest on the Government and Donor funds is recognised as income on accrual basis.

ii) Fee and Commission Income

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

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.

Recognition and Measurement

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

f) Property and Equipment

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

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

Depreciation

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

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

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

g) Intangible Assets

Intangible assets comprise separately identifiable intangible items arising from business combinations, computer software licences and other intangible assets. Intangible assets are initially recognised at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. The useful lives of intangible assets are assessed as either finite or indefinite. Generally, the identified intangible assets of the Group have a definite useful life.

Intangible assets with a definite useful life are amortized using the straight-line method over their estimated useful economic life, generally not exceeding 20 years. At each reporting date, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognized if the carrying amount exceeds the recoverable amount.

Intangible assets with an indefinite useful life are not amortised but are annually tested for impairment and whenever there is an indication that the asset may be impaired.

(a) Goodwill

Goodwill represents the excess of the consideration transferred in an acquisition over the fair value acquired of acquired subsidiairies and associates at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is allocated to cash-generating units or groups of cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified in accordance with IFRS 3.

Goodwill is tested annually as well as whenever a trigger event has been observed for impairment by comparing the present value of the expected future cash flows from cash generating unit with the carrying value of its net assets, including attributable goodwill and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Computer Software Licences

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

(c) Other Intangible Assets

Other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. Other intangible assets consist of Nairobi Stock Exchange (NSE) seat.

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

h) Finance and Operating Leases

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

i) Operating Leases:

Where:-

- Group is the Lessee

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

- Group is the Lessor

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) Financial Assets

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

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

(a) Financial Assets at Fair Value through Income Statement

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

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

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

(b) Held-to-Maturity Financial Assets

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

(c) 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.

(d) Available-for-Sale Financial Assets

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

(e) Fair Value

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

(f) Amortised Cost

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

j) Impairment of Financial Assets

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

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

1) Financial Assets Carried at Amortised Cost

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

For loans and advance impairment losses are computed based on:

ii) Central Bank of Kenya Prudential Guidelines

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

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

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

iii) International Accounting Standard (IAS) 39

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

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

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

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

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

2) Financial Assets Classified as available -for-sale

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

3) Renegotiated Loans

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

k) Impairment of Non-Financial Assets

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

The impairment test can also be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. All non-financial assets that were impaired in 2009 were written off during the year.

l) Repossessed Property

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

m) Foreign Currency

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

n) Employee Benefits

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

Short-term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services. The monetary liability for employees' accrued annual leave entitlement at the end of reporting period is recognised as an expense accrual.

o) Taxes

Current Tax

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

Deferred Income Tax

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

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

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

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

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

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

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

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

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

Value Added Tax

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

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

p) Customer Deposits

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

q) 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 end of the reporting period, i.e. their carrying values at this date.

r) Deposits from / to other Banks

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

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

s) Other Borrowed Funds and Borrowing Costs

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

t) Grants

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

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

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

u) Cash and Cash Equivalents

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

v) Repurchase Agreement Transactions

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

w) 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.

x) Financial Guarantee Contracts

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

y) Dividends

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

z) 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.

aa) Segmental Reporting

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

bb) 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.

cc) Offsetting

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

3. FINANCIAL RISK MANAGEMENT

Risk Management Framework

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

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

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

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

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

Below is the information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

(i) Credit Risk

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

Management of Credit Risk

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

a. Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
b. Establishing the authorisation structure for the approval and renewal of credit facilities.
c. Reviewing and assessing credit risk.
d. Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks.
e. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types.
f. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

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

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

		Company	
	Note	2009	2008
		KShs '000	KShs '000
Carrying amount		66,620,704	60,417,500
Individually assessed for impairment			
Grade 5: Loss category		905,987	1,917,463
Grade 4: Doubtful category		2,860,864	5,620,636
Gross amount		3,766,851	7,538,099
Allowance for impairment		(3,250,580)	(6,307,108)
Carrying amount		516,269	1,230,991
Collectively assessed for impairment			
Grade 1: Normal		58,501,501	49,078,124
Grade 2: Watch list		1,969,186	2,095,785
Gross amount		60,470,687	51,173,909
Allowance for impairment		(644,091)	(384,701)
Carrying amount		59,826,596	50,789,208
Past due but not impaired loans (Grade 3: Substandard)			
Past due up to 30 days		1,426,326	1,396,188
Past due 31-60 days		378,821	299,269
Past due 61-90 days		17,376	13,727
Past due 91-150 days		560,643	442,908
Gross amount		2,383,166	1,895,492
Allowance for impairment		(451,610)	(1,007,148)
Carrying amount		1,931,556	888,344
Net carrying amount	12 (a)	62,274,421	52,908,543

Maximum exposure to credit risk before collateral held:

	2009	%	2008	%
Credit exposures:-	KShs '000		KShs '000	
Items recognised in the statement of financial position				
Deposits and balances due from banking institutions	4,642,338	5	2,983,683	4
Government securities:				
-Held-to-maturity	22,081,293	22	9,131,520	12
-Held-for-trading	4,324,459	4	3,778,588	5
Interest receivable	930,715	1	393,210	1
Items in the course of collection from other banks	340,550	-	2,273,637	3
Loans and advances to customers	62,274,421	60	52,908,543	69
	94,593,776	92	71,469,181	93
Items not recognised in the statement of financial position	7,662,651	8	5,118,882	7
TOTAL	102,256,427	100	76,588,063	100

Maximum exposure to credit risk before collateral held represents the worst-case scenario of credit risk exposure without taking account of any collateral held or any other credit enhancements attached. While collateral is an important means to mitigate against credit risk, the group's primary policy is to issue loans after establishing capacity of the customer to repay. Unsecured facilities amount to KShs 47,252 million (2008- KShs 35,938 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 Company 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 Company'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 Company 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 Company.

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 Company 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.

The carrying amount of renegotiated financial assets that would otherwise be past due or impaired is as follows:

	2009 KShs '000	2008 KShs '000
Due from banks	-	-
Financial assets at fair value through profit or loss	-	-
Loans and advances to customers:		
Finance lease receivables	-	-
Overdrafts	-	-
Commercial loans	609,895	202,808
Government/Donor funded loan schemes	291,356	-
Credit card balances	-	-
Micro enterprises	-	-
Total	901,251	202,808

Allowances for Impairment

The Company 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 Company 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 Company holds collateral against loans and advances to customers in the form of cash, mortgage interests over residential, commercial and industrial properties, other registered securities over assets, motor vehicles, plant and machinery, marketable securities, bank guarantees and letters of credit. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral is generally not held over loans and advances to banks and against investment securities.

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

Discounted value of securities	2009 KShs '000	2008 KShs '000
Doubtful & loss categories	913,954	1,265,691
Sub-standard loans category	1,052,468	852,390
Normal & watch categories	17,608,252	15,000,000
Total	19,574,674	17,118,081

Concentration of Risk

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

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

Settlement Risk

The Company'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 Company will encounter difficulty in meeting obligations from its financial liabilities.

Management of Liquidity Risk

The Company'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 Company'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 Company as a whole.

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

Exposure to Liquidity Risk

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:

ASSETS	Available immediately and up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	8,551,464	-	-	-	-	8,551,464
Items in the course of collection from other banks	340,550	-	-	-	-	340,550
Deposits and balances due from banks	4,642,338	-	-	-	-	4,642,338
Held -for- trading investments	-	283,726	4,078,755	-	4,319	4,416,800
Held-to- maturity investments	750,000	3,977,467	1,680,350	9,880,683	5,792,793	22,081,293
Loans and advances to customers	4,047,464	657,440	4,718,907	44,238,767	8,611,616	62,274,194
Other assets	2,056,962	-	-	-	-	2,056,962
Intangible assets	-	-	-	-	542,765	542,765
Prepaid lease rentals	-	-	-	-	40,704	40,704
Property and equipment	-	-	-	-	5,651,410	5,651,410
Deferred tax	-	-	-	-	79,611	79,611
Total Assets	20,388,778	4,918,633	10,478,012	54,119,450	20,773,218	110,678,091
LIABILITIES						
Deposits and balances due to banks	954,842	16,399	38,975	-	-	1,010,216
Customers' deposits	61,951,187	25,453,672	4,113,874	-	-	91,518,733
Loans	-	-	-	208,827	-	208,827
Provisions	-	-	-	-	59,176	59,176
Tax payable	-	-	110,843	-	-	110,843
Other liabilities	1,478,704	-	-	-	-	1,478,704
Share capital & Reserves	2,906,033	-	-	-	13,385,559	16,291,592
Total liabilities	67,290,766	25,470,071	4,263,692	208,827	13,444,735	110,678,091
Net liquidity gap at 31 December 2009	(46,901,988)	(20,551,438)	6,214,320	53,910,623	7,328,483	-
Net liquidity gap at 31 December 2008	(41,238,810)	(10,168,431)	4,665,828	44,044,517	2,696,896	-
Assets not recognised in statement of financial position	2,419,560	1,811,746	3,310,494	120,851	-	7,662,651
Liabilities not recognised in statement of financial position	2,419,560	1,811,746	3,310,494	120,851	-	7,662,651

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

	2009	2008
	%	%
At 31 December	34.90	33.10
Average for the year	34.06	28.86
Maximum for the year	38.30	37.70
Minimum for the year	28.80	19.10
Statutory minimum ratio	20.00	20.00

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

Exposure to Market Risk – Trading Portfolios

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

Exposure to Interest Rate Risk – Non-Trading Portfolios

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

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

ASSETS	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Non interest bearing KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	-	-	-	-	-	8,551,464	8,551,464
Items in the course of collection from other banks	-	-	-	-	-	340,550	340,550
Deposits and balances due from other banks	4,642,338	-	-	-	-	-	4,642,338
Held-for-trading investments	-	283,726	4,078,755	-	-	54,319	4,416,800
Held-to-maturity investments	750,000	5,025,000	1,680,350	8,833,150	5,792,793	-	22,081,293
Loans and advances to customers	4,047,464	657,440	4,718,907	44,238,767	8,611,616	-	62,274,194
Other assets	-	-	-	-	-	2,056,962	2,056,962
Intangible assets	-	-	-	-	-	542,765	542,765
Prepaid lease rentals	-	-	-	-	-	40,704	40,704
Property and equipment	-	-	-	-	-	5,651,410	5,651,410
Deferred tax	-	-	-	-	-	79,611	79,611
Total assets	9,439,802	5,966,166	10,478,012	53,071,917	14,404,409	17,317,785	110,678,091
LIABILITIES							
Deposits and balances due to banks	954,842	16,399	38,975	-	-	-	1,010,216
Customer deposits	61,951,187	25,453,672	4,113,874	-	-	-	91,518,733
Loans	-	-	-	208,827	-	-	208,827
Provisions	-	-	-	-	-	59,176	59,176
Tax payable	-	-	-	-	-	110,843	110,843
Other liabilities	-	-	-	-	-	1,478,704	1,478,704
Share capital & reserves	-	-	-	-	-	16,291,592	16,291,592
Total liabilities	62,906,029	25,470,071	4,152,849	208,827	-	17,940,315	110,678,091
Interest sensitivity gap at 31 December 2009	(53,466,227)	(19,503,905)	6,325,163	52,863,090	14,404,409	(622,530)	-
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)	-

The effect on profit due to reasonable possible changes in interest rates, with all other variables held constant, is as follows:

	2009 KShs,000	2008 KShs,000
Effect on profit before tax of a +3% change in interest rates	3,828	3,508
Effect on profit before tax of a -3% change in interest rates	(3,423)	(3,166)

Exposure to Currency Risk

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

The table below summarises foreign currency exposure to the company as at close of period:

CURRENCY TYPE	USD	GBP	EURO	JPY	CHF	ZAR	OTHERS	TOTAL
EXCHANGE RATE	75.82	121.89	108.94	0.82	73.28	10.22		
	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000	KShs`0000	KShs`000
Foreign Currency Assets:								
Cash and balances with banks abroad	2,443,873	345,819	1,999,605	2,635	3,853	5,210	19,637	4,820,632
Loan and advances	1,356,001	51	270	-	-	-	-	1,356,322
Other foreign assets	6,325,204	451,130	3,857,018	14,555	275	8,693	3,193	10,660,068
Off balance sheet items	4,117,015	247,566	2,189,808	24,039	-	-	135,254	6,713,682
Total Foreign Assets	14,242,093	,044,566	8,046,701	41,229	4,128	13,903	158,084	23,550,704
Foreign Currency Liabilities:								
Balances due to banks abroad	142,707	-	6	-	1	-	51	142,765
Deposits	3,627,255	246,858	1,985,814	966		4,369	5,776	5,871,038
Other foreign liabilities	6,373,827	548,906	3,867,433	16,048	1,244	9,289	11,954	10,828,701
Off-balance sheet items	4,117,015	247,566	2,189,808	24,039	-	-	135,254	6,713,682
Total Foreign liabilities	14,260,804	1,043,330	8,043,061	41,053	1,245	13,658	153,035	23,556,186
Net Exposure at 31 December 2009	(18,711)	1,236	3,640	176	2,883	245	5,049	(5,482)
Net Exposure at 31 December 2008	11,922	(612)	(4,114)		533	39	(10)	7,758

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	
	2009	2008
	KShs'000	KShs'000
Effect on profit before tax of a +5% change in exchange rates	1,535	596
Effect on profit before tax of a -5% change in exchange rates	(1,389)	(270)

(iv) Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company'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 Company's operations and are faced by all business units.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company'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 Company 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 Company 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 Company.

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 Company's Operational Risk Capital Charge.

4. CAPITAL MANAGEMENT

Regulatory Capital

The Central Bank of Kenya sets and monitors capital requirements for the Banking industry as a whole. The statutory minimum core capital is KShs 250 million. In implementing current capital requirements The Central Bank of Kenya requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Company'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 Company'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 Company 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 Company has complied with all externally imposed capital requirements throughout the year.

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

	2009 KShs'000	2008 KShs'000
Tier I Capital:		
Ordinary share capital	3,492,370	3,492,370
Share premium	4,286,736	4,364,373
Retained earnings	6,432,563	4,728,015
Other reserves	636,057	656,506
Less: Investments in equity of other institutions	(24,310)	(14,000)
At 31 December	14,823,416	13,227,264
Tier II Capital:		
Revaluation reserves	88,510	171,503
Term subordinated debt	203,974	155,968
Loan loss provisions	203,019	-
At 31 December	495,503	327,471
Total regulatory capital	15,318,919	13,554,735
Total risk weighted assets	72,927,893	57,134,411
Capital ratios:		
Core capital to Total deposit liabilities (CBK minimum 8%)	16.0%	18.1%
Core capital to Total risk weighted assets (CBK minimum 8%)	20.3%	21.2%
Total capital to Total risk weighted assets (CBK minimum 12%)	21.0%	23.72%

Capital Allocation

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

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

5. BUSINESS COMBINATION

On 11 June 2009, the Bank acquired 60% of the share capital of Kingdom Securities Limited (formerly Bob Mathews Stockbrokers Limited). The principal activity of the company is the provision of stock broking and investment advisory services. The fair value of the identifiable assets and liabilities acquired and gain arising as at the date of acquisition was:

	Carrying value KShs '000	Fair value recognised on acquisition KShs '000
Cash and cash equivalents	4,709	4,709
Intangible asset (NSE Seat)	251,000	251,000
CDSC guaranteed fund	1,500	1,500
Property and equipment	8,657	8,657
Other assets	50,614	50,614
Bank loan	(6,069)	(6,069)
Due to customers	(17,027)	(17,027)
Other liabilities	(14,814)	(14,814)
Net assets at acquisition	278,570	278,570
Net assets acquired (60%)		167,142
Gain on acquisition	-	(17,142)
Total purchase price	150,000	150,000
Cash outflow on acquisition of the subsidiary:		
Net cash acquired with the subsidiary		4,709
Cash paid		(150,000)
Net cash outflow		(145,291)

From the date of acquisition, Kingdom Securities Limited has contributed a loss of KShs 7 million to the profit for the year of the Company. If the combination had taken place at the beginning of the year, the total net operating income for the year for the Bank would have been KShs 25 million higher and the total profit for the year would have been KShs 19 million lower.

6. SEGMENT REPORTING

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

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

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

The Group's segment operations are all financial with a majority of revenues deriving from interest. The management relies primarily on net interest revenue to assess the performance of the segment. The total interest income and expense for all reportable segments is presented on a net basis.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2009 or 2008.

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments.

Profit or loss for the year ended 31 December 2009	Wholesale Banking KShs'000	Retail Banking KShs'000	Un-allocated KShs'000	Total KShs'000
Net interest income	2,453,001	4,568,359	31,472	7,052,832
Non-funded income	1,449,684	2,306,012	909,657	4,665,353
Operating income	3,902,685	6,874,371	941,129	11,718,185
Operating expenses	(563,253)	(4,456,435)	(2,962,802)	(7,982,490)
Profit before tax	3,339,432	2,417,936	(2,021,673)	3,735,695

Profit or loss for the year ended 31 December 2008	Wholesale Banking KShs'000	Retail Banking KShs'000	Un-allocated KShs'000	Total KShs'000
Net interest income	3,577,066	2,118,826	-	5,695,892
Non-funded income	1,275,630	2,072,647	606,504	3,954,781
Operating income	4,852,696	4,191,473	606,504	9,650,673
Operating expenses	(643,149)	(3,539,826)	(2,108,581)	(6,291,556)
Profit before tax	4,209,547	651,647	(1,502,077)	3,359,117

Statement of financial position as at 31 December 2009	Wholesale Banking KShs'000	Retail Banking KShs'000	All other segments KShs'000	Total KShs'000
Assets				
Segment assets	73,448,868	35,051,525	-	108,500,393
Unallocated assets	-	-	2,177,698	2,177,698
Total assets	73,448,868	35,051,525	2,177,698	110,678,091
Liabilities and equity				
Segment liabilities	50,906,890	41,597,429	-	92,504,319
Unallocated liabilities	-	-	18,173,772	18,173,772
Inter-segment lending	22,541,978	(6,545,904)	(15,996,074)	-
Total liabilities and equity	73,448,868	35,051,525	2,177,698	110,678,091

Statement of financial position as at 31 December 2008	Wholesale Banking KShs'000	Retail Banking KShs'000	Un-allocated KShs'000	Total KShs'000
Assets				
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 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 equity	28,164,756	38,921,920	16,399,179	83,485,855

Geographical Information

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

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

a) Determination of Fair Value and Fair Value Hierarchy

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

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed government securities in Nairobi Stock exchange

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

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

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

	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Held-for-trading investments				
Government securities	4,362,481	-	-	4,362,481
Unquoted equities	-	-	54,319	54,319
	4,362,481	-	54,319	4,416,800

The movement in financial instruments under level 3 is shown under note 10 (b).

b). Fair Value of Financial Assets and Liabilities not carried at Fair Value

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

	Carrying amount KShs'000	Fair value KShs'000
Financial assets		
Cash and balances with Central Bank of Kenya	8,551,464	8,551,464
Items in the course of collection from other banks	340,550	340,550
Deposits and balances due from other banks	4,642,338	4,642,338
Held-to-maturity investments	22,081,293	21,687,412
Loans and advances to customers	62,274,194	62,274,194
	97,889,839	97,495,958
Financial liabilities		
Deposits and balances due to banks	1,010,216	1,010,216
Customer deposits	91,518,733	91,518,733
Loans	208,827	208,827
	92,737,776	92,737,776

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

(i) Assets for which Fair Value Approximates Carrying Value

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

(ii) Loans and Advances to Customers

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

(iii) Investment Securities

The fair value for held-to-maturity assets is based on market prices. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(iv) Deposits from Banks and due to Customers

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

(v) Loans

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

8. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	Group and Company	
	2009	2008
	KShs'000	KShs'000
Cash on hand	4,202,707	3,340,085
Central Bank of Kenya:		
Restricted balances (Cash Reserve Ratio)	3,845,168	3,309,557
Unrestricted balances available / (required) for use by the group	503,589	(136,958)
	8,551,464	6,512,684

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 2009, the Cash Reserve Ratio requirement was 4.5% of all deposits (2008 - 5.00%). These funds are not available for use by the Group in its day to day operations.

9. DEPOSITS AND BALANCES DUE FROM BANKS

	Group and Company	
	2009	2008
	KShs'000	KShs'000
Commercial banks	1,007,200	220,000
Foreign banks	3,635,138	2,763,683
	4,642,338	2,983,683

10. HELD-FOR-TRADING INVESTMENTS

a)Treasury bonds	Group		Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
Maturing within 91 days of reporting date	283,726	297,149	283,726	294,500
Maturing after 91 days of reporting date	4,078,755	3,428,369	3,986,414	3,428,369
	4,362,481	3,725,518	4,270,140	3,722,869

The weighted average effective interest rate on Government and other securities held-for-trading at 31 December 2009 was 11.20% (2008- 10.61%).

10. HELD-FOR-TRADING INVESTMENTS *(Continued)*

b) Equity Investments	Group		Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
Consolidated Bank of Kenya Ltd:-				
135,000 ordinary shares of KShs 20 each	2,700	2,700	2,700	2,700
580,000 4% non-cumulative preference shares of KShs 20 each	11,600	11,600	11,600	11,600
Co-operative Insurance Company Ltd:-				
943,388 ordinary shares of KShs 21.30 each	21,090	21,090	21,090	21,090
Kenya National Federation of Co-operatives Ltd:-				
82 shares of KShs100 each	8	8	8	8
Kenya National Housing Co-operative Union Ltd:-				
1 share of KShs 1,000	1	1	1	1
Menno Plaza Limited:-				
9,340 ordinary shares (12.39% ownership)	30,000	30,000	30,000	30,000
	65,399	65,399	65,399	65,399
Less: Provision for diminution in value of investment in Consolidated Bank of Kenya Ltd	(11,080)	(9,680)	(11,080)	(9,680)
	54,319	55,719	54,319	55,719
TOTAL HELD FOR TRADING INVESTMENT	4,416,800	3,781,237	4,324,459	3,778,588

11. HELD-TO-MATURITY INVESTMENTS

	Group and Company	
	2009	2008
	KShs'000	KShs'000
Government treasury bills maturing within 91 days of the reporting date	3,459,706	1,243,899
Government treasury bills maturing after 91 days of the reporting date	5,77 9,073	539,861
Treasury bonds maturing within 91 days of the reporting date	1,267,761	210,229
Treasury bonds maturing after 91 days of the reporting date	11,574,753	7,137,531
	22,081,293	9,131,520

The weighted average effective interest rate on held-to-maturity investments as at 31 December 2009 was 8.76% (2008- 8.61%). 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. LOANS AND ADVANCES TO CUSTOMERS

	Group		Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
a) Net loans and advances				
Finance lease receivables (note 12 e)	1,869,073	718,623	1,869,073	718,623
Overdrafts	2,441,441	2,463,292	2,441,668	2,463,292
Commercial loans	58,483,851	53,719,099	58,483,851	53,719,099
Government/Donor funded loan schemes	1,551,628	1,651,261	1,551,628	1,651,261
Credit card balances	535,632	530,002	535,632	530,002
Micro enterprises	1,738,852	1,335,223	1,738,852	1,335,223
Gross loans and advances	66,620,477	60,417,500	66,620,704	60,417,500
Impairment losses on loans and advances (note 12 f)	(4,346,283)	(7,508,957)	(4,346,283)	(7,508,957)
	62,274,194	52,908,543	62,274,421	52,908,543
b) Aging:				
Repayable on demand	8,110,849	11,394,269	8,111,076	11,394,269
1-3 months	657,440	821,576	657,440	821,576
3-12 months	4,718,907	4,604,254	4,718,907	4,604,254
1-5 years	44,521,438	36,979,845	44,521,438	36,979,845
Over 5 years	8,611,843	6,617,556	8,611,843	6,617,556
Gross loans and advances	66,620,477	60,417,500	66,620,704	60,417,500
c) Sectoral concentration analysis:-				
Agriculture	3,991,647	3,478,003	3,991,647	3,478,003
Manufacturing	1,149,845	148,847	1,149,845	148,847
Construction	248,728	1,248,226	248,728	1,248,226
Service	20,349,063	37,378,263	20,349,063	37,378,263
Other	40,881,194	18,164,161	40,881,421	18,164,161
	66,620,477	60,417,500	66,620,704	60,417,500

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

	2009	2008
	%	%
Finance lease receivables	13.9	15.2
Overdrafts	16.7	18.8
Commercial loans	11.3	11.3
Government/Donor funded loan schemes	5.1	7.3
Credit card balances	42.0	42.0
Micro enterprises	22.7	20.8

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

	Group and Company	
	2009	2008
e) Analysis of finance lease receivables:	KShs'000	KShs'000
Repayable on demand	133,232	49,056
1-3 months	144,017	93,566
3-12 months	264,043	181,460
1-5 years	2,079,640	443,326
Over 5 years	-	-
Gross Investment in finance leases	2,620,932	767,408
Unearned future finance income	(751,859)	(48,785)
Present value of minimum lease payments receivable	1,869,073	718,623

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 lease 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 (2008: nil). The accumulated allowances for uncollectible minimum lease payments receivable are nil (2008: nil).

f) Impairment losses on loans and advances:

Group and Company	Specific impairment losses	Collective impairment losses	Total
	KShs'000	KShs'000	KShs'000
Balance at 1 January 2009	7,124,256	384,701	7,508,957
Impairment losses during the year through profit or loss	368,994	259,390	628,384
Interest on impaired loans not recognised as income	8,176	-	8,176
Impairment losses written off during the year	(3,514,765)	-	(3,514,765)
Amounts released to income	(284,469)	-	(284,469)
Balance at 31 December 2009	3,702,192	644,091	4,346,283
Balance at 1 January 2008	6,982,304	384,701	7,367,005
Impairment losses during the year through profit or loss	403,262	-	403,262
Interest on impaired loans not recognised as income	30,204	-	30,204
Amounts released to income	(291,514)	-	(291,514)
Balance at 31 December 2008	7,124,256	384,701	7,508,957

g) The Company continues to carry classified impaired and delinquent accounts on its books even after making allowances for impairment in accordance with IAS 39. Interest is accrued on these accounts for contractual/ litigation purposes only and accordingly not taken to income. The carrying amount of such accounts/loans at year end was KShs 6.5 billion (2008- KShs 9.1 billion).

13. INVESTMENT IN SUBSIDIARIES

The following subsidiaries are owned by the Company:

Company	Ownership	Status	2009 KShs'000	2008 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
Kingdom Securities Limited	60%	Active	150,000	-
			250,000	100,000

During the year, the Bank acquired majority shares of Kingdom Securities Limited at a consideration of KShs 150 million.

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

14. OTHER ASSETS

	Group		**Company**	
	2009 KShs'000	2008 KShs'000	2009 KShs'000	2008 KShs'000
Interest receivable	930,715	393,210	930,715	393,210
Deposits with default financial Institutions	43,052	43,052	43,052	43,052
Sundry debtors and prepayments	1,127,747	1,088,181	1,104,456	1,047,302
	2,101,514	1,524,443	2,078,223	1,483,564
Impairment losses on deposits with default financial institutions	(43,052)	(43,052)	(43,052)	(43,052)
	2,058,462	1,481,391	2,035,171	1,440,512

15. INTANGIBLE ASSETS

(a) Group

	Computer Software KShs'000	Other intangible assets KShs'000	2009 Total KShs'000	2008 Total KShs'000
Cost/Valuation				
Cost at 1 January	882,090	1,020	883,110	729,576
Transfers from Work in Progress	77,236	-	77,236	6,148
Additions	55,874	-	55,874	144,678
Write down of value	(519,683)	-	(519,683)	-
Revaluation	-	249,980	249,980	-
Cost at 31 December	495,517	251,000	746,517	880,402
Accumulated amortisation at 1 January	631,696	-	631,696	573,241
Write back of amortisation	(510,939)	-	(510,939)	-
Amortisation for the year	84,495	-	84,495	57,876
Accumulated amortisation at 31 December	205,252	-	205,252	631,117
Net book value at 31 December	290,265	251,000	541,265	249,285

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

15. INTANGIBLE ASSETS (continued)

(b) Bank	2009 KShs'000	2008 KShs'000
Computer software		
Cost at 1 January	860,997	714,114
Transfers from Work in Progress	77,236	6,148
Additions	54,477	140,735
Write down of value	(519,683)	-
Cost at 31 December	473,027	860,997
Accumulated amortisation at 1 January	615,129	557,779
Write back of amortisation	(510,939)	-
Amortisation for the year	82,383	57,350
Accumulated amortisation at 31 December	186,579	615,129
Net book value at 31 December	286,454	245,868

Amortisation has not been charged in arriving at the results for the year in respect of certain fully amortised software assets with a cost of nil (2008- KShs 414,898,288.27), which are still in use. If amortisation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs Nil (2008- 82,707,549).

16. PREPAID LEASE RENTALS

	Group and Company 2009 KShs'000	 2008 KShs'000
Cost at 1 January	55,568	55,568
Disposal	(1,000)	-
Cost at 31 December	54,568	55,568
Amortisation:		
At 1 January	14,251	13,635
Disposal	(1,000)	-
Charge for the year	613	616
At 31 December	13,864	14,251
Net book value at 31 December	40,704	41,317

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

17(a) PROPERTY AND EQUIPMENT-GROUP

	Freehold land & buildings	Capital work-in progress	Fixtures	Office machinery furniture & equipment	Motor vehicles	Computers	Total
COST/VALUATION	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January 2009	1,487,497	607,297	1,650,172	926,627	155,220	1,850,971	6,677,784
Additions	-	1,349,300	21,272	353,816	39,283	538,043	2,301,714
Disposals	(16,500)	-	(21)	(3,915)	(40,218)	(503)	(61,157)
Impairment	-	(4,930)	(373,177)	(247,956)	-	(367,539)	(993,602)
Transfer to intangible assets	-	(77,236)	-	-	-	-	(77,236)
Reclassifications	-	(693,411)	620,711	6,253	-	66,447	-
At 31 December 2009	1,470,997	1,181,020	1,918,957	1,034,825	154,285	2,087,419	7,847,503
Comprising:							
Cost	1,271,413	1,181,020	1,918,957	1,034,825	154,285	2,087,419	7,647,919
Valuation	199,584	-	-	-	-	-	199,584
	1,470,997	1,181,020	1,918,957	1,034,825	154,285	2,087,419	7,847,503
DEPRECIATION							
At 1 January 2009	-	-	647,399	569,753	78,243	1,320,734	2,616,129
Charge for the year	46,852	-	190,013	131,023	24,682	212,819	605,389
Disposals	-	-	(8)	(3,631)	(32,716)	(320)	(36,675)
Impairment	-	-	(385,591)	(243,761)	1,179	(360,577)	(988,750)
At 31 December 2009	46,852	-	451,813	453,384	71,388	1,172,656	2,196,093
NET BOOK VALUE							
At 31 December 2009	1,424,145	1,181,020	1,467,144	581,441	82,897	914,763	5,651,410

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

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

iii. Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs 38,926,467 (2008- 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 803,230,910 (2008- KShs 2,087,951,868), 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.160,646,182 (2008- KShs 382,682,747). Included in these fully depreciated assets is KShs Nil (2008-KShs. 9,005,547) representing idle assets in the process of disposal.

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

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

	Freehold land & buildings	Capital work-in progress	Fixtures	Office machinery furniture & equipment	Motor vehicles	Computers	Total
COST/VALUATION	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
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 down of value	(271,591)	-	-	-	-	-	(271,591)
Transfer(from WIP)/ to fixtures	-	(481,111)	481,111	-	-	-	-
Transfer to intangible assets	-	(6,148)	-	-	-	-	(6,148)
Impairment	-	(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

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

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

iii. Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs 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 management carries out an impairment review and the resultant impairment loss recognised in the income statement.

17(b) PROPERTY AND EQUIPMENT-COMPANY

COST/VALUATION	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
At 1 January 2009	1,487,497	607,297	1,650,172	921,454	145,235	1,843,498	6,655,153
Additions	-	1,349,300	6,943	350,246	35,517	536,957	2,278,963
Disposals	(16,500)	-	(21)	(3,915)	(30,233)	(503)	(51,172)
Impairment	-	(4,930)	(373,177)	(247,267)	-	(367,537)	(992,911)
Reclassifications	-	(693,411)	620,711	6,253	-	66,447	-
Transfer to intangible assets	-	(77,236)	-	-	-	-	(77,236)
At 31 December 2009	1,470,997	1,181,020	1,904,628	1,026,771	150,519	2,078,862	7,812,797
Comprising:							
Cost	1,271,413	1,181,020	1,904,628	1,026,771	150,519	2,078,862	7,613,213
Valuation	199,584	-	-	-	-	-	199,584
	1,470,997	1,181,020	1,904,628	1,026,771	150,519	2,078,862	7,812,797
DEPRECIATION							
At 1 January 2009	-	-	647,399	567,987	75,252	1,317,391	2,608,029
Charge for the year	46,852	-	188,969	129,835	22,953	211,491	600,100
Disposals	-	-	(8)	(3,631)	(28,498)	(320)	(32,457)
Impairment	-	-	(385,591)	(243,761)	1,179	(360,577)	(988,750)
At 31 December 2009	46,852	-	450,769	450,430	70,886	1,167,985	2,186,922
NET BOOK VALUE							
At 31 December 2009	1,424,145	1,181,020	1,453,859	576,341	79,633	910,877	5,625,875

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	(271,590)	-	-	-	-	-	(271,590)
Transfer to intangible assets	-	(6,148)	-	-	-	-	(6,148)
Write offs	-	(1,767)	-	-	-	-	(1,767)
At 31 December 2008	1,487,497	607,297	1,650,172	921,453	145,235	1,843,498	6,655,152
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
	1,487,497	607,297	1,650,172	921,453	145,235	1,843,498	6,655,152
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	1,487,497	607,297	1,002,774	353,467	69,983	526,107	4,047,125

18. DEFERRED TAX

Deferred tax movement and balances are analysed as follows:

	2009	Dealt through P&L	Dealt through OCI	2008
GROUP	KShs'000	KShs'000	KShs'000	KShs'000
Collective allowance for impairment				
Disallowed for tax purposes	(128,818)	51,457	-	(77,361)
Revaluation surplus	70,445	1,272	17,282	88,999
Accelerated depreciation over wear and tear	(14,079)	(12,050)	-	(26,129)
Provisions and other deferred tax assets	(7,159)	(48,285)	-	(55,444)
	(79,611)	(7,606)	17,282	(69,935)
COMPANY				
Collective allowance for impairment				
Disallowed for tax purposes	(128,818)	51,878	-	(76,940)
Revaluation surplus	70,445	1,272	17,282	88,999
Accelerated depreciation over wear and tear	(13,236)	(12,861)	-	(26,096)
Provisions and other deferred tax assets	(7,035)	(48,352)	-	(55,387)
	(78,644)	(8,063)	17,282	(69,424)

	2008	Dealt through P&L	Dealt through OCI	2007
GROUP	KShs'000	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)	51,005	-	(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
	(69,424)	51,775	-	(17,650)

19. DEPOSITS AND BALANCES DUE TO BANKS

	Group and Company	
	2009	2008
	KShs'000	KShs'000
Payable within 30 days	876,318	691,927
Payable after 30 days but within 1 year	133,898	533,500
	1,010,216	1,225,427

The weighted average effective interest rate on deposits from banks at 31 December 2009 was 6.64% (2008-8.98%).

20. CUSTOMER DEPOSITS

a)	Group		Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
Call deposits	6,105,638	4,178,102	6,105,638	4,178,102
Fixed deposits	23,234,391	15,243,709	23,234,391	15,243,709
Transaction accounts	26,421,982	22,550,673	26,421,982	22,550,673
Savings accounts	1,079,376	347,710	1,079,376	347,710
Current accounts	28,842,619	19,640,109	28,876,394	19,720,837
Foreign currency deposits	5,834,727	3,893,422	5,834,727	3,893,422
	91,518,733	65,853,725	91,552,508	65,934,453
b) From government and parastatals:-				
Payable on demand	4,661,281	4,377,771	4,661,281	4,377,771
Payable within 30 days	2,672,015	1,865,006	2,672,015	1,865,006
Payable after 30 days but within 1 year	14,746,464	5,902,901	14,746,464	5,902,901
	22,079,760	12,145,678	22,079,760	12,145,678
From private sector and individuals:-				
Payable on demand	51,137,330	38,729,093	51,171,105	38,809,821
Payable within 30 days	3,480,561	2,369,029	3,480,561	2,369,029
Payable after 30 days but within 1 year	14,821,082	12,609,925	14,821,082	12,609,925
	69,438,973	53,708,047	69,472,748	53,788,775
	91,518,733	65,853,725	91,552,508	65,934,453

Included in customers' deposits is an amount of KShs 3,300 million (2008- KShs 2,999 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 6.6% (2008-2.6%).

21. LOANS

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

	Group		Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
IFAD	30,000	30,000	30,000	30,000
European Investment Bank	25,724	35,968	25,724	35,968
AFD Microfinance	56,250	90,000	56,250	90,000
Women Enterprise Fund	92,000	30,000	92,000	30,000
Others	4,853	-	-	-
	208,827	185,968	203,974	185,968

International Fund for Agricultural Development (IFAD)

The loan agreement was entered into in 2003 between the Government of Kenya-Ministry of Agriculture and The Co-operative Bank of Kenya Limited for a loan of KShs 30 million under the Eastern Produce Horticultural and Traditional Food Crops Project. The Company holds the funds for onward lending to customers.

21. LOANS *(Continued)*

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 2008 between the Government of Kenya and The Co-operative Bank of Kenya Limited for a limit of KShs 249,682,294, to promote financial deepening by on lending to Micro Finance Institutions and Saccos at 6% p.a. The closing day for funds disbursement is 31/12/2011. The loan is advanced based on customer demand and is to be repaid within a period of 4 years.

Women Enterprise Fund

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

Others

Kingdom Securities entered into a Hire Purchase Agreement with Fidelity Commercial Bank for purchase of a motor vehicle in December 2007. A loan of KShs 6.4 million was granted repayable in 48 months at a fixed rate of 9% per annum. The loan is being repaid in equal monthly instalments of KShs 181,334.

22. OTHER BORROWINGS

The Company took a short-term loan of KShs 117,225,000 from RMB International Limited in 2008. The facility was fully settled on 15 January 2009.

23. PROVISIONS

	Group and Company	
	2009	2008
	KShs'000	KShs'000
Leave liability	26,123	29,119
Staff benefits	33,053	243,746
	59,176	272,865

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 members' staff salaries. The Management on prudence basis provided for the staff costs using the contested 15% which was awarded by the courts. Since then, a court case has been pending after the banking industry contested the ruling arguing that the benefits were punitive. However, following an agreement with the union in 2009, implementation of the award was negotiated and adjusted to 11% and arrears paid out appropriately.

23. PROVISIONS *(Continued)*

Movement in provisions	Group and Company	
	2009	2008
	KShs'000	KShs'000
Balance at 1 January	272,865	312,505
Provisions arising during the year	30,057	1,372
Provisions utilised during the year	(243,746)	(41,012)
Balance at 31 December	59,176	272,865

24. INCOME TAX EXPENSE

	Group		Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
a) Profit or loss:-				
Current tax at 20% (2008 - 30%)				
on the taxable profit for the year	788,733	934,791	788,733	928,064
(Over)/Under-provision in previous years	(11,359)	102,705	(11,516)	102,683
Deferred tax	(9,676)	(52,315)	(9,220)	(51,775)
Others	35	-	-	-
	767,733	985,181	767,997	978,972
b) Statement of financial position:-				
Balance brought forward	133,789	233,951	133,493	234,067
(Over)/Under-provision in previous years	(11,359)	102,705	(11,516)	102,683
Charge for the year	788,733	934,791	788,733	928,064
Paid during the year	(800,320)	(1,137,658)	(794,363)	(1,131,321)
	110,843	133,789	116,347	133,493
c) Reconciliation of tax expense to tax based on accounting profit:-				
Accounting profit	3,735,695	3,358,818	3,726,854	3,336,979
Tax applicable rate as noted below	751,2089	1,007,646	745,371	1,001,094
(Over)/Under-provision in previous years	(11,359)	102,705	(11,516)	102,683
Tax effect of items not eligible for tax	27,848	(125,170)	34,142	(124,805)
Others	35	-	-	-
Tax in the statement of comprehensive income	767,733	985,181	767,997	978,972

The corporation tax rate applicable to the Company was changed from 30% in 2008 to 20% in 2009 following its listing in Nairobi Stock Exchange. The income tax rate applicable to the Groups' subsidiaries remained at 30 % (2008: 30%).

d) Income tax recognised in other comprehensive income	Group and Company	
	2009	2008
	KShs'000	KShs'000
Revaluation surplus (note 18)	17,282	-

The deferred tax on revaluation surplus was under provided in 2008 and it has been included in arriving at the current year tax.

25. OTHER LIABILITIES

	Group		Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
Interest payable	487,283	3,755	487,283	3,755
Sundry creditors and accruals	991,421	2,083,960	998,610	2,110,687
	1,478,704	2,087,715	1,485,893	2,114,442

26. SHARE CAPITAL

	Group and Company	
	2009	2008
	KShs'000	KShs'000
Authorised :-		
3,700,000,000 (2008: 3,700,000,000) ordinary shares of KShs 1 each.	3,700,000	3,700,000
Issued and fully paid:-		
3,492,370,900 (2008: 3,492,370,900) ordinary shares of KShs 1 each.	3,492,370	3,492,370

27. 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	
	2009	2008
	KShs'000	KShs'000
Share premium	4,286,736	4,736,559
IPO expenses	-	(449,823)
Share premium	4,286,736	4,286,736

28. RESERVES

	Group		Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
Revaluation reserve	354,039	359,943	354,039	359,943
Retained earnings	6,514,270	4,253,642	6,432,563	4,193,531
Statutory reserve	203,019	210,707	203,019	210,707
	7,071,328	4,824,292	6,989,621	4,764,181

Revaluation Reserve

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

Retained earnings

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

Statutory reserve

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

29. CAPITAL GRANTS

	Group and Company	
	2009	2008
	KShs'000	KShs'000
Grant net of amortisation at 1 January	656,505	676,953
Amortisation for the year	(20,447)	(20,447)
At 31 December	636,058	656,506

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.

30. PROPOSED DIVIDENDS AND DIVIDENDS PER SHARE

Group and Company

	2009	2008
	KShs'000	KShs'000
Proposed dividends	698,474	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 2009 financial statements, a first and final dividend in respect of year 2009 of KShs 0.20 (2008- KShs (0.10) for every ordinary share of KShs 1 is to be proposed by the directors and is subject to approval by shareholders.

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

31. INTEREST INCOME

	Group		Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
Loans and advances to customers	7,285,907	5,819,612	7,285,907	5,819,612
Finance leases	174,508	49,407	174,508	49,407
Investment securities:				
Held-to-maturity	831,852	819,729	831,852	812,365
Investments designated at fair value through profit or loss	670,082	408,129	669,905	408,129
Deposits and balances due from other banks	101,278	36,258	100,532	36,258
Interest on previously impaired loans	284,468	291,513	284,468	291,513
	9,348,095	7,424,648	9,347,172	7,417,284

32. INTEREST EXPENSE

	Group and Company	
	2009	2008
	KShs'000	KShs'000
Call deposits	330,350	225,133
Fixed deposits	1,340,944	922,655
Savings accounts	203,647	174,944
Current accounts	319,334	207,433
Deposits and balances due to banks	58,222	159,081
Loans	39,647	31,608
Other borrowings	2,196	7,902
	2,294,340	1,728,756

33. COMMISSIONS

	Group		Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
Fees and commissions on loans and advances	637,454	524,377	637,454	524,377
Ledger fees & service charges	529,161	510,243	529,161	510,243
Other fees and commissions	2,248,859	2,184,479	2,132,110	2,100,270
	3,415,474	3,219,099	3,298,725	3,134,890

34. OTHER INCOME

	Group		Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
(Loss)/ gain on disposal of property and equipment	(1,345)	5,998	(1,345)	5,998
Dividend income	7,154	1,389	7,154	1,389
Franchise project	7,551	26,702	7,551	26,702
Rental income (net)	44,474	46,098	44,474	46,098
Insurance premium rebate	20,272	20,000	20,272	20,000
VISA Card fees refund	-	77,100	-	77,100
Discount on acquisition of a subsidiary	17,142	-	-	-
Loan recoveries	234,880	17,494	234,880	17,494
Miscellaneous	254,920	135,012	254,920	135,012
	585,048	329,793	560,218	325,930

35. OTHER OPERATING EXPENSES

	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
Salaries and wages (35 a)	3,844,312	2,939,470	3,777,942	2,903,462
Depreciation on property and equipment	605,389	425,419	600,100	423,889
Rent and maintenance costs for branch premises	400,973	342,396	398,891	340,314
Motor vehicle running & Other equipment maintenance	351,561	292,599	349,533	291,422
Stationery	151,790	136,967	149,979	135,997
Travelling	139,610	121,994	115,944	115,444
Telephone & postage	196,508	160,175	195,706	159,804
Contribution to Deposit Protection Fund	94,069	79,418	94,070	79,418
Amortisation of intangible assets	84,495	57,876	82,383	57,350
Amortisation of leasehold land	613	616	613	616
Directors' emoluments	75,512	64,868	63,639	57,127
Other administrative expenses	485,631	485,933	485,631	485,933
Other operating expenses	923,643	780,563	885,100	763,523
	7,354,106	5,888,294	7,199,531	5,814,299

35. OTHER OPERATING EXPENSES *(Continued)*

	2009	2008	2009	2008
35(a) Salaries and wages	KShs'000	KShs'000	KShs'000	KShs'000
Basic salaries	2,779,336	2,089,227	2,730,204	2,067,334
Allowances	522,014	366,879	513,365	359,606
Pension scheme contribution	359,128	244,539	355,624	241,700
Medical expenses	87,036	109,465	85,624	107,371
Others	96,798	129,360	93,125	127,451
	3,844,312	2,939,470	3,777,942	2,903,462

36. PROFIT BEFORE TAX

	Group		Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
Profit before tax is stated after charging:-				
Staff costs	3,844,312	2,939,470	3,777,942	2,903,462
Directors' emoluments:				
-Fees	56,087	51,653	51,792	45,489
-Others	19,425	13,215	11,847	11,638
Depreciation on property and equipment	605,389	425,419	600,100	423,889
Amortisation of leasehold land	613	616	613	616
Amortisation of intangible assets	84,495	57,876	82,383	57,350
Auditors' remuneration	9,025	7,950	7,350	7,000
Impairment of loans and advances	628,384	403,262	628,384	403,262
Contribution to Deposit Protection Fund	94,069	79,418	94,069	79,418
Contribution to staff retirement benefit scheme	359,128	244,539	355,624	241,700
and after crediting:-				
Foreign exchange gains	375,887	493,581	375,887	493,581
(Loss)/ gain on disposal of property and equipment	(1,345)	5,998	(1,345)	5,998
Net rental income	44,474	46,098	44,474	46,098
Amortisation of capital grants	20,447	20,447	20,447	20,447
Interest on previously impaired loans	284,468	291,513	284,468	291,513

37. 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 reporting dates, hence diluted earnings per share was the same as basic earnings per share.

	Group		Company	
	2009	2008	2009	2008
Profit for the year attributable to shareholders (KShs'000)	2,967,962	2,373,936	2,958,856	2,358,308
Weighted average number of ordinary shares at 31 December	3,492,370	2,969,393	3,492,370	2,969,393
Basic earnings per share (KShs)	0.85	0.80	0.85	0.79

38. CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
Cash on hand	4,202,707	3,340,085	4,202,707	3,340,085
Cash with Central Bank of Kenya	4,348,757	3,172,599	4,348,757	3,172,598
Deposits and balances due from banking institutions	4,642,338	2,983,683	4,642,338	2,983,683
Items in the course of collection from other Banks	340,550	2,273,637	340,550	2,273,637
Government securities and other investments maturing within 91 days	5,011,193	2,540,418	5,011,193	2,537,770
	18,545,545	14,310,422	18,545,545	14,307,773
Less: CBK Cash ratio	(3,845,168)	(3,309,557)	(3,845,168)	(3,309,557)
Cash and cash equivalents	14,700,377	11,000,865	14,700,377	10,998,216

39. RELATED PARTY TRANSACTIONS

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

	Group and Company	
	2009	2008
	KShs'000	KShs'000
Directors	132,306	148,834
Employees	3,543,965	2,575,090
	3,676,271	2,723,924

The weighted average interest on loans to related parties during the year was 4% (2008-4%). The interest income earned on loans and advances to directors, employees and associates amounted to KShs 137,804,348 (2008-KShs 97,038,956) 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 (2008-Nil).

(b) Inter-company balances:-
The financial statements include the following balances relating to transactions entered into with other group companies.

	Company	
	2009	2008
	KShs'000	KShs'000
Kingdom Securities Limited	16,085	-
Co-operative Consultancy Limited	1,604	-
Co-op Holdings Co-operative Society Limited	28,408	8,523
	46,097	8,523
Due to:-		
Co-operative Consultancy Limited	404	-
Co-optrust Investment Limited	2,887	-
	3,291	-

Deposits from subsidiary companies held as at 31 December 2009 was KShs 33,775,254 (2008 - KShs 80,728,000). 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 2009, deposits from directors and employees amounted to KShs 239,462,598 (2008 - KShs 215,505,159). Interest expense paid on deposits from directors and employees amounted to KShs 14,344,999 (2008-KShs 12,338,198).

39. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Compensation of key management personnel

	Group		Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
Directors	75,512	64,868	63,639	57,127
Senior managers	485,035	401,433	469,718	389,599

(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 2009, KShs 30 million (2008- KShs 15 million) was disbursed to the Foundation. At 31 December 2009, the Foundation held deposits of KShs 8,841,616 (2008- KShs 13,421,683) with the Company.

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

This is a defined contribution scheme and provides, under the rules of the scheme, retirement benefits for the staff of The Co-operative Bank of Kenya Limited and its subsidiaries. The Group contributed KShs 350,322,008 (2008- KShs 245,015,655) at 31 December 2009. 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 (2008-Nil).

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

	Group and Company	
	2009	2008
Management	268	236
Supervisory and unionisable	2,021	1,969
Others	163	133
	2,452	2,338

40. OPERATING LEASE COMMITMENTS

As Lessor

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

	Group and Company	
	2009	2008
	KShs'000	KShs'000
Within One year	49,159	38,820
Between 2 and 5 years	198,618	154,496
Over 5 years	4,160	3,293
	251,937	196,609

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	
	2009	2008
	KShs'000	KShs'000
Within one year	301,765	232,067
Between 2 and 5 years	850,242	582,716
Over 5 years	81,461	22,406
	1,233,468	837,189

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.

41. COMMITMENTS

	Group and Company	
	2009	2008
	KShs'000	KShs'000
i) Capital: Authorised and contracted for	211,593	217,100
ii) Capital: Authorised and not contracted for	2,410,906	2,128,867
iii) Loans committed but not disbursed at year end	189,392	3,834,030

42. CONTINGENT LIABILITIES

	Group and Company	
	2009	2008
a) Not recognised in statement of financial position	KShs'000	KShs'000
Letters of credit, guarantees, acceptances, and other engagements entered into on behalf of customers	7,662,651	5,118,882

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

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

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

b) Pending Legal Suits: -

i) 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 a 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 a private investigator was 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 92,587,954 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 against the debtor.

vi) Raki Investments Limited

This is a claim against the Company for general and special damages amounting to KShs 638,546,737. The plaintiff, which is a coffee exporting company, had been granted overdraft facilities of USD 2 million and KShs 5 million in October 1998. They claim that the Company over time failed to remit the agreed upon funds to Coffee Board of Kenya thereby causing the collapse of their coffee export business due to delayed shipments and therefore dissatisfied customers. There were additional claims relating to unauthorized transfers, application of excessive interest rates and failure to offset borrowings with the fixed deposit as instructed by the plaintiff.

vii) Methi and Swani FCS

This is a claim against the Company for damages amounting to KShs 268,669,952.The plaintiff had borrowed amounts totalling KShs 11.7million that were secured by charge over two properties. Following the borrower's default and the auctioning of one of the properties, the plaintiff applied to the court seeking to stop the bank from selling the second one and claiming that their indebtness to the Bank was not adequately supported. The suit is still in progress.

viii) Kingdom Securities Limited

The Group acquired a 60% majority stake in Kingdom Securities Limited. The transaction had not been concluded at year end.

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.

43. 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 5,136 million (2008 – KShs 1,221 million). The Group at Scheme Administration Services department administers pension and provident funds with a value of KShs 3,510 Million (2008 – KShs 2,720 Million). The Group, through Co-op Trust Investment Services manages securities with a value of KShs 16,982 Million (2008- KShs 15,571 million) on behalf of customers. The income from trust activities was KShs 53,486,982 (2008- KShs 55,104,274).

44. SIGNIFICANT EVENTS

At the Annual General Meeting (AGM) of The Co-operative Bank of Kenya Limited held on 29th May 2009, an ordinary resolution was passed to purchase and acquire 12,000,000 shares, being 60% of the issued capital in Bob Mathews Stockbrokers Limited. On 12 June 2009, the Company took over Bob Mathews Stockbrokers Limited's assets and liabilities and changed its name to Kingdom Securities Limited.

45. 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 sub-prime 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 2009 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 institutions of 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.

46. ASSETS PLEDGED AS SECURITY

As at 31 December 2009, there were no assets pledged by the Group to secure liabilities.

47. HOLDING ENTITY

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

48. EVENTS AFTER THE REPORTING DATE

The directors are not aware of any material adjusting or non adjusting events after the reporting date, which should be disclosed in this report.

49. INCORPORATION

The Company is incorporated in Kenya under the Companies Act.

50. CURRENCY

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

Communication with Shareholders

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

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

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

Shareholding Information:

	2009	2008
The number of shareholders as at 31 December:	111,720	116,068

The top 10 shareholders, based on the Bank's share register as 31st December 2009 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	28,936,100	0.83
5	NIC Bank Limited A/C 077	24,421,800	0.70
6	Kenya Commercial Bank Nominees Limited A/C 816	12,054,200	0.35
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	7,710,000	0.22
	Total	**2,469,035,600**	**70.71**

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 3,811 Co-operative Societies covering millions of Kenyans.

The top ten (10) shareholders of Co-opHoldings Co-operative Society Limited are as follows:

	NAME	NUMBER OF SHARES	PERCENTAGE OF OWNERSHIP
1	Harambee Co-operative Savings & Credit Society Ltd	86,224,900	3.82
2	Telepost Co-operative Savings & Credit Society Limited	66,853,800	2.97
3	Afya Co-operative Savings & Credit Society Ltd	66,306,900	2.94
4	Masaku Teachers Co-op Savings & Credit Society Ltd	65,314,900	2.90
5	Kipsigis Teachers Co-op Savings & Credit Society Ltd	55,414,000	2.46
6	H & M Co-operative Savings & Credit Society Ltd	54,723,100	2.43
7	Kenya Police Sacco Society Ltd	52,539,200	2.33
8	Kiambu Unity Finance Co-operative Union Ltd	51,205,700	2.27
9	Embu Farmers Sacco Society Ltd	41,341,200	1.83
10	Nandi Teachers Co-op Savings & Credit Society Ltd	40,161,800	1.78
	Total	**580,085,500**	**25.73**

Directors' interest in the ordinary share capital of the Company on 31 December 2009 was as follows:

DIRECTOR	NO. OF SHARES	PERCENTAGE (%) OF OWNERSHIP
S. C. Muchiri, EBS - Chairman	8,000,000	0.23
J. Riungu - Vice Chairman	7,710,000	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
D. Kibera	-	-
R. Simani (Mrs)	-	-
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 (Mrs) - Company Secretary	5,290,000	0.15
TOTAL	**139,205,700**	**4.00**

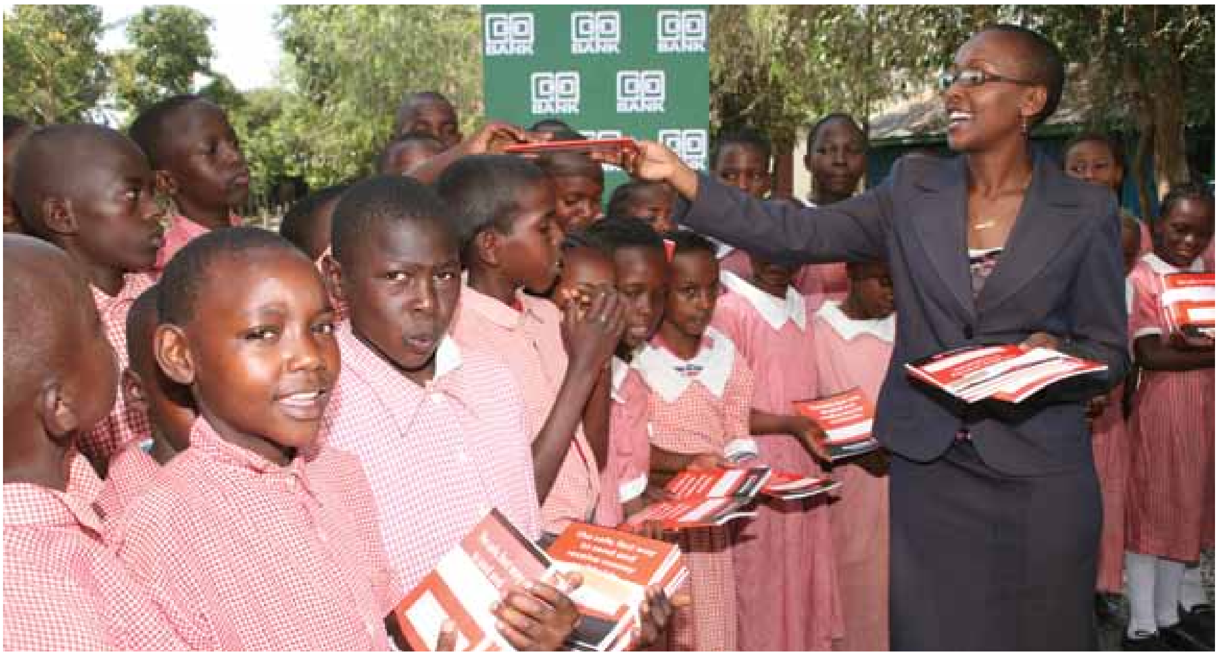
Shareholding distribution Schedule

Category	No. of shareholders	No. of shares	%
1-500 shares	2,933	837,450	0.02
501-5,000 shares	83,705	198,574,350	7.19
5,001-10,000 shares	15,413	137,374,000	3.87
10,001-100,000 shares	9,070	219,965,900	6.20
100,001-1,000,000 shares	470	116,616,700	3.29
1,000,001 shares and over	129	2,819,001,500	79.43
TOTAL	**111,720**	**3,492,369,900**	**100**

Shareholder profile

Category	No. of shareholders	No. of shares	%
Kenyan individual investors	109,562	943,089,495	27.005
Kenyan institutional investors	2,074	2,548,447,205	72.972
East African individual investors	26	330,500	0.009
East African institutional investors	1	100,000	0.003
Foreign individual investors	57	402,700	0.011
Foreign institutional investors	Nil	Nil	Nil
TOTAL	**111,720**	**3,492,369,900**	**100**

The Co-operative Bank of Kenya share was listed on the Nairobi Stock Exchange (NSE) on 22 December 2008 and was included in the NSE 20-Share Index on 11 December 2009.



Service to the Community

Co-op Bank Brand Manager, Natasha Gatabaki hands over books to pupils of Our Lady of Mercy Primary School at Mukuru kwa Njenga, Nairobi as part of the bank's service to the community.