2010 ANNUAL REPORT & FINANCIAL STATEMENTS

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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
NAIROBI

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

COMPANY SECRETARY

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

SHARES REGISTRAR

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

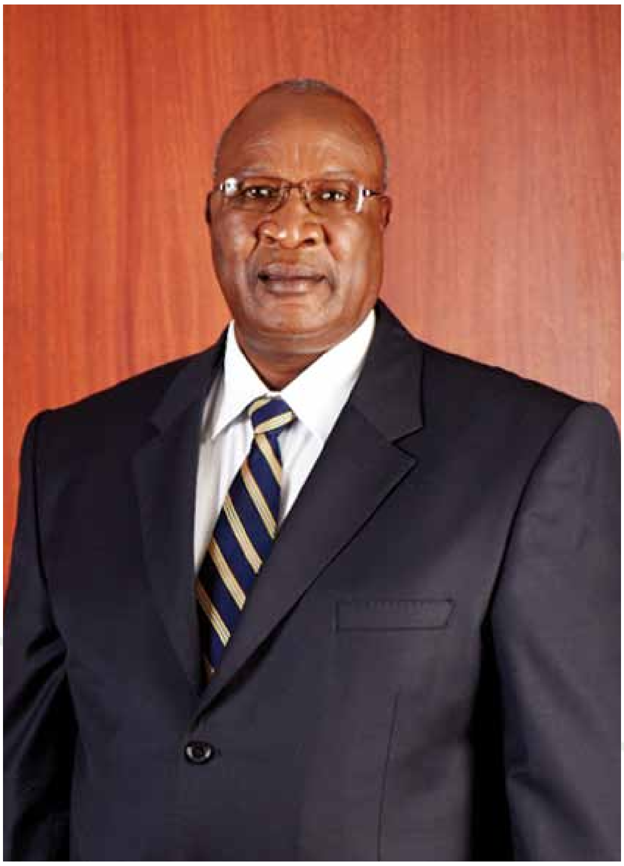
LAWYERS

Various
A list is available at the Bank

AUDITORS

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

Chairman's Statement



Dear Shareholders,
It is my pleasure to present to you the Annual Report and Audited Financial Statements of Co-operative Bank Group for the year ended December 31, 2010.

Economic and Business Environment

The year 2010 can be acknowledged as a better year for the business community as compared to the previous two years in which the effects of a global economic crisis were felt significantly affecting most economies in the world. During that period, the economic growth slowed down.

Given the severity of the recession, the pace of the global recovery has been better than expected although in many economies the rebound has been moderate. Many emerging and developing economies have recorded high growth rates in 2010 leading to high confidence among consumers, businesses and financial markets. The positive global trends have been reflected in Kenya's economic performance.

Kenya's economic growth trend has been positive. The economy registered a real GDP growth of 5.4% compared with real GDP growth of 2.6% in 2009 and 1.7% in 2008. This turn of events is largely attributed to favourable weather conditions, increased liquidity in the banking system, and prudent macro-economic management. The successful promulgation of the new constitution in August 2010 enhanced the confidence in the economy with expectations for new and more effective institutional and governance structures. These factors led to the turnaround in sectors of agriculture, electricity and water and a rebound in most of the other sectors. As a consequence, manufacturing, construction and the service industries were favoured by reliable supply of electricity and resilient domestic demand therefore compounding the growth.

The Kenya Government instituted recovery efforts in 2008 and 2009 aimed at returning the country to the path of recovery. One particular initiative that is bearing fruit is the implementation of the Economic Stimulus Program in 2009 which aimed at increasing expenditure on Education, Health and Infrastructure.

Inflation levels declined from 5.3% in December 2009 to 4.5% in December 2010. The decline was reflected in food prices and the cost of communications which went down over the same period.

Banking Sector Developments

The Central Bank of Kenya in 2010 continued to implement measures aimed at lowering transaction costs in the financial system as well as enhancing financial access. The innovations of mobile banking services continued to be felt while Credit Reference Bureaus were operationalised in July 2010 to maintain and provide banks with the credit history of borrowers. Agent Banking, a new phenomenon, saw the number of agents accelerating throughout the year. The CBK in collaboration with the Kenya Bankers Association (KBA) initiated the roll-out of currency centres in Nyeri, Nakuru and Meru Centre, which is at Co-op Bank Building, was opened early this year.

The Development Banking Committee (DBC) which was set up in February 2010 to explore avenues through which development banking products can be introduced into the market completed its work in December 2010 and its recommendations are with the Ministry of Finance for consideration in the 2011/12 Government Budget.

Bank's Performance

The Bank continued to record an impressive performance and an improvement on the previous year's financial results. The Bank reported a remarkable Profit before Tax of KShs 5.77 billion for the year ended December 31, 2010. This represented a 55%

increase in profits before tax compared to KShs 3.74 billion recorded in the year 2009.

The aggressive expansion strategy and the execution of our growth strategies saw the Bank increase the branch network by 35 locations in 2009/2010 to reach 88 branches by 31st December 2010. Our customer base grew from 1 million to 1.6 million customers representing a 60% growth. During the year, the Bank increased its shareholding in CIC (K) LTD to 21% thereby becoming the single largest shareholder. The investment has contributed a significant return on investment. Co-op Trust Investment Services Ltd, now the largest locally owned fund management company, contributed a Profit before Tax of KShs 57 Million as at December 31, 2010. Kingdom Securities Ltd has made full turnaround with a Profit before Tax of KShs 37.7 Million as at December 31, 2010 against a loss of KShs 19.7 Million as at December 31, 2009.

Our regional expansion plans continued with priority being Co-operative Bank of Southern Sudan which is progressing well. The Bank is working with the Government of Southern Sudan where ownership will be 70% by the bank and 30% by the Government of Southern Sudan in trust for the co-operative movement. The Bank is currently negotiating strategic partnerships in countries within the East African Common Market.
The Bank remains steadfast in its growth plans and focus on enhancing shareholders value. It is this commitment to the Bank's objectives that has seen our share appreciate by over 112% since the beginning of the year 2010 positioning it among the best performing stocks in the year.

The Bank was awarded the Best Bank in Kenya in 'The Banker Awards 2010' by the Financial Times of London. This is a coveted annual International award which recognizes exceptional performance by financial institutions in each country, worldwide. Locally, the Bank also attained one of the top two awards in the Best Quoted Company Category in the recent Capital Markets Awards by Think Business. The Bank received the Bankers Global Award on the basis of its sound management policies, strong business performance and a demonstrated commitment to customer satisfaction, in the face of increased competition in the banking industry.

Dividends

In view of the Bank's strong performance, the Board of Directors is recommending a first and final dividend of 40 cents per share for the year ended 2010. This is double the 20 cents per share paid out in the year 2009.

Corporate Social Responsibility

The Bank has continued to play its corporate social responsibility role through various activities. The Co-operative Bank Foundation targets bright but needy students and has been paying full secondary school fees for over 1,300 students from all over the country. The Foundation will be paying university fees for the top 28 students from this year out of those sponsored in the secondary schools and ensure that those who graduate are absorbed in the Group. The Bank takes full cognizance of the wider society in making lives of these young Kenyans meaningful.

Future Outlook

We believe our long-term focus will serve us well in an environment characterized by intense competition and turbulence caused by volatility in world oil prices and political activities. We will utilize our financial resources, combined with innovative products and our passion for customer service excellence, to position the Institution to sustain growth and profitability in this challenging environment.

We will build on our historic strengths especially in the co-operative movement through provision of a wide array of products and services; expand our outreach through branches, agents, ATMs and POS network.

Acknowledgement

On behalf of the Board of Directors, I sincerely thank the management and staff of the Bank for their dedicated service and achievements in implementing successful strategies in an extremely challenging and competitive banking environment during the year. I thank my fellow Board Members for their support, diligence and commitment as we work towards achieving the Bank's objectives of realizing full potential. I also wish to recognize and extend my sincere appreciation to our esteemed customers who have chosen to bank with us and supported us over the years.

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

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

Stanley C. Muchiri, EBS
Group Chairman

Taarifa ya Mwenyekiti

Kwa Wenye Hisa,

Ni furaha yangu kuu kuwasilisha kwenu taarifa ya kifedha iliyokaguliwa ya benki yenu katika kipindi kilichomalizika tarehe 31 mwezi Disemba mwaka 2010.

Uchumi na mazingira ya kibiashara

Hakika mwaka 2010 ulikuwa mwaka wenye fanaka kwa jamii ya wafanyibiashara ikilinganishwa na miaka miwili iliyotangulia, ambapo athari za msukosuko wa kiuchumi uliokumba ulimwengu ulipunguza kasi ya ukuaji wa uchumi za mataifa mengi. Hata hivyo licha ya msukosuko huo, ni dhahiri kwamba kiwango cha ufufuzi wa kiuchumi ambacho kimeshuhudiwa katika mataifa mengi ni bora kuliko jinsi ilivyotarajiwa. Kiwango hicho cha kuridhisha ukuaji wa kiuchumi pia kilishuhudiwa hapa nchini.

Uchumi wa nchi hii ulisajilisha ukuaji halisi wa pato la jumla la kitaifa wa asilimia 5.4 mnamo mwaka 2010 ikilinganishwa na asilimia 2.6 katika mwaka 2009 na asilimia 1.7 katika mwaka 2008. Ukuaji huo ulichangiwa pakubwa na hali nzuri ya hewa, kuimarika kwa mtaji wa kifedha katika sekta ya benki na usimamizi bora wa maswala ya kiuchumi. Kuratibishwa rasmi kwa katiba mpya mwezi Agosti mwaka 2010, pia kuliongeza imani ya wawekezaji katika uchumi wa nchi hii, huku mabadiliko makubwa yakitarajiwa katika usimamizi wa asasi muhimu na mifumo ya kiutawala, hali iliyochangia kuimarika haraka kwa sekta za kilimo, usambazaji umeme na maji. Sekta za utengenezaji bidhaa, ujenzi na huduma pia zilisajilisha ukuaji, kufuatia kuimarika kwa huduma ya usambazaji umeme na kuongezeka kwa mahitaji ya bidhaa na huduma.

Maendeleo katika sekta ya benki

Benki kuu ya Kenya, mnamo mwaka 2010 iliendelea kutekeleza mabadiliko kadha yaliolenga kupunguza gharama ya kufanya biashara katika sekta ya benki na pia kurahisisha upatikanaji wa mikopo. Manufaa ya uvumbuzi wa huduma ya benki kupitia simu ya rununu yanaendelea kuonekana, huku vituo vya kuhifadhi habari kuhusu wakopaji vikizinduliwa mwezi Julai mwaka huo, madhumuni yake yakiwa kutoa habari kwa benki za kibiashara kuwahusu wakopaji. Benki zote zilikuwa na jumla ya matawi 1,063 kufikia mwezi Disemba mwaka 2010, huku zikiwa ni mitambo ya ATM 2,052. Idadi ya maajenti katika kipindi hicho pia iliongezeka hadi 8,807 kufikia mwezi Disemba mwaka 2010. Benki Kuu ya Kenya kwa ushirikiano na chama cha mabenki nchini ilianzisha vituo vya sarafu katika miji ya Nyeri na Nakuru, ilhali kile cha mjini Meru, kwenye jumba la Co-operative Bank kilifunguliwa mapema mwaka huu.

Utendakazi wa Benki

Katika kipindi kilichomalizika tarehe 31 mwezi Disemba mwaka 2010, benki yenu iliandikisha matokeo bora ya kibiashara ikilinganishwa na mwaka uliotangulia. Benki yenu ilisajilisha faida kabla ya kulipa ushuru ya shilingi bilioni 5.77. Hii ni nyongeza ya asilimia 55 ikilinganishwa na mwaka 2009, ambapo Benki ilipata faida kabla ya ushuru ya shilingi bilioni 3.74.

Benki yenu ilifungua matawi 35 zaidi katika kipindi cha mwaka 2009/2010 na kufikia matawi 88, hii ikiwa nyongeza ya asilimia 66. Pia idadi ya wateja wetu iliongezeka kutoka milioni 1 hadi milioni 1.6, hii ikiwa nyongeza ya asilimia 60. Benki iliongeza hisa zake katika kampuni tanzu ya CIC{K} LTD hadi asilimia 21 na hivyo kuwa kampuni yenye hisa nyingi katika CIC. Uwekezaji huo umechuma zaidi ya shilingi milioni 130. Co-op Trust Investment Services Ltd, ambayo kwa sasa ndiyo kampuni kuu ya kusimamia hazina na mipango ya uwekezaji, ilipata faida kabla ya kulipa ushuru ya shilingi milioni 57 katika kipindi kilichomalizika disemba 31, 2010. Kampuni ya udalali wa hisa ya Kingdom Securities Ltd ilipata faida kabla ya ushuru ya shilingi milioni 37.7 kufikia Disemba 31, 2010, ikilinganishwa na hasara iliyopata ya shilingi milioni 19.7 mwaka uliofungulia wa 2009.

Mipango ya kufungua tawi huko Sudan Kusini inaendelea, ambapo Co-operative Bank itamiliki asilimia 70 huku serikali ya Sudan Kusini ikimiliki asilimia 30. Benki aidha inafanya mashauri mapatano kupitia mfumo wa ushirika na taasisi zingine katika eneo la Afrika Mashariki.

Benki yenu iko imara katika mipango yake ya ukuaji na kusudi lake ni kuwaletea faida wenye hisa. Ni kutokana na kujitolea huko bei ya hisa za benki yenu imeimarika kwa asilimia 112 tangu mwanzo wa mwaka 2010 na kuwa moja ya hisa zinazovutia zaidi. Benki ya Co-operative ilituzwa na gazeti la Financial Times of London kwa kuwa benki bora zaidi hapa nchini katika kipindi cha mwaka 2010.Tuzo hilo la kila mwaka hutolewa kwa taasisi bora za kifedha katika kila nchi, kote duniani. Benki ya Co-operative Bank ilishinda tuzo hilo la kimataifa kwa sababu ya sera zake bora, msingi thabiti wa kibiashara pamoja na kujitolea kwake kuwaridhisha wateja wake, licha ya ushindani mkali katika sekta ya benki. Na hapa nchini, benki yenu ilituzwa na shirika la Think Business kwa kuwa moja ya kampuni ambazo hisa zake zinavutia zaidi katika soko la hisa.

Mgawo wa faida

Kufuatia matokeo bora ya kibiashara, halmashauri ya wakurugenzi wa benki inapendekeza malipo ya mgawo wa faida ya senti 40 kwa kila hisa katika kipindi kilichomalizika Disemba 2010. Mgao huo ni maradufu ya ule wa senti 20 kwa kila hisa uliolipwa katika kipindi kilichomalizika Disemba 2009.

Jukumu la Benki kwa Jamii

Co-operative Bank imeendelea kuisaidia jamii kupitia shughuli mbali mbali. Wakfu wa Co-operative Bank unaowalenga wanafunzi werevu kutoka familia maskini, umekuwa ukiwalipia karo kamili zaidi ya wanafunzi 1,300 wa shule za sekondari kutoka sehemu zote hapa nchini. Kuanzia mwaka huu, benki hii itakuwa ikiwalipia karo ya chuo kikuu wanafunzi 28, kutoka orodha ya wale wanaofadhiliwa katika shule za upili, na pia kuhakikisha kuwa wanaajiriwa na benki yenu baada ya kuhitimu.

Matarajio ya siku za usoni

Tunaamini kuwa mikakati yetu ya muda mrefu itatuwezesha kufaulu kibiashara licha ya kuwa tunaendesha shughuli zetu kwenye mazingira yenye ushindani pamoja na msukosuko uliosababishwa na unyumbufu wa bei ya mafuta katika soko la kimataifa na joto la kisiasa linalozidi kuongezeka huku uchaguzi mkuu wa mwaka 2012 ukikaribia.

Tutatekeleza mikakati yetu ya muda mrefu kwa kuzingatia ule msingi thabiti tunaotegemea, ambao ni vyama vya ushirika, ili kuwasilisha bidhaa na huduma zetu. Mwaka wa 2011 twatarajia kukamilisha upanuzi wa benki yetu katika taifa la Sudan Kusini.

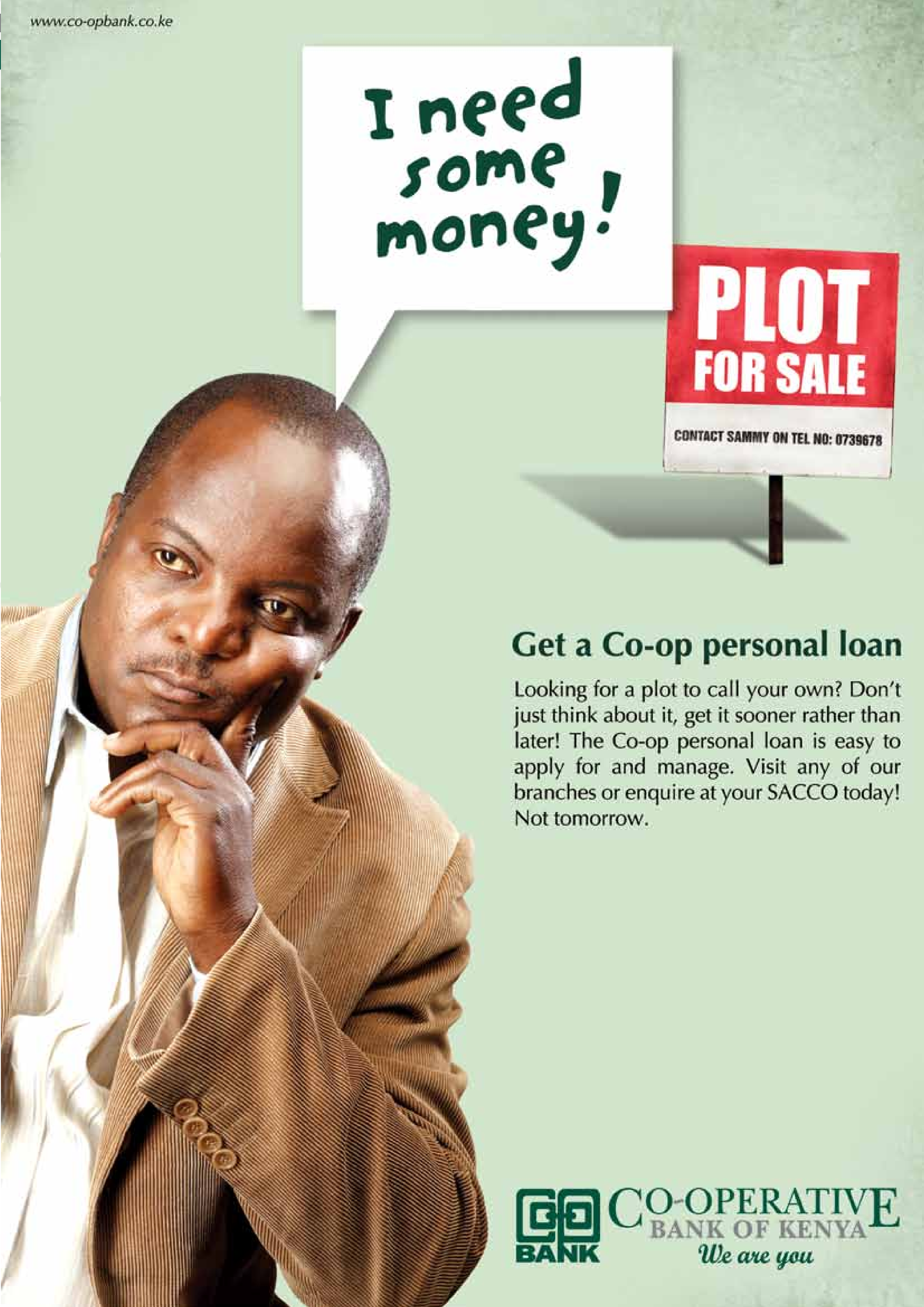
Shukrani

Kwa niaba ya halmashauri ya wakurugenzi, nachukua fursa hii kutoa shukrani zangu za dhati kwa wasimamizi na wafanyikazi wa benki yetu kwa mchango na juhudi zao zilizofanikisha utekelezaji wa mipango yetu, licha ya changamoto nyingi pamoja na ushindani ulioshuhudiwa katika sekta ya benki kipindi hicho. Pia ningependa kuwashukuru wanachama wenzangu wa halmashauri ya wakurugenzi wa benki, kwa ushauri na kujitolea kwao kuhakikisha kwamba benki hii inaafikia malengo yake ya kibiashara. Siwezi kuwasahau wateja wetu ambao wameonyesha imani yao kwa benki hii na kuendelea kutuunga mkono kibiashara.

Kwa wenye hisa wetu twawashukuru sana kwa imani yenu katika benki hii. Sina shauku kwamba juhudi hizi zitaendelea kutuletea manufaa makubwa na kuiwezesha benki yetu kuongezea mgawo wa faida katika miaka ya usoni.

Pia ningependa kuishukuru serikali yetu na wadhibiti wa huduma za sekta ya benki ambao ni Benki Kuu ya Kenya, halmashauri ya soko la hisa, Soko la Hisa la Nairobi na halmashauri ya kusimamia hazina za malipo ya uzeeni kwa kuhakikisha kuna mazingira yanayofaa kibiashara, bali na kutoa ushauri kwa sekta ya benki.

Stanley C. Muchiri, EBS
Mwenyekiti, Co-operative Bank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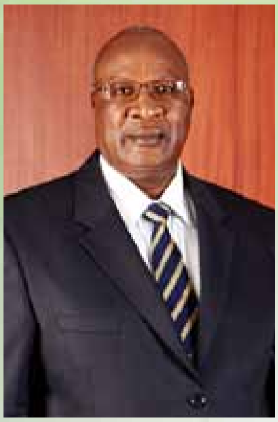
We are you

The Board of Directors

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



Stanley C. Muchiri, (64), EBS, Group Chairman

Has served the Board as Director since 1986 and Chairman since 2002. He is the Chairman of Kingdom Securities Limited, Co-op trust Investment Services Limited and Co-op Consultancy Services Limited, all subsidiaries of the Bank. He is also the Chairman of Co-op Holdings Co-operative Society Limited and Kenya Co-operative Coffee Exporters. 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 Co-operative Alliance (ICA) and President of the International Co-operative Alliance, Africa. He was decorated with the award of Elder of the Burning Spear (EBS) in the year 2005 for his outstanding service to the nation.

Julius Riungu, (62), Vice Chairman

A businessman and leading educationist with over 20 years' experience in the teaching profession. He has previously served as a Director at 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, (46), Group Managing Director & CEO

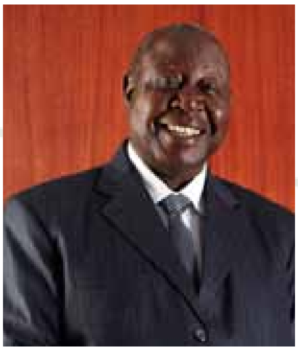
Appointed Managing Director in 2001 and has presided over the Bank's turnaround from a massive loss position of KShs. 2.3 billion in the year 2001, to a profit before tax of KShs. 5.7 billion in 2010. Joined the Bank in 1996 as a Senior Corporate Manager then became Director, Corporate and Institutional Banking in 1999 before his appointment as Managing Director in 2001 with a clear mandate to return the Bank to profitable trading. He 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-optrust Investment Services Limited and Co-op Consultancy Services (K) Limited – both subsidiaries of the Bank. He is a Director of Kingdom Securities Limited, Vice-President Africa – International Co-operative Banking Alliance (ICBA), Executive Committee Member of the Kenya Bankers Association and Chairman, Governing Council of the Africa International University.

He was decorated in 2005 with the award of Order of the Grand Warrior (OGW) in recognition of his successful turnaround 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, (56), Director

Joined in 2003. He is a businessman 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.

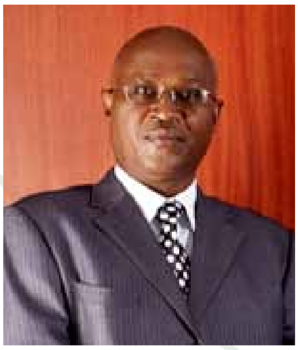


Major (Rtd) Gabriel J. S. Wakasyaka, (68), Director

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

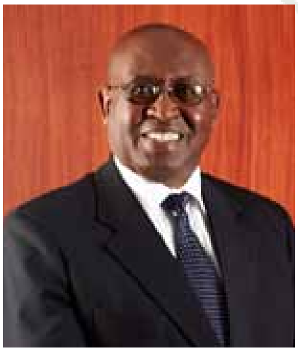
Macloud Malonza, (40), Director

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



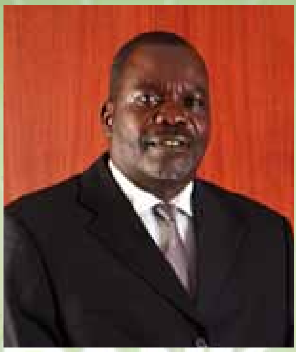
Richard L. Kimanthi, (54), Director

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



John K. Murugu, (60), (Representing Permanent Secretary, Treasury), Director

Joined in 2008 as an appointee representing the Government of Kenya's Permanent Secretary, Treasury. He has had over 25 years of banking experience at the Central Bank of Kenya Limited. 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.

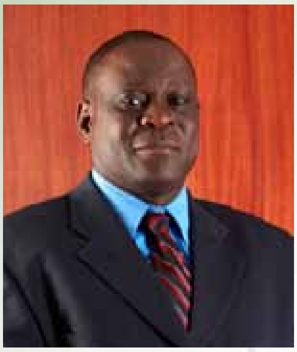


Wilfred Ongoro, (56), Director

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 is a Director of Co-op Holdings Co-operative Society Limited.

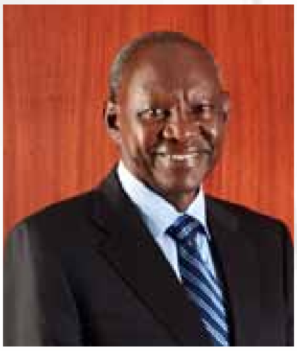
Rose Simani, (52), Director

Joined on 29th May 2009. She is a Human Resources Consultant, currently at PKF and is the Managing Partner, Simcorp Human Resources Solutions 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 (BAT) in senior positions in 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 Resources (K) and Associate Member of Psychometrics Africa Limited.



Fredrick F. Odhiambo, (57), MBS,
Commissioner for Co-operatives Development and Marketing, Director

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



Donald K. Kibera, (63), 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 and Chairman of the National Youth Service Task Force. He holds a Bachelor of Arts Degree and is a consultant at the Ministry of Finance, is Chairman of the Financial Committee of the Humanitarian Fund for Mitigations of Effects and Resettlement of victims of Post-2008 election violence and also Chairman of the Government Task Force on Transport Policy.

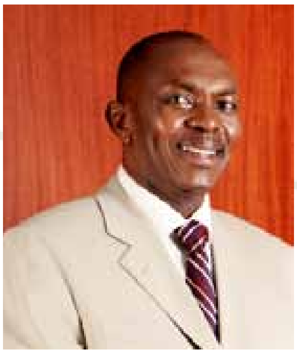
Rosemary Majala Githaiga (Mrs), (47),
Company Secretary

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.

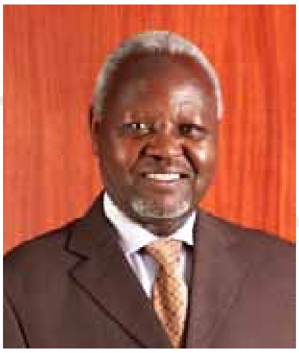
Board of Directors of Subsidiary Companies

(Co-optrust Investment Services Limited & Co-operative Consultancy Services Kenya Limited)

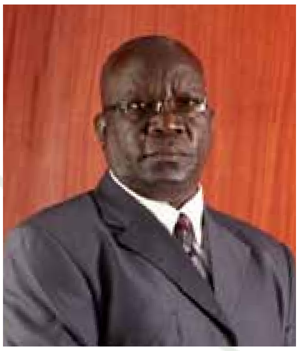
The Chairman of the Bank, Stanley Muchiri and the Managing Director, Gideon Muriuki, serve on the boards of the subsidiary companies. The other directors are:



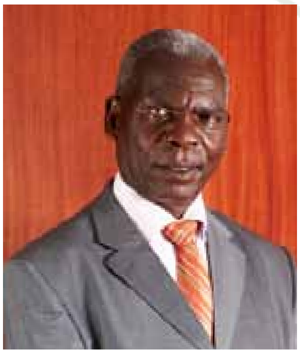
Dr. James M. Kahunyo, (56), Director
Joined the boards of the subsidiaries in 2009. He is a leading educationist and currently a Lecturer at the Kabete Campus of the University of Nairobi. He holds a Bachelor of Veterinary Medicine degree and a Master of Science degree and is also involved in providing leadership at Chuna Co-operative Savings and Credit Society.



Elijah K. Mbogo, (67), 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 is a Director of Kenya Co-operative Coffee Exporters and has previously served as Director – Kenya Planters Cooperative Union Limited.



Patrick K. Githendu, (57), 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 and is a Director of Kenya Co-operative Coffee Exporters.



Cyrus N. Kabira, (68), 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), (50), 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, (54), Director

Joined the boards of the subsidiaries in 2004. He is an Accountant by profession wherein he has been involved in top leadership in the co-operative movement, serving as the Head of Finance of the giant Meru Central Farmers Union.

Strengthening Partnerships in the Movement: Co-op Bank & CIC Ltd

Co-operative Insurance Company Managing Director, Nelson Kuria (left) and Co-op Bank Group Managing Director, Gideon Muriuki congratulate each other during the launch of the strategic partnership between the two institutions. Co-op Bank increased its shareholding in CIC Ltd to 21%, making it the single largest shareholder.

Chief Executive's Report

Introduction

The year 2010 witnessed recovery of the global economy. The Kenyan economy made significant gains by posting an impressive GDP growth of 5.4% well above the 2.7% in 2009 and 1.7% in 2008. The Bank repositioned for new business, increasing our branch network to 88 locations and the ATM network to over 380 ATMs as well as starting the roll out of Agent Banking and Point of Sale banking.

With the expanded network we introduced new products and revamped existing ones as well as increasing our partnership with Co-operatives Insurance Company (K) Ltd to enhance our supermarket model. With the strategic focus, we are sure of sustainable growth of our balance sheet and profitability.

Financial Performance

I am delighted to report to you that the Bank made an impressive Profit Before Tax of Kshs 5.77 billion which is a 55% growth from the Kshs 3.74 billion reported in 2009. The Bank used its strong balance sheet and increasingly powerful brand promise "we are you" to deepen customer relationships and business. The balance sheet (Total Assets) grew to Kshs 154 billion a remarkable growth of 39% from Kshs 111 billion in 2009.

During the year our customer deposits grew from Kshs 91.5 billion to Kshs 123.9 billion, a commendable 35% increase. This significant growth was as a result of an increase in the number of accounts to over 1.6 million and a strong presence in Institutional and Government Banking sectors.

Loans and advances grew by 39% from Kshs 62.3 billion in 2009 to Kshs 86.6 billion in 2010 due to extensive marketing efforts and efficient loan processing systems. In line with prudent credit risk management and growth of our loan book, we increased our provisions for bad and doubtful debts by 27 % to Kshs 799 million from Kshs 639 million in 2009. Our efforts in streamlining credit management resulted to a decline in Non Performing Loans (NPL) from 9.8% in 2009 to 5.4% in 2010.

Our total Operating Income surged from Kshs 11.72 billion in 2009 to Kshs 15.67 billion, a 34% growth. This was backed by growth in interest income. Net interest income went up by an impressive 36 % from Kshs 6.77 billion to Kshs 9.19 billion. Fees and commissions income grew by31% up from Kshs 4.95 billion in 2009 to Kshs 6.48 billion in 2010.

Despite our exponential growth in income, our operating expenses only grew by 26%. We managed to do this as a result of cost management initiatives including staff rationalization where we utilized the existing staff compliment for new branches.

In line with our strategy to become a financial supermarket model, the Bank increased its shareholding in Co-operative Insurance Company Limited to 21%. Co-op Trust Investment Services Limited, the largest locally-owned fund management company made a profit before tax of Kshs 57 million. During the year 2010, Kingdom Securities Limited registered an impressive performance of profit before tax of Kshs 37.7 million, having fully recovered from a loss of Kshs 19.7 million in 2009.

The good results are a clear indication of our resolve and commitment to increasing the shareholder value. Our capital strength continues to improve owing to retention of profits while at the same time improving dividend payout. Our shareholders' funds increased to over Kshs 20 billion and therefore the Board is recommending a dividend of 40% equivalent to 40 cents per share being 100% increase from 20 cents per share paid last year.

Business Development

The Bank has over time built a strong foundation, created a presence across various business lines and employed specific strategies which will deliver sustainable value to all its stakeholders now and in the future. We have aligned our business to the country's financial needs and we are focused on meeting customer needs and expectations. We continue to diversify our products and services in order to offer our customers a 'one-stop-shop' for various financial segments and services. The services include co-operatives, Small and Medium Enterprises, Micro Credit banking, retail and corporate banking services, fund management, scheme and custody services, stock brokerage services and bancassurance. In a bid to strengthen its financial supermarket model, the Bank increased its shareholding in Co-operative Insurance Company Limited to 21%. This venture will result to increased commissions income and also offer a diversified portfolio to our shareholders.

Kingdom Securities Ltd (KSL) continues to contribute positively to the Group's bottom line by providing brokerage services to a wide population of investors including over 7 million members of the co-operative movement. With over 125 institutional agents countrywide, mainly SACCOs, KSL is now making a reasonable contribution in the deepening of the financial markets.

Longevity in our chosen markets is something we are proud of. Not only does it give us more knowledge on how to serve our customers well, it also makes us part of their community. In renewed efforts to reach the unbanked, the Bank continued to share its extensive ATM network with the co-operative movement through the SACCO Link facility. The Bank has integrated its systems with the SACCOs financial systems to enable SACCO members transact from their SACCO accounts through our wide ATM network. As a supplementary to these efforts, the Bank provided support to SACCOs in the set up of FOSAs. Currently 418 FOSAs are operational with our key focus being to increase our products offering through them and maximize commissions and other revenues.

Our expansion in the East African region, which is in the pipeline, will ensure that our success story of partnering with the co-operative movement in Kenya is spread in the region. In this regard, establishment of the Co-operative Bank of Southern Sudan is at advanced stages and is expected to commence operations in the current year. The bank will be 70% owned by the Co-operative Bank of Kenya Limited and 30% owned by the Government of Southern Sudan, on behalf of the Southern Sudan's co-operative movement.

We continue to be conscious that the world has changed and that we must work together with regulators, governments and the rest of the industry to secure a better financial system. In this regard, we have embraced the recently introduced Agent Banking by the Central Bank of Kenya and are at implementation stages of agents as supported by Point of Sale terminals. Notwithstanding our diversification, we stand firm in our original development objectives to serve the co-operative movement and therefore will enhance our agent relationship with saccos.

Human Capital

At Co-operative Bank, we believe that human capital is our most valuable asset. The loyalty and professionalism of our staff in all areas of the Bank continue to be the most critical element guaranteeing the ongoing successes of the Bank.

We are committed to the development of our team members through training (local & overseas), leadership building and skills enrichment. We have e-learning which facilitates self-learning by bringing information to the office desk. In addition we undertake to grow talent through on-the-job training and structured programs at the Co-operative Bank Management Center in Karen. We also provide the requisite support to aid them in achieving their personal goals. Some of the benefits provided to support the academic development of staff include interest-free study loans. Training remains a key target for each staff member.

In line with best practices, the Bank has invested heavily in a performance management system.

The overall staff complement of the Bank as at December 2010 was 2,766.

Conclusion

The strong team effort of all staff enabled us to have a successful year in 2010. I applaud and thank all staff for their diligence in customer satisfaction, expense controls and maintaining strong credit quality. Our management team remains committed and attentive to the initiatives set forth for the long-term growth of the Bank and I commend each of them for their continued hard work.

I would like to take this opportunity to thank our customers and business partners for their support in 2010 and we look forward to continuing to serve and work together with them in 2011.

I sincerely thank the Chairman and other directors of the Board for their support and the sterling contribution and guidance that they have given to the "Kingdom Bank".

Thank you and may God richly bless you all.

Gideon Muriuki, OGW
Group Managing Director & CEO

Taarifa ya Afisa Mkuu Mtendaji

Utangulizi

Mwaka 2010 ulikuwa mwaka ambapo chumi za mataifa mengi duniani ziliimarika, huku uchumi wa Kenya ukisajilisha ukuaji wa pato jumla la kitaifa kwa asilimia 5.4, ikilinganishwa na asilimia 2.7 mwaka 2009 na asilimia 1.7 mnamo mwaka 2008. Hivyo basi ni furaha yangu kuwasilisha kwenu matokeo yalioimarika ya benki yenu katika kipindi kilichomalizika tarehe 31 mwezi Disemba mwaka 2010.

Benki yenu iliweka mikakati mipya ya kibiashara kwa kuzindua huduma mpya na kufanyia mabadiliko zile zilizopo, huku ikipanua matawi yaliopo na kufungua mengine mapya. Hakika, juhudi hizo zote zimechangia matokeo murwa ambayo tunawasilisha kwenu leo.

Matokeo ya kifedha

Nina furaha kuwafahamisheni kwamba mwaka 2010 ni mwaka wa nane mfululizo ambapo benki yenu imejipatia faida. Benki yenu ilitumia mtaji wake imara wa kifedha na nembo yake `we are you' kujikita katika soko la mtaji na hivyo kuvutia wateja zaidi. Licha ya unyumbufu wa viwango vya riba na mashindano katika sekta ya benki, benki yenu ilisajilisha faida kabla ya kulipa ushuru ya shilingi bilioni 5.77, huu ukiwa ukuaji wa asilimia 55 kutoka shilingi bilioni 3.74 mnamo mwaka 2009.

Katika kipindi hicho, akiba za wateja ziliongezeka kutoka shilingi bilioni 91.5 hadi shilingi bilioni 123.9, hii ikiwa nyongeza ya asilimia 35. Ukuaji huo mkubwa ulitokana na kuongezeka kwa akaunti za wateja hadi zaidi ya milioni 1.6.

Mikopo na karadha iliongezeka kwa asilimia 39 kutoka shilingi bilioni 62.3 mnamo mwaka 2009 hadi shilingi bilioni 88.6 mwaka uliopita kutokana na mauzo kambambe ya huduma zetu pamoja na mifumo bora ya utayarishaji mikopo. Katika kipindi hicho pia tulifanikiwa kupunguza kiwango cha mikopo isiyolipwa kutoka asilimia 9.8 mnamo mwaka 2009 hadi asilimia 5.4 mnamo mwaka 2010.

Mapato jumla ya uendeshaji shughuli za Benki yaliongezeka kutoka shilingi bilioni 11.72 mnamo mwaka 2009 hadi shilingi bilioni 15.67, hii ikiwa nyongeza ya asilimia 34. Nyongeza hiyo ilifuatia kuimarika kwa mapato yanayotokana na riba. Mapato halisi kutokana na riba yaliongezeka kwa asilimia 36, kutoka shilingi bilioni 6.77 hadi shilingi bilioni 9.19. Mapato yanayotokana na ada zinazotozwa pia yaliongezeka katika kipindi hicho kwa asilimia 31 kutoka shilingi bilioni 4.95 katika mwaka 2009 hadi shilingi bilioni 6.48 mnamo mwaka 2010.

Licha ya mapato yetu kuongezeka kwa kiwango kikubwa, gharama yetu ya matumizi iliongezeka kwa asilimia 26 pekee, hii ni kufuatia mpango uliofaulu wa kupunguza matumizi.

Katika kuafikia ndoto yetu ya kuwa benki inayotoa huduma aina tofauti mithili ya maduka ya 'supermarket', Co-operative Bank iliongeza mtaji wake katika kampuni ya bima ya Co-operative Insurance hadi asilimia 21, uwekezaji ambao ulichangia shilingi millioni 131 kwenye mapato jumla ya Benki. Kampuni ya Co-op Trust Investment Services Ltd, ambayo ni kampuni tanzu ya benki yenu inayohusika na huduma za uwekezaji, ilichangia shilingi milioni 57 kwenye mapato jumla ya Benki. Kampuni ya Co-op Trust Ltd, ndiyo kampuni kubwa zaidi ya humu nchini inayosimamia hazina za uwekezaji. Katika kipindi hicho, kampuni yetu ya udalali wa hisa ya Kingdom Securities ilisajilisha faida kabla ya kulipa ushuru ya shilingi milioni 37.7, baada ya kupata hasara ya shilingi milioni 19.7 mnamo mwaka 2009.

Maendeleo ya biashara

Benki yenu iliendelea kuweka mikakati mipya kuambatana na mahitaji ya wateja na pia kujizatiti kudumisha imani yao kwa kuwapa huduma inayowaridhisha. Katika harakati za kuimarisha huduma zake za kifedha, benki iliongeza hisa zake kwenye kampuni ya bima ya Co-operative hadi asilimia 21, na hivyo kuwa mwenyehisa mkuu. Uwekezaji huo

bila shaka utaongezea mapato ya benki.
Kampuni ya udalali wa hisa ya Kingdom Securities pia inaendelea kuchangia pakubwa mapato ya Co-operative Bank, kwa kutoa huduma ya udalali wa hisa kwa idadi kubwa ya wawekezaji, ikiwa ni pamoja na wanachama milioni 7 wa vyama vya ushirika. Ikiwa na zaidi ya taasisi mawakala 125 kote nchini.

Katika jitihada za kuwafikia wateja zaidi, benki hii inaendelea kutumia kwa pamoja mitambo yake ya ATM na vyama vya ushirika, kupitia mfumo wa Sacco Link.Benki hii imeunganisha mtandao wake na ule wa vyama vya akiba na mikopo, ili kuwawezesha wanachama wa vyama hivyo kufurahia huduma za Benki kupitia mitambo yake ya ATM kote nchini. Kwa sasa kuna vituo 418 vinavyotoa huduma hiyo.

Mipango inayoendelea ya kupanua huduma zetu katika eneo la Afrika Mashariki, itasaidia kusambaza habari kuhusu mchango wetu mkubwa kwa vyama vya ushirika hapa nchini kwa mataifa mengine ya kanda hii. Hivyo basi ni furaha yetu kuwafahamisha kwamba mipango ya kufungua benki ya Co-operative huko Sudan Kusini inaendelea vyema licha ya changamoto zilizopo, ikiwa ni pamoja na mauaji ya hivi majuzi ya waziri wa ustawi wa vyama vya ushirika. Na kama mlivyofahamishwa mwaka uliopita, Co-operative Bank itamiliki asilimia 70 katika benki hiyo, ilihali serikali ya Sudan itamiliki asilimia 30 kwa niaba ya vyama vya ushirika vya Sudan Kusini.

Tumeanza kutekeleza mpango uliozinduliwa na Benki Kuu wa utoaji huduma za benki kupitia maajenti, baada ya kupokea leseni mwaka uliopita. Pia yafaa ikumbukwe kwamba licha ya kupanua huduma zetu, hatujabadili lengo letu halisi la kuhudumia vyama vya ushirika; na tutashirikisha vyama hivyo katika utoaji huduma hii.

Watendakazi

Katika Co-operative Bank tunawathamini sana wafanyikazi wetu, kwa sababu twafahamu kwamba uaminifu na juhudi zao ndizo zimeiwezesha benki hii kupata ufanisi tunaoshuhudia sasa na kuendelea. Tumejitolea kuimarisha utendaji kazi wao kwa kuwapa mafunzo wanaohitaji. Tumeanzisha mpango wa mafunzo kupitia mtandao yaani e-learning, ambapo wafanyikazi wetu wanaweza kujiimarisha kimaarifa hata wakiwa afisini mwao. Kadhalika tutaendelea kukuza vipaji vya wafanyikazi wetu, kwa kuwapa mafunzo maalum kupitia chuo cha mafunzo ya usimamizi cha benki ya Co-operative kilichoko sehemu ya Karen jijini Nairobi. Kando na hayo tunawapa mikopo isiyotozwa riba wafanyikazi wetu wanaotaka kujiendeleza kibinafsi kimasomo. Ili kuhakikisha kuwa inazingatia kanuni bora za kibiashara, benki hii imewekeza kiasi kikubwa cha pesa katika mifumo ya kisasa ya kutathmini utendaji kazi. Kufikia mwezi Disemba mwaka 2010, idadi ya wafanyikazi wa benki hii ilikuwa 2,736.

Kwa Kutamatisha

Juhudi za pamoja za wafanyikazi zilituwezesha kupata ufanisi mkubwa katika mwaka 2010. Nawapongeza wafanyikazi wetu wote kwa ukakamavu wao katika kuhakikisha wanatimiza matarajio ya wateja wetu, kudhibiti gharama yetu ya matumizi, huku wakizingatia kanuni mwafaka za utoaji mikopo. Kundi letu la wasimamizi limejitolea kikamilifu kwa mipango ya maendeleo ya muda mrefu ya Benki na ninapongeza kila mmoja wao kwa kuendelea kufanya kazi kwa bidii. Pia ningependa kuchukua fursa hii kuwashukuru wateja wetu, washirika wa kibiashara na wadau wengine kwa usaidizi wao katika mwaka 2010 na ni matumaini yangu kwamba tutadumisha moyo huo huo ili kutuwezesha kupata matokeo bora hata zaidi katika mwaka huu wa 2011. Kadhalika natoa shukrani zangu kwa mwenyekiti na wanachama wengine wa Halmashauri ya Wakurugenzi kwa ushauri na mchango wao kwa ufanisi wa benki hii.

Asanteni sana na Mwenyezi Mungu awabariki nyote.

Gideon Muriuki, OGW
Afisa Mkuu Mtendaji

Top Management

Gideon Muriuki, OGW, (46), Group Managing Director & CEO

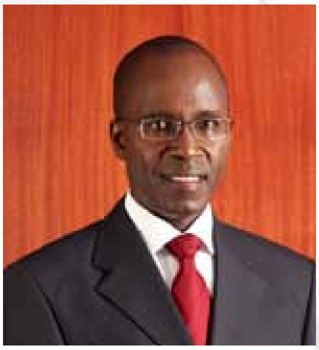
Appointed Managing Director in 2001. Joined the Bank in 1996 as a Senior Corporate Manager, then appointed Director, Corporate and Institutional Banking in 1999. Holds a Bachelor of Science degree in Mathematics and is a Fellow of the Kenya Institute of Bankers. He has over 20 years' experience in banking and finance.

Zachariah Chianda, (53), Director, Operations Division

A career banker with over 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, (47), 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.

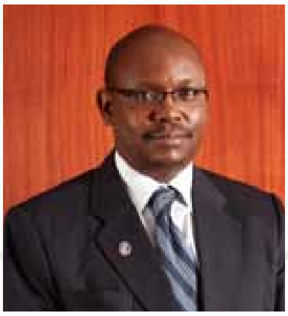


Samuel Birech, (47), Director, Retail Banking Division

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 country. He holds a Bachelor of Commerce degree and has attended various local and international courses.

Weda Welton, (53), Director, Human Resources Division

Has 14 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, (45), Director, Credit Management Division
A career banker with over 20 years of banking experience both in Kenya and the region. Most of these years were spent in the line of Credit and Risk Management. He holds a Bachelors degree in Commerce and has attended various proprietary and international Credit courses.

Patrick Nyaga, (43), Director, Finance & Administration Division
Has extensive experience in banking, having joined the industry in 2002. Previously served at KPMG (EA), auditing various banks in the industry and region. He holds an MBA from Strathmore Business School, a Bachelor of Commerce degree in Accounting, is a Certified Public Accountant of Kenya and a member of ICPAK.

Catherine Munyiri, (47), 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 region. She holds a Bachelor of Business Education degree and has attended various local and international courses.

Willis Osir, (50), Director, Special Projects Division
Has served the Bank for over ten years and holds a Bachelors degree in Financial Services as well as a Diploma in Mortgage Lending. Prior to joining the Bank, he held senior positions in both local and international banks in Kenya for over fifteen (15) years.

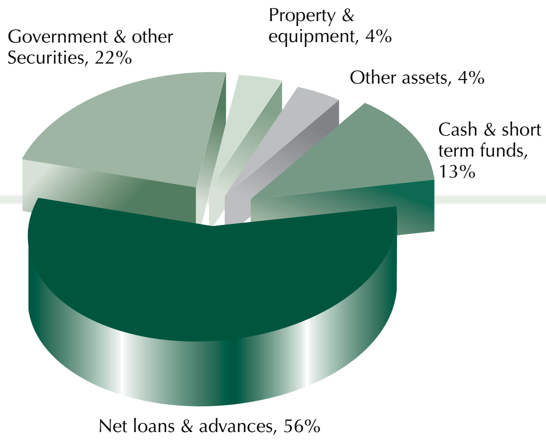
Tom Kariuki, (38), Director, Corporate & Institutional Banking Division
Joined the Bank in 2002 and has over 10 years of banking experience, most spent in Treasury Dealing. Holds a Bachelor of Science degree and an MBA (Finance) from the United States International University, Africa. He is a certified ACI professional.

Geoffrey Odundo, (42), Managing Director, Kingdom Securities Ltd (Subsidiary of the Co-operative Bank of Kenya Ltd)
Has been with the Bank for over ten years and has overseen a transformation of Co-optrust Investment Services Ltd and Co-op Consultancy Services Ltd into leading asset management and financial advisory companies respectively. He holds a Bachelors degree in Mathematics and Economics and an MBA (Strategic Management).

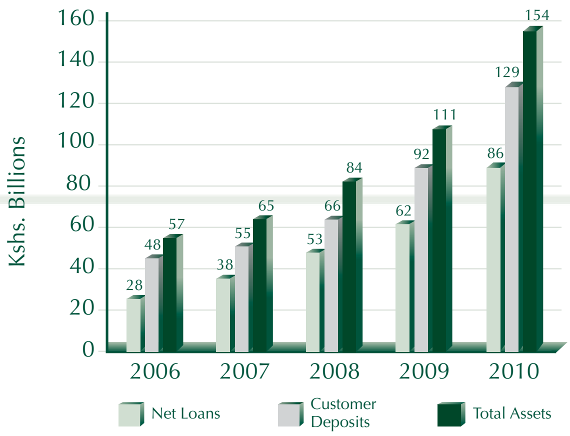
Business Review

Five Year Financial Review	2006	2007	2008	2009	2010
Statement of Financial Position			KShs million		
Cash and short term funds	8,714	9,140	11,770	13,194	20,775
Loans & Advances to Customers (gross)	44,692	45,412	60,418	66,620	90,965
Impairment losses on loans & advances	(16,655)	(7,367)	(7,509)	(4,346)	(4,346)
Government & other Securities	15,439	12,945	12,857	26,498	34,391
Property and equipment	2,936	3,263	4,302	6,192	6,943
Other assets	2,562	1,931	1,648	2,420	5,611
Total Assets	**57,688**	**65,324**	**83,486**	**110,678**	**154,339**
Customer Deposits	50,462	56,198	67,159	92,529	129,226
Other liabilities	2,392	2,666	2,718	1,857	4,518
Total liabilities	**52,854**	**58,864**	**69,877**	**94,386**	**133,744**
Net assets/Shareholders Equity	4,834	6,460	13,609	16,292	20,595
Income Statement					
Net Interest Income	3,339	4,850	5,696	7,054	9,503
Non-Interest Income	3,578	3,426	3,954	4,664	6,168
Operating Expenses	(4,236)	(5,257)	(5,888)	(7,354)	(9,231)
Provision for loans impairment	(1,425)	(700)	(403)	(628)	(799)
Share of profit of associate	-	-	-	-	130
Profit before Tax	1,256	2,319	3,359	3,736	5,771
Profit after tax	867	1,550	2,374	2,968	4,580
Earnings per share	0.30	0.54	0.80	0.85	1.31
Dividend per share	0.05	0.08	0.10	0.20	0.40
Key Ratios (%)					
Cost-Income Ratio (%)	61%	64%	61%	63%	59%
Return on Shareholders Equity (%)	18%	24%	17%	18%	22%
Return on Total Assets (%)	2%	2%	3%	3%	3%
Impairment provisions/ Gross loans & advances (%)	37%	16%	12%	7%	5%
Gross loans to deposits ratio (%)	89%	81%	90%	72%	70%

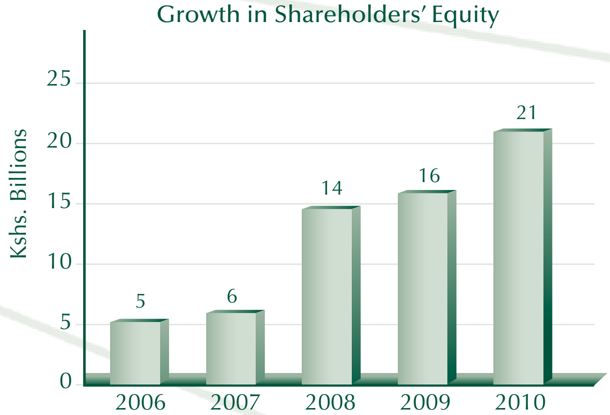
Balance Sheet



Loans, Customer Deposits and Total Assets

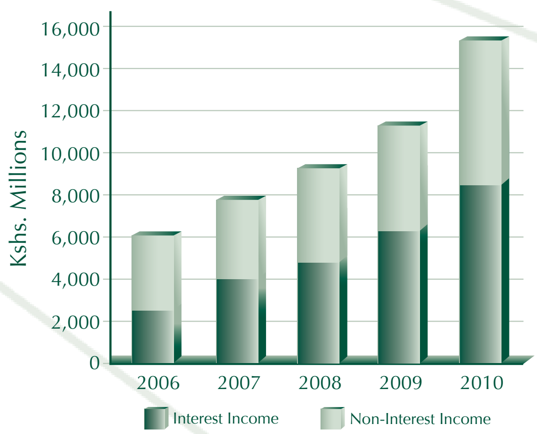


Growth in Shareholders' Equity

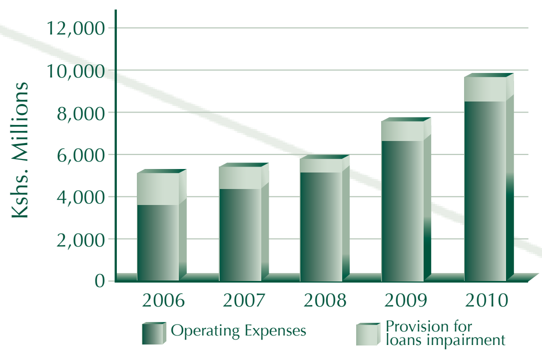


Sustainable Profitability

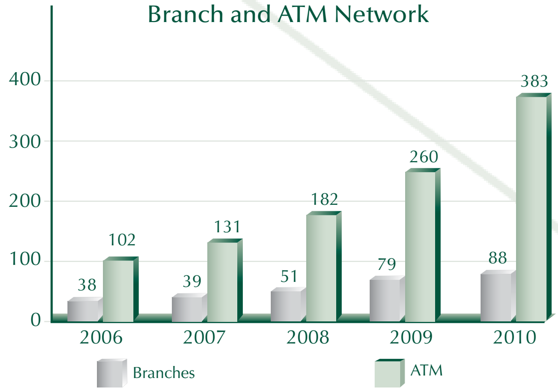
Operating Income



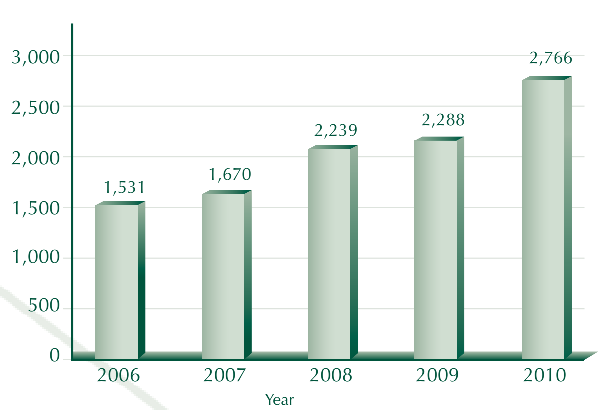
Operating Expenses & Provision for loans impairment



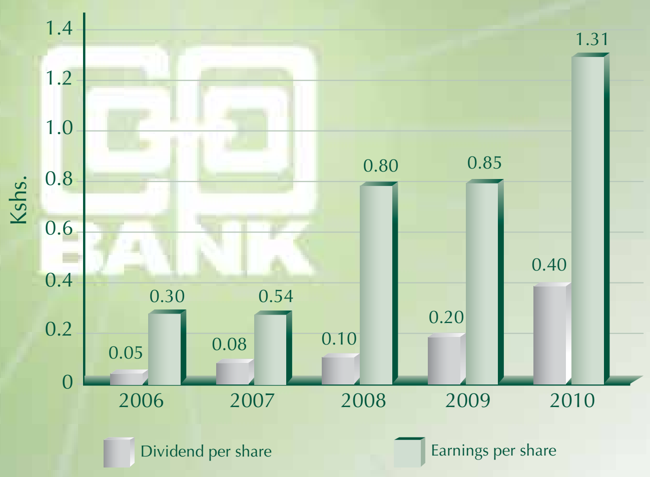
Branch and ATM Network



Staff Numbers

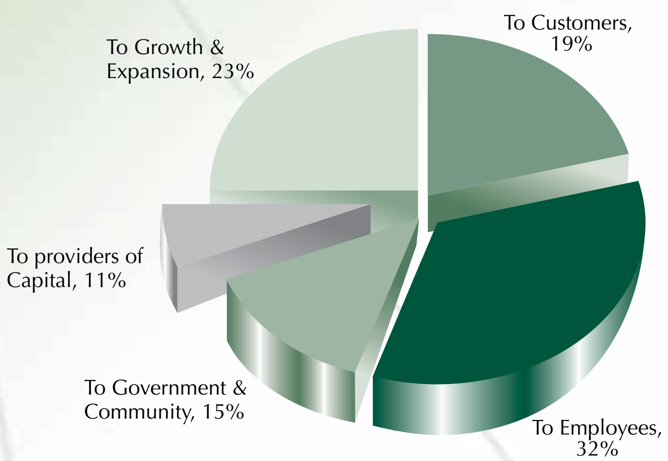


Dividend & Earnings per share



Customers Numbers

Value Distribution 2010



Jumbo Junior is now 15 years old!

Co-op Bank pioneered children's banking with the launch of Jumbo Junior in 1995. The Jumbo Junior Family Fun Day event is organized annually by Co-op Bank for all its Jumbo Junior account holders and it attracts an attendance of over 17,000 children who, together with their parents, enjoy an array of entertainment.

Co-op Bank Chairman Stanley Muchiri (left) together with Bank Managing Director Gideon Muriuki, share a cake with Jumbo Junior account holders.

Sustainability Review

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 financially empower Kenyans 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. The Bank has placed itself in step with Kenya's needs and fulfilling this social responsibility has required the balanced provision of value to customers and the market, shareholders, the environment, society and employees. 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.

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

Sacco-Link & FOSA Partnerships

The Bank offers retail banking and related products through front-office service points (FOSAs) located at Sacco premises and to date over 418 have been enlisted. Through Co-op Consultancy Services Ltd, the group assists Saccos in the establishment and management of FOSAs and in the year 2010, 54 Saccos were supported in this regard.

SaccoLink Switch has integrated the Bank's and SACCOs' financial systems, providing a solution through which ATMs, mobile banking, point of sale (POS) channels and internet banking is provided. In this partnership, we offer wholesale banking services to co-operative bodies which then provide to their members retail services complete with full technological capabilities. To date, over 110 SACCOs are in this partnership and over 308,000 ATM cards issued to co-operative members.

Corporate Capacity-Building

Co-op Consultancy has professionals in its staff complement to offer support to the co-operative movement in formulating corporate strategic plans, operating manuals, business advisory, procedure review, training, lease negotiation, tactical plans and consultancy on microfinance, performance management, recruitment and information technology systems. In 2010 we provided these professional services to 77 Saccos.

The Bank's Management Centre conducts training to the co-operative movement as part of its commitment to this significant sector of Kenya's economy. Advanced courses ran include board seminars on corporate governance, Central Management Committee (CMC) workshops, co-operatives management & compliance, delegates training, credit administration, customer service, FOSA operations, frauds & forgeries, strategic planning, business process re-engineering, marketing, performance management, supervisory skills, office administration and team-building exercises. In 2010, the Management Centre carried out 71 courses in which 201 Saccos participated and 3,629 members trained.

One-Stop-Shop Financial Supermarket

We have positioned our business model to offer a 'one-stop-shop' financial services supermarket. Services offered include securities management, trust services, custody services, stock brokerage, financial, investment and management consultancy and much more will be offered to customers as the regulatory framework is set-up. Kingdom Securities has now taken stock brokerage services to members of the co-operative movement through over 125 institutional agents countrywide. In 2010 the Bank increased its shareholding in Co-operative Insurance Company (CIC) to 21%, thereby becoming the single largest shareholder in the company. Over and above diversification of investments, this partnership will facilitate creation of synergy in distributing products jointly as well as venturing into the region in co-operation.

Agent & Point of Sale (POS) Banking

Through harnessing capabilities of emerging technologies, the Bank is broadening the concept of branchless banking and enhanced access to financial services through point-of-sale (POS) banking. Under this concept, special gadgets connected to the Bank's systems are placed at supermarkets and other major outlets to facilitate access to banking services through the ATM card. The Bank is in the process of installing over 3,000 POS countrywide.

The Central Bank of Kenya (CBK) has encouraged the concept of agent banking and our bank is already licensed to implement this concept. Under this model, the Bank will appoint and vet agents who will then be issued with POS machines. Agents, who will include co-operative societies, ordinary shops, petrol stations among other outlets will enable customers access banking services including making deposits beyond official banking hours. Due to the greater geographical area covered by agents, customers will also enjoy better convenience as services will come closer to their most preferred location. The Bank already has experience in this model through the existing business partnership running with the co-operative movement under Saccolink and FOSA.

Customer-focussed Product Offerings

Our bank's products and brand propositions are designed to far exceed customer expectations and respond to diversification and sophistication of customer needs as well as changes in the business environment. In 2010, our mobile phone services product M-banking was enhanced by facilitating seamless two-way funds transfer between bank accounts and money transfer solutions offered by mobile telecommunication firms. M-banking can now also be used to pay for school fees under Mkaro service. M-banking has an active client base of over 403,000 customers. The Bank's internet banking solution CoopNet provides convenient banking access to customers. This product is expected to contribute to growth in client base especially for Kenyans in the diaspora and already serves over 1,200 clients.

In the year we also launched the Msamaria Womens' Loan which is specially designed for the unique requirements of women customers. The product has flexible limits ranging from Sh.5,000 to Sh.10 Million, thereby enhancing accessibility to a wide section of society. Our Maziwa-Plus and Vuna Kilimo Loan products have also been revamped to make them more suitable for clients and contribute to pursuit of the country's long-term food security situation. New products of Amiran Kit and Nafaka Loan were introduced in the year to finance agro-irrigation and cereal farming respectively. With enactment of the new constitution and introduction of a new county government set-up, the Bank is in the process of reviewing products with a view to enhance potential of our clients, especially small and medium enterprises (SMEs) as they endeavour to take advantage of new opportunities arising.

Excellence in Customer Service

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

Regional Expansion on course

Through the Co-operative Alliance of Kenya (CAK), the Bank is active in International Co-operative Alliance Africa whose primary objective is to promote the welfare and growth of co-operative societies in the continent. The Bank is 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 will be 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

Reducing Environmental Impact & Sustainable Consumption Goal

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

Green Partnerships

We seek to establish partnerships with industry members, government agencies, relevant environmental bodies, suppliers, customers and the general public to promote and achieve a high standard of environmental care. We have already established links with Nairobi City Council to maintain green-gardens around Co-operative Bank House and the commuter area of Railways bus stage. We have also collaborated with schools and government agencies in tree-planting activities in support of Kenya's efforts to increase forest cover to the recommended 10% of area. Assessed individually, these may look like modest efforts, but the collective impact of many other companies doing the same will change the direction of environmental degradation that the world faces today.

GROWING HUMAN CAPITAL

Employer of Choice & Principle of Diversity

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

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

Staff Profile

	Year 2010	%	Year 2009	%
No. of employees:	**2,766**	**100%**	**2,452**	**100%**
Male	1,558	56%	1,371	56%
Female	1,208	44%	1081	44%
No. of employees of age 35 or under:	**2,144**	**100%**	**1,781**	**100%**
Male	1,241	58%	1,038	58%
Female	903	42%	743	42%
No. of senior management positions:	**69**	**100%**	**69**	**100%**
Male	45	65%	46	67%
Female	24	35%	23	33%
Average years of service:	**5**	**-**	**5**	**-**
Male	4	-	4	-
Female	6	-	6	-
Employees taking leave for child-rearing:	**261**	**-**	**221**	**-**
Male	147	-	111	-
Female	114	-	110	-

**Figures as of reporting date

Building Pride & Passion as We Grow Our People

We have developed an environment to create passion and individual team-member responsibility towards making us a market leader. We promote generation of new ideas and approaches to business with the 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. Each year we conduct a Staff Satisfaction Survey that provides feedback from staff on a candid evaluation of their relationship with the Bank.

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

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

Staff Welfare and HIV/Aids Policy

At this bank, we view each other as part of one big family and each member's welfare is our collective responsibility. We continue to invest in out-of-office staff activities such as sports events, team-building and other group activities in reflection of our deep commitment to staff welfare. A safe and secure working environment is a key priority and work-spaces are specifically designed with this in mind. Adequate dressing and equipment arrangements are in place for employees whose work necessitates this, thus facilitating high staff productivity. As part of our broader wellness programme, we facilitate staff access to professional advisors and counsellors on matters relating to work, health, relationships and general social wellbeing. This enhances staff productivity and has a direct impact on business performance.

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

SAFEGUARDING FINANCIAL SYSTEM SECURITY

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 facilitates positive customer identification during transactions and protection of customer details. This training includes updates on bank processes specifically designed to prevent fraud. Through these measures and high level of vigilance, our 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 authorities for action in a secure manner that protects their identity. There is a dedicated email address set up to receive anonymous e-messages from staff.

Customer Awareness

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

CO-OPERATIVE BANK FOUNDATION

The welfare of the people, communities, organisations and the environment in which they operate are interlinked to the extent that true prosperity is acknowledged only when there is collective success. In 2007, the Co-operative Bank Foundation was set up as the Bank's social responsibility vehicle focussing mainly in the areas of education, health, environment, social welfare and agriculture. Lack of education has been observed as a key contributor to poverty in the society and our bank has devoted considerable resources towards enhancing access to school, leading to a vibrant, well educated society that will propel Kenya to the next level of development.

Since inception, the Bank has funded the Foundation with over Kshs. 100 Million to facilitate access to education for disadvantaged children. The funding is

Support to key national institutions: Armed Forces Athletics Championships

Co-op Bank Group MD & CEO, Gideon Muriuki (right) presents a cheque worth Ksh 1million to The Chief of General Staff, General Jeremiah Kianga in support of the 2010 Armed Forces National Athletics Championships, held at Nyayo National Stadium. Co-op Bank was the key sponsor of the event.

a full secondary school and college scholarship which caters for school fees, uniforms and text books. The Foundation spent over Sh.40 Million in this regard in 2010 and is currently supporting more than 1,300 students in 395 schools across Kenya. The first batch of students sponsored through their secondary school is set to join college in 2011 and the Foundation will sponsor the top 28 performers in Kenya Certificate of Secondary Education (KCSE) examination from this group throughout their university studies. During college holidays, the Bank will offer internship experience to beneficiaries of this program to equip them for the job-market. Thereafter and upon graduation from university, the Bank is committed to absorb them as permanent employees. Every year, the Foundation also offers a scholarship package of Sh.100,000 per student to at least two (2) disadvantaged students of The Co-operative College of Kenya who upon graduation will contribute to the leadership and management of the co-operative movement.

Staff Community Activities & National Projects

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. We run a shilling-for-shilling program wherein staff contribute towards projects of their choice, after which the Bank matches amounts raised. Staff therefore have the liberty to identify, own and drive projects as they volunteer time and services. Across the country, staff made a positive impact to HIV/AIDS groups, children centres, schools, medical funds, sports events, youth groups, education days, charities, environmental clean-up events, youth groups, hospitals, prisons, self-help groups and facilities for the physically challenged. In 2010, staff contributed in excess of Sh.3 Million and the Bank matched with a similar amount, bringing the total amount spent to more than Sh.6 Million.

Over and above funds disbursed through Co-operative Bank Foundation and staff shilling-for-shilling program, our bank contributed Kshs. 12 million to various charities in 2010. These donations were made out to organisations involved in poverty eradication, advancement of education and those engaged in activities addressing local challenges such as inadequate access to health services.

Greening the country.

Co-op Bank Chief Manager, Government Banking, Silvance Nono (left) together with Mr Hudson Mukanga, Environmental Planner at the Ministry of Environment & Mineral Resources plant a tree during a joint tree planting activity between the Bank and the Ministry in Donholm, along Outering Road - Nairobi. The Bank regularly undertakes tree-planting campaigns in support of environmental conservation.

Corporate Governance

Statement on Corporate Governance

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

THE BOARD

Board composition

The Bank is governed by a Board of Directors appointed by shareholders. The Board consists of twelve directors who are non-executive except for the Managing Director who is executive. Notably, seven members of the Board are elected from the co-operative movement and represent the strategic and majority shareholder in the Bank - Co-op Holdings Co-operative Society Limited whereas two directors represent the minority. 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 and that applicable laws and regulations are complied with.

Board responsibilities

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

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

Board 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 as set by the Board are being complied with.

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

Conflict of interest

The Board's policy provides that directors, their immediate families and companies where directors have interests in only do business with the Bank at arms length. Where a matter concerning the Bank may result in a conflict of interest, the director is obliged to declare the same and exclude themselves from any discussion or vote over the matter in question. Business transactions with directors and related parties are disclosed in notes to the financial statements.

Board Sub-committees

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

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

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

Audit Committee

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
- 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:

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

Communication with Shareholders

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

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

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

Shareholding Information:

	2010
The number of shareholders as at 31 December:	107,554

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

		2010	
	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	26,616,500	0.75
4	NIC Bank Limited A/C 077	16,354,400	0.46
5	Standard Chartered Nominees A/C 9230	14,315,800	0.40
6	CfC Stanbic Nominees Kenya Ltd A/C R57601	12,629,900	0.35
7	Insurance Company of East Africa Limited - Pooled	8,716,100	0.24
8	Stanley Charles Muchiri	8,000,000	0.22
9	Standard Chartered Nominees Non – Resident A/C 9011	7,940,000	0.22
10	Julius M Riungu	7,710,000	0.22
	TOTAL	**2,424,996,200**	**69.44**

Co-opHoldings Co-operative Society Limited is the strategic and majority shareholder in the Bank representing the block strategic shareholding by the Kenyan Co-operative Movement with 3,810 (Yr 2009-3811) Co-operative Societies covering millions of Kenyans.

Supporting key events: Administration Police Athletics Championships
Co-op Bank's Director of Retail Banking, Sam Birech (left) presents a cheque worth Ksh 500,000 to Administration Police Commandant, Kinuthia Mbugua in support of the 2010 Administration Police National Athletics Championships held at Nyayo National Stadium. Co-op Bank was the key sponsor of the event.

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

	2010	
NAME	**NO. OF SHARES**	**%**
Harambee Co-op Savings & Credit Society Ltd	86,224,900	3.82
Telepost Co-op Savings Credit Society limited	66,853,800	2.97
Afya Co-op Savings & Credit Society Ltd	66,306,900	2.94
Masaku Teachers Co-op Savings & Credit Society Ltd	65,314,900	2.90
Kipsigis Teachers Co-op Savings & Credit Society Ltd	60,414,000	2.68
H & M Co-op Savings & Credit Society Ltd	57,885,400	2.57
Kenya Police Sacco Society Ltd	52,539,200	2.33
Kiambu Unity Finance Co-op Union Ltd	51,205,700	2.27
Embu Farmers Sacco Society Ltd	41,341,200	1.83
Nandi Teachers Co-op Savings & Credit Society Ltd	40,161,800	1.78
TOTAL	**588,247,800**	**26.09**

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

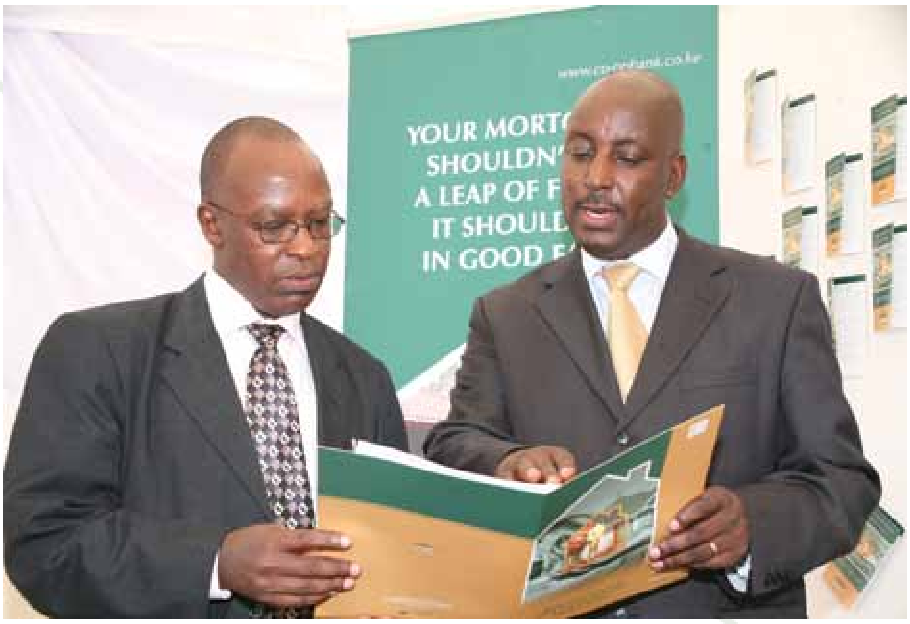
	2010	
DIRECTOR	**NO. OF SHARES**	**%**
S. C. Muchiri, EBS -Chairman	8,000,000	0.23
J. Riungu - Vice Chairman	7,710,000	0.22
G. M. Muriuki, OGW –Managing Director	68,121,000	1.95
M. Malonza	5,110,000	0.15
S. Odhiambo (Mrs)	5,080,000	0.15
P. K. Githendu	5,073,700	0.15
G. Mburia	5,051,000	0.14
E. K. Mbogo	5,010,000	0.14
Dr. J. Kahunyo	5,000,000	0.14
J. Sitienei	5,000,000	0.14
C. Kabira	5,000,000	0.14
F. Odhiambo – Commissioner of Co-operatives	2,750,000	0.08
R. L. Kimanthi	2,010,000	0.07
G. J. S. Wakasyaka (Rtd Major)	2,300,000	0.07
W. Ongoro	1,400,000	0.04
D. Kibera	-	-
R. Simani (Mrs)	-	-
J. Murugu – Representing PS Ministry of Finance	1,053,000	0.03
R. Githaiga (Mrs) – Company Secretary	5,290,000	0.15
TOTAL	**136,658,700**	**3.99**

Shareholding distribution Schedule:

	2010			2009		
Category	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%
1-500 shares	5,079	1,486,053	0.04	2,933	837,450	0.02
501-5,000 shares	80,104	236,599,723	6.77	83,705	198,574,350	7.19
5,001-10,000 shares	13,985	124,166,254	3.56	15,413	137,374,000	3.87
10,001-100,000 shares	7,753	187,035,739	5.36	9,070	219,965,900	6.20
100,001-1,000,000 shares	474	127,057,364	3.64	470	116,616,700	3.29
1,000,001 shares and over	159	2,816,024,767	80.63	129	2,819,001,500	79.43
TOTAL	**107,554**	**3,492,369,900**	**100**	**111,720**	**3,492,369,900**	**100**

Shareholder profile:

	2010			2009		
Category	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%
Kenyan individual investors	105,835	1,054,212,665	30.18	109,562	943,089,495	27.005
Kenyan institutional investors	1,696	2,437,730,535	69.80	2,074	2,548,447,205	72.972
East African individual investors	18	129,000	0.004	26	330,500	0.009
East African institutional investors	NIL	NIL	NIL	1	100,000	0.003
Foreign individual investors	5	297,700	0.01	57	402,700	0.011
Foreign institutional investors	NIL	NIL	NIL	Nil	Nil	Nil
TOTAL	**107,554**	**3,492,369,900**	**100**	**111,720**	**3,492,369,900**	**100**



Supporting Co-operatives deliver affordable homes to members

Co-op Bank Head of Mortgage, Chris Chege (right)) explains the features of Co-op Bank's *Good Home Mortgage for Saccos* to Muchangi Gicheru of the Ministry of Co-operatives Development (left) during the Good Home Mortgage Symposium for co-operatives hosted at the Bank's training centre in Karen. The Good Home Mortgage product is open to co-operatives who on-lend to their members, individual home buyers and companies keen on investing or enabling their employees to own homes at affordable terms.

Report of the Directors
For the year ended 31 December 2010

The directors submit their report together with the audited financial statements for the year ended 31 December 2010, which show the state of the Group's and the Bank's affairs. This is in accordance with Section 22 of the Banking Act (Cap 488) and Section 157 of the Kenyan Companies Act (Cap 486).

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

2. Group Operations
The operating results of the Bank'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 and Co-operative Merchant Limited are dormant.

3. Results
The results of the Group for the year are set out on page 43.

4. Dividend
The directors recommend payment of a dividend of KShs. 0.40 (2009 - KShs 0.20) for every ordinary share of KShs 1. The dividends will be paid on or about 24th June 2011 to the shareholders registered on the Bank's Register at the close of business on 3rd June 2011. The register will remain closed for one day on 6th June 2011 for the preparation of dividend warrants.

5. Reserves
The movement in the Group's reserves is shown on page 47 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, OGW
M. Malonza
S. Odhiambo (Mrs)
Dr. J. Kahunyo
C. Kabira, HSC
P.K. Githendu
G.Mburia
E.K.Mbogo
W. Ongoro, HSC
D. Kibera
R. Simani
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 9th March 2011.

By order of the Board

Group Managing Director & CEO

Statement of Directors' Responsibilities For the for the year ended 31 December 2010

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

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

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

GROUP CHAIRMAN

VICE CHAIRMAN

GROUP MANAGING DIRECTOR & CEO

COMPANY SECRETARY

09th March 2011

Report of the Independent Auditors to the Members of The Co-operative Bank of Kenya Limited and Subsidiaries

We have audited the accompanying financial statements of The Co-operative Bank of Kenya Limited and its subsidiaries, which comprise the statement of financial position as at 31 December, 2010 and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended and a summary of significant accounting policies and other explanatory information as set out on pages 43 to 112.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Co-operative Bank of Kenya Limited and Subsidiaries as at 31 December, 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal requirements

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

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

Ernst & Young

ERNST & YOUNG

Nairobi
23 March 2011

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2010

	Note	2010 KShs'000	2009 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	7	14,033,477	8,551,464
Deposits and balances due from banks	8	6,741,854	4,642,338
Held-for-trading investments	9	4,062,391	4,416,800
Held-to-maturity investments	10	9,954,855	22,081,293
Available-for-sale investments	11	20,374,111	-
Loans and advances to customers	12(a)	86,618,311	62,274,194
Investment in associate	14	256,441	-
Other assets	15	5,315,727	2,399,012
Intangible assets	16	586,939	541,265
Prepaid lease rentals	17	40,091	40,704
Property and equipment	18	6,355,794	5,651,410
Deferred tax asset	19	-	79,611
TOTAL ASSETS		**154,339,991**	**110,678,091**
LIABILITIES			
Deposits and balances due to banks	20	5,348,291	1,010,216
Customer deposits	21(a)	123,878,422	91,518,733
Loans	22	138,556	208,827
Provisions	23	56,126	59,176
Tax payable	24(b)	175,582	110,843
Other liabilities	25	4,012,728	1,478,704
Deferred tax liability	19	134,177	-
TOTAL LIABILITIES		**133,743,882**	**94,386,499**
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	10,685,700	7,071,328
Capital grants	29	615,611	636,058
Proposed dividends	30	1,396,948	698,474
		20,477,365	16,184,966
Non-controlling interest		118,744	106,626
TOTAL EQUITY		**20,596,109**	**16,291,592**
TOTAL LIABILITIES & EQUITY		**154,339,991**	**110,678,091**

The financial statements were approved by the Board of Directors on 09 March 2011 and signed on its behalf by:

Stanley C. Muchiri, EBS - Group Chairman | Julius Riungu - Vice Chairman

Gideon Muriuki, OGW - Group Managing Director & CEO | Rosemary M. Githaiga (Mrs) - Company Secretary

The notes on pages 52 - 112 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010	2009
		KShs'000	KShs'000
Interest income	31	12,140,640	9,348,095
Interest expense	32	(2,638,132)	(2,294,340)
NET INTEREST INCOME		**9,502,508**	**7,053,755**
Fees and commission income	33	4,384,518	3,415,474
Foreign exchange gain		621,201	375,887
Gain on sale of financial instruments		594,651	99,168
Changes in fair value of financial instruments held- for-trading		197,406	67,350
Amortisation of financial instruments held-to-maturity		-	101,056
Amortisation of capital grants	29	20,447	20,447
Other income	34	351,183	585,048
OPERATING INCOME		**15,671,914**	**11,718,185**
Operating expenses:-			
Net impairment losses on loans and advances	12(f)	(798,666)	(628,384)
Other operating expenses	35	(9,230,607)	(7,354,106)
OPERATING EXPENSES		**(10,029,273)**	**(7,982,490)**
OPERATING PROFIT	**36**	**5,642,641**	**3,735,695**
Share of profit of an associate		129,977	-
PROFIT BEFORE TAX		**5,772,618**	**3,735,695**
INCOME TAX EXPENSE	24(a)	(1,191,920)	(767,733)
PROFIT FOR THE YEAR		**4,580,698**	**2,967,962**
OTHER COMPREHENSIVE INCOME			
Change in fair value of available-for-sale investments		353,657	-
Deferred tax on change in fair value of available-for-sale investments	19	(71,288)	-
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**282,369**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		**4,863,067**	**2,967,962**
Profit attributable to:			
Equity holders of the parent entity		4,568,580	2,975,831
Non-controlling interest		12,118	(7,869)
Comprehensive income attributable to:			
Equity holders of the parent entity		4,850,949	2,975,831
Non-controlling interest		12,118	(7,869)
Basic and diluted earnings per share (KShs)	37	1.31	0.85

The notes on pages 52 - 112 form an integral part of these financial statements.

Bank Statement of Financial Position

AS AT 31 DECEMBER 2010

	Note	2010 KShs'000	2009 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	7	14,033,477	8,551,464
Deposits and balances due from banks	8	6,671,257	4,642,338
Held-for-trading investments	9	3,971,005	4,324,459
Held-to-maturity investments	10	9,954,855	22,081,293
Available-for-sale investments	11	20,372,355	-
Loans and advances to customers	12(a)	86,618,311	62,274,421
Investment in subsidiaries	13	280,000	250,000
Investment in associate	14	121,090	-
Other assets	15	5,241,975	2,375,721
Intangible assets	16	333,422	286,454
Prepaid lease rentals	17	40,091	40,704
Property and equipment	18	6,345,695	5,625,875
Deferred tax asset	19	-	78,644
TOTAL ASSETS		**153,983,533**	**110,531,373**
LIABILITIES & SHAREHOLDERS' EQUITY			
LIABILITIES			
Deposits and balances due to banks	20	5,348,291	1,010,216
Customer deposits	21(a)	124,012,039	91,552,508
Loans	22	138,556	203,974
Provisions	23	56,126	59,176
Tax payable	24(b)	171,120	116,347
Other liabilities	25	3,922,008	1,485,893
Deferred tax liability	19	132,940	-
TOTAL LIABILITIES		**133,781,080**	**94,428,114**
SHAREHOLDERS' EQUITY			
Share capital	26	3,492,370	3,492,370
Share premium	27	4,286,736	4,286,736
Reserves	28	10,410,788	6,989,621
Capital grants	29	615,611	636,058
Proposed dividends	30	1,396,948	698,474
TOTAL SHAREHOLDERS' EQUITY		**20,202,453**	**16,103,259**
TOTAL LIABILITIES & SHAREHOLDERS'EQUITY		**153,983,533**	**110,531,373**

The financial statements were approved by the Board of Directors on 09 March 2011 and signed on its behalf by:-

Stanley C. Muchiri, EBS - Group Chairman | Julius Riungu - Vice Chairman
Gideon Muriuki, OGW - Group Managing Director & CEO | Rosemary M. Githaiga (Mrs) - Company Secretary

The notes on pages 52 - 112 form an integral part of these financial statements.

Bank Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 KShs'000	2009 KShs'000
Interest income	31	12,130,088	9,347,172
Interest expense	32	(2,638,132)	(2,294,340)
NET INTEREST INCOME		**9,491,956**	**7,052,832**
Fees and commission income	33	4,179,940	3,298,725
Foreign exchange gain		621,201	375,887
Gain on sale of financial instruments		596,606	78,253
Changes in fair value of financial instruments held-for-trading		153,193	67,350
Amortisation of financial instruments held-to-maturity		-	101,056
Amortisation of capital grants	29	20,447	20,447
Other income	34	340,205	560,218
OPERATING INCOME		**15,403,548**	**11,554,768**
Operating expenses:-			
Net impairment losses on loans and advances	12(f)	(798,666)	(628,384)
Other operating expenses	35	(9,045,854)	7,199,531)
OPERATING EXPENSES		**(9,844,520)**	**(7,827,915)**
PROFIT BEFORE TAX	**36**	**5,559,028**	**3,726,853**
INCOME TAX EXPENSE	24(a)	(1,179,797)	(767,997)
PROFIT FOR THE YEAR		**4,379,231**	**2,958,856**
OTHER COMPREHENSIVE INCOME			
Change in fair value of available-for-sale investments		348,171	-
Deferred tax on change in fair value of available-for-sale investments	19	(69,634)	-
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**278,537**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		**4,657,768**	**2,958,856**
Basic and diluted earnings per share (KShs)	37	1.25	0.85

The notes on pages 52 - 112 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2010

	Share Capital KShs'000	Share Premium KShs'000	Revaluation Reserves KShs'000	Statutory Reserves KShs'000	Fair Value Reserves KShs'000	Proposed Dividends KShs'000	Retained earnings KShs'000	Total attributable to equity holder of the Bank KShs'000	Non-controlling interest KShs'000	**Total equity KShs'000**
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										
Profit for the year	-	-	-	-	-	-	2,975,831	2,975,831	(7,869)	**2,967,962**
Other comprehensive income	-	-	-	-	-	-	-	-	-	**-**
Realisation of revaluation surplus	-	-	(9,071)	-	-	-	9,071	-	-	**-**
Deferred tax on realisation of revaluation surplus	-	-	1,814	-	-	-	(1,814)	-	-	**-**
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 from statutory 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**
Balance at 1 January 2010	**3,492,370**	**4,286,736**	**354,039**	**203,019**	**-**	**698,474**	**6,514,270**	**15,548,908**	**106,626**	**15,655,534**
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	4,568,580	4,568,580	12,118	**4,580,698**
Other comprehensive income	-	-	-	-	278,631	-	-	278,631	-	**278,631**
Share of other comprehensive income in associate	-	-	-	-	3,762	-	-	3,762	-	**3,762**
Reclassification of prior year fair value	-	-	-	-	(24)	-	24	-		**-**
Realisation of revaluation surplus	-	-	(9,071)	-	-	-	9,071	-	-	**-**
Deferred tax on realisation of revaluation surplus	-	-	1,814	-	-	-	-	1,814	-	**1,814**
Prior year deferred tax							1,814	1,814		**1,814**
Net movement in revenue grants for the year	-	-	-	-	-	-	156,719	156,719	-	**156,719**
Transfers to statutory reserve	-	-	-	1,935	-	-	(1,935)	-	-	**-**
Dividends paid	-	-	-	-	-	(698,474)	-	(698,474)	-	**(698,474)**
Proposed dividends	-	-	-	-	-	1,396,948	(1,396,948)	-	-	**-**
Balance at 31 December 2010	**3,492,370**	**4,286,736**	**346,782**	**204,954**	**282,369**	**1,396,948**	**9,851,595**	**19,861,754**	**118,744**	**19,980,498**

The notes on pages 52 - 112 form an integral part of these financial statements.

Bank Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2010

	Share Capital KShs'000	Share Premium KShs'000	Revaluation Reserves KShs'000	Statutory Reserves KShs'000	Fair Value Reserves KShs'000	Proposed Dividends KShs'000	Retained earnings KShs'000	**Total equity KShs'000**
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								
Profit for the year	-	-	-	-	-	-	2,958,856	**2,958,856**
Other comprehensive income	-	-	-	-	-	-	-	**-**
Realisation of revaluation surplus	-	-	(9,071)	-	-	-	9,071	**-**
Deferred tax on realisation of revaluation surplus	-	-	1,814	-	-	-	(1,814)	**-**
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 retained earnings	-	-	-	(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**
Balance at 1 January 2010	**3,492,370**	**4,286,736**	**354,039**	**203,019**	**-**	**698,474**	**6,432,563**	**15,467,201**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	4,379,231	**4,379,231**
Other comprehensive income					278,537	-	-	**278,537**
Realisation of revaluation surplus	-	-	(9,071)	-	-	-	9,071	**-**
Deferred tax on realisation of revaluation surplus	-	-	1,814	-	-	-	-	**1,814**
Prior year deferred tax							1,814	**1,814**
Net movement in revenue grants for the year	-	-	-	-	-	-	156,719	**156,719**
Transfer to statutory reserves	-	-	-	1,935	-	-	(1,935)	**-**
Dividends paid	-	-	-	-	-	(698,474)	-	**(698,474)**
Proposed dividends	-	-	-	-	-	1,396,948	(1,396,948)	**-**
Balance at 31 December 2010	**3,492,370**	**4,286,736**	**346,782**	**204,954**	**278,537**	**1,396,948**	**9,580,515**	**19,586,842**

The notes on pages 52 - 112 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2010

		2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:-	**Note**	**KShs'000**	**KShs'000**
Profit before tax		5,772,618	3,735,695
Adjustments for:-			
Depreciation		853,354	605,389
Amortisation of prepaid lease rentals		613	613
Net impairment on property, equipment and intangible assets		16,713	(3,892)
Net gain on acquisition		-	(17,142)
Net movement in revenue grants		156,719	(31,631)
Movement in provisions		345	(272,866)
Amortization of intangible assets		96,917	84,495
Amortization of capital grants		(20,447)	(20,447)
Gain on disposal of property and equipment		(4,173)	(1,345)
Foreign exchange gain		(554,023)	(99,168)
Changes in fair value of financial instruments held-for-trading		(197,406)	(67,350)
Share of profit in associate		(129,997)	-
Amortisation of financial instruments held-to-maturity		-	(101,056)
Cash flows from operating activities before working capital changes		**5,991,253**	**3,811,296**
Advances to customers		(24,344,462)	(9,365,651)
Other assets		(2,891,264)	(575,571)
Deposits from customers		32,359,689	25,665,008
Deposits from banks		4,338,075	(215,212)
Other liabilities		2,530,974	(609,011)
Central Bank of Kenya cash reserve ratio		(1,432,502)	(535,611)
Held-to-maturity investments		3,802,809	(10,204,943)
Held-for-trading investments		331,951	(650,386)
Available-for-sale investments		(6,729,464)	-
Equity investments held-for-trading		1,100	1,400
Cash generated by operating activities		**13,958,159**	**7,321,319**
Tax paid		(980,723)	(800,320)
Net cash flows from operating activities		**12,977,436**	**6,520,999**
CASH FLOWS FROM INVESTING ACTIVITIES:-			
Purchase of property and equipment		(1,602,903)	(2,301,714)
Purchase of software		(142,591)	(55,874)
Proceeds from disposal of property and equipment		32,625	25,827
Purchase of additional shares in associate		(100,000)	-
Acquisition of a subsidiary, net of cash acquired		-	(145,291)
Net cash flows used in investing activities:-		**(1,812,869)**	**(2,477,052)**
CASH FLOWS FROM FINANCING ACTIVITIES:-			
Loan received		-	62,000
Dividends paid		(698,474)	(349,237)
Loans paid		(70,271)	(156,365)
Net cash flows used in financing activities		**(768,745)**	**(443,602)**
Net movement in cash and cash equivalents		**10,395,822**	**3,600,345**
Cash and cash equivalents at the beginning of the year		14,700,377	11,000,865
Foreign exchange gain		554,023	99,168
Cash and cash equivalents at 31 December	**38**	**25,650,222**	**14,700,377**

The notes on pages 52 - 112 form an integral part of these financial statements.

Bank Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 KShs'000	2009 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES:-			
Profit before tax		5,559,028	3,726,853
Adjustments for:-			
Depreciation		849,647	600,100
Amortization of prepaid lease rentals		613	613
Net impairment on property, equipment and intangible assets		16,713	(4,583)
Net movement in revenue grants		156,719	(36,252)
Movement in provisions		345	(213,689)
Amortization of intangible assets		95,623	82,383
Amortization of capital grants		(20,447)	(20,447)
Gain / (loss) on disposal of property and equipment		(4,173)	(1,345)
Foreign exchange gain		(554,023)	(78,253)
Changes in fair value of financial instruments held-for-trading		(153,193)	(67,350)
Amortisation of financial instruments held-to-maturity		-	(101,056)
Cash flows from operating activities before working capital changes		**5,946,852**	**3,886,974**
Advances to customers		(24,344,235)	(9,365,878)
Other assets		(2,840,498)	(594,659)
Deposits from customers		32,459,531	25,618,055
Deposits from banks		4,338,075	(215,211)
Other liabilities		2,433,065	(628,549)
Central Bank of Kenya cash reserve ratio		(1,432,502)	(535,611)
Held-to-maturity investments		3,802,809	(10,211,020)
Held-for-trading investments		286,783	(625,395)
Equity investments held-for-trading		1,100	1,400
Available for sale investment		(6,727,819)	-
Cash generated by operating activities		**13,923,161**	**7,330,106**
Tax paid		(979,446)	(794,363)
Net cash flows from operating activities		**12,943,715**	**6,535,743**
CASH FLOWS FROM INVESTING ACTIVITIES:-			
Purchase of property and equipment		(1,588,670)	(2,278,962)
Purchase of software		(142,591)	(54,477)
Proceeds from disposal of property and equipment		6,663	20,060
Acquisition of a subsidiary		-	(150,000)
Purchase of additional shares in subsidiaries		(30,000)	-
Purchase of additional shares in associate		(100,000)	-
Net cash flows used in investing activities		**(1,854,598)**	**(2,463,379)**
CASH FLOWS FROM FINANCING ACTIVITIES:-			
Loans received		-	62,000
Dividends paid		(698,474)	(349,237)
Loans paid		(65,418)	(161,219)
Net cash flows used in financing activities		**(763,892)**	**(448,456)**
Net movement in cash and cash equivalents		**10,325,225**	**3,623,908**
Cash and cash equivalents at the beginning of the year		14,700,377	10,998,216
Foreign exchange gain		554,023	78,253
Cash and cash equivalents at 31 December	38	**25,579,625**	**14,700,377**

The notes on pages 52 - 112 form an integral part of these financial statements.

Ungana Pamoja Onja Mafanikio

na mkopo wa Kujengana kutoka Co-op Bank

Unachohitaji ili upate mkopo wa kujengana

- Uwe mwanachama wa kikundi
- Kikundi kiwe kimefungua akaunti na benki ya Co-operative
- Uwe na biashara inayoendelea
- Uwe na akaunti yako binafsi ya biashara

CO-OP BANK

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

1. GENERAL INFORMATION

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

2. ACCOUNTING POLICIES

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

a) Basis of preparation

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

b) Basis of Consolidation

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

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

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

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

c) Changes in accounting policies and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year.

Amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5 IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39

- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

The adoption of the standards or interpretations is described below:

IFRS 2 Share-based Payment (Revised)

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The standard is not relevant to the Group and did not impact on the financial position or performance of the Group.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The change in accounting policy was early adopted in 2009 and applied to the acquisition of the controlling interest in Kingdom Securities Limited.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

IFRIC 17 Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either the financial position nor performance of the Group.

Improvements to IFRSs

In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments where relevant resulted in changes to accounting policies but did not have any impact on the financial position or performance of the group.

Issued in May 2008

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:* clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position nor financial performance of the Group.

Issued in April 2009

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:* clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The standard is not relevant to the Group and did not impact on the financial position or performance of the Group.
- *IFRS 8 Operating Segments:* clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 5.
- *IAS 7 Statement of Cash Flows:* States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact amongst others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.
- *IAS 36 Impairment of Assets:* The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

Issued in April 2009

- *IFRS 2 Share-based Payment*
- *IAS 1 Presentation of Financial Statements*
- *IAS 17 Leases*
- *IAS 34 Interim Financial Reporting*
- *IAS 38 Intangible Assets*
- *IAS 39 Financial Instruments: Recognition and Measurement*
- *IFRIC 9 Reassessment of Embedded Derivatives*
- *IFRIC 16 Hedge of a Net Investment in a Foreign Operation*

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance.

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IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected in mid 2011. The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the Group's financial assets. The Group is currently assessing the impact of adopting IFRS 9, however, the impact of adoption depends on the assets held by the Group at the date of adoption, it is not practical to quantify the effect.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

Improvements to IFRSs (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the Group:

- *IFRS 3 Business Combinations*
- *IFRS 7 Financial Instruments: Disclosures*
- *IAS 1 Presentation of Financial Statements*
- *IAS 27 Consolidated and Separate Financial Statements*

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

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 Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group 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 Group'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.

Impairment of available–for–sale investments

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

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

Fair value of financial instruments

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

Deferred tax assets

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

e) Recognition of income and expenses

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

i) Interest and similar income and expenses

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available–for–sale and financial instruments designated at fair value through profit or loss, interest income or expense is recognised at the effective interest rate, 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 amount is calculated based on the original effective interest rate and the change in carrying amount are recognised as interest income or expense.

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

ii) Fee and commission income

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

iii) Dividend income

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

iv) Rental income

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

f) Property and equipment

Recognition and measurement

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

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

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

Depreciation

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

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

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

g) Business combinations and goodwill

Business combinations from 1 January 2010

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

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

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

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

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

Business combinations prior to 1 January 2010

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

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

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

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

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

h) Intangible assets

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

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

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

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

(a) Computer software licences

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

(b) Other intangible assets

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

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

i) Investment in an associate

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

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

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

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

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

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

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

j) Finance and operating leases

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

i) Operating leases:

Where:-

- Group is the lessee

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

- Group is the lessor

  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.

k) Financial assets

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

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

(i) Financial assets at fair value through 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 'held for trading instruments'.

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

(ii) Held-to-maturity financial assets

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

(iii) Loans and receivables

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

(iv) Available-for-sale financial assets

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

(v) Fair value

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

(vi) Amortised cost

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

l) Impairment of financial assets

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

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

(1) Financial assets carried at amortised cost

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

For loans and advance impairment losses are computed based on:

i) Central Bank of Kenya Prudential Guidelines

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

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

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

ii) International Accounting Standard (IAS) 39

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

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

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

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

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

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

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

3) Renegotiated loans

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

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

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 2010 were written off during the year.

m) Derecognition of financial assets

A financial asset is derecognised when:

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

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

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

n) Financial liabilities

i) 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

ii) 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.

iii) 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.

iv) 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.

v) Provisions

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

o) Offsetting

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

p) Repossessed property

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

q) Foreign currency

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

r) Employee benefits

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

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

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

s) Taxes

Current tax

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

Deferred income tax

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

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

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

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

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

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

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

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

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

Value Added Tax

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

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

t) Grants

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

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

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

u) Cash and cash equivalents

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

v) Repurchase agreement transactions

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

w) 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) 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.

y) Fiduciary assets

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

z) Segmental reporting

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

3. FINANCIAL RISK MANAGEMENT

Risk management framework

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

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

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

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

A. Credit risk
B. Liquidity risk
C. Market risks
D. Operational risks

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

(A) Credit risk

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

Management of credit risk

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

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

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

(A) Credit risk *(Continued)*

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

	Note	2010	2009
		KShs '000	KShs '000
Carrying amount		90,964,939	66,620,704
Individually assessed for impairment			
Grade 5: Loss category		617,132	905,987
Grade 4: Doubtful category		2,422,981	3,266,713
Gross amount		3,040,113	4,172,700
Allowance for impairment		(2,830,039)	(3,250,580)
Carrying amount		210,074	922,120
Collectively assessed for impairment			
Grade 1: Normal		83,243,323	58,095,652
Grade 2: Watch list		2,818,852	1,969,186
Gross amount		86,062,175	60,064,838
Allowance for impairment		(917,089)	(644,093)
Carrying amount		85,145,086	59,420,745
Past due but not impaired loans (Grade 3: Substandard)			
Past due up to 30 days		1,480,263	1,426,326
Past due 31-60 days		245,515	378,821
Past due 61-90 days		30,119	17,376
Past due 91-150 days		106,755	560,643
Gross amount		1,862,652	2,383,166
Allowance for impairment		(599,501)	(451,610)
Carrying amount		1,263,151	1,931,556
Net carrying amount	12 (a)	86,618,311	62,274,421

(A) Credit risk *(Continued)*

Maximum exposure to credit risk before collateral held:

	2010 KShs '000	%	2009 KShs '000	%
Items recognised in the statement of financial position:				
Deposits and balances due from banking institutions	6,671,257	5%	4,642,338	5%
Financial assets:				
-Held-to-maturity	9,954,855	7%	22,081,293	22%
-Held-for-trading	3,971,005	3%	4,324,459	4%
-Available-for-sale	20,372,355	14%	-	
Interest receivable	1,011,081	1%	340,550	0%
Loans and advances to customers	86,618,311	60%	62,274,421	61%
	128,598,864	89%	93,663,061	92%
Items not recognised in the statement of financial position	15,718,941	11%	7,662,651	8%
	144,317,805	**100%**	**101,325,712**	**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 46,054 Million (2009- KShs 47,252 Million). All other facilities are secured by collateral in the form of charges over cash, land and buildings, marketable securities, plant and machinery among others.

Impaired loans

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

Past due but not impaired loans

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

Loans with renegotiated terms

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

(A) Credit risk *(Continued)*

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

	2010 KShs '000	2009 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	472,793	609,895
Government/Donor funded loan schemes	-	291,356
Credit card balances	-	-
Micro enterprises	-	-
	472,793	**901,251**

Allowances for impairment

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

Write-off policy

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

Collateral on loans and advances

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

(A) Credit risk *(Continued)*

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

	2010 KShs '000	2009 KShs '000
i) Categorised by loans & advances:		
Doubtful & loss categories	578,683	913,954
Past due but not impaired (Sub-standard) category	721,194	1,052,468
Normal & watch categories	55,132,030	33,904,317
	56,431,907	35,870,739
ii) Categorised by nature of collateral:		
Land & buildings	41,702,490	24,773,521
Cash & other pledges	3,197,271	1,971,804
Motor vehicles	3,621,131	3,044,193
Hypothecation of stock	1,033,390	899,757
Debentures & guarantees	5,467,965	3,727,581
Other chattels	1,409,660	1,453,883
	56,431,907	35,870,739

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.

	2010 KShs '000	%	2009 KShs '000	%
Loans and advances:-				
i) Concentration by sector:				
Agriculture	4,129,992	5	3,991,647	6
Manufacturing, energy & water	7,475,931	9	2,247,375	4
Financial services	19,058,315	21	17,048,437	26
Tourism & hospitality	1,014,183	1	519,345	1
Wholesale and retail trade	8,747,482	10	3,889,226	6
Transport and communication	2,242,473	2	1,683,751	3
Real Estate, building & construction	2,570,253	2	829,346	1
Other	45,726,310	50	36,411,577	55
	90,964,939	**100**	**66,620,704**	**100**
ii) Concentration by business:				
Corporate	29,621,047	33	23,488,697	35
Mortgage & Asset Finance	2,288,889	3	1,065,305	2
Small, Medium and Microenterprises	11,918,487	13	6,371,806	10
Retail	41,914,424	46	31,348,994	47
Agribusiness	5,222,092	6	4,345,902	7
	90,964,939	**100**	**66,620,704**	**100**

(A) Credit risk *(Continued)*

Customer deposits:-	2010 KShs '000	%	2009 KShs '000	%
Private enterprises	40,935,521	33	25,270,169	27
Non-profit institutions	7,003,827	6	5,165,430	6
Individuals	30,146,642	24	23,383,943	26
Others	45,926,049	37	37,732,966	41
	124,012,039	**100**	**91,552,508**	**100**

Settlement Risk

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

(B) Liquidity risk

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

Management of liquidity risk

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

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

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

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(B) Liquidity risk *(Continued)*

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 2010 to the contractual maturity dates:

31 December 2010	Available immediately and up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
FINANCIAL ASSETS	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cash and balances with Central Bank of Kenya	8,755,807	-	-	-	-	**8,755,807**
Deposits and balances due from banks	2,567,802	4,174,052	-	-	-	**6,741,854**
Investment in financial instruments	3,777,846	5,836,542	6,231,145	9,697,534	8,326,455	**33,869,522**
Loans and advances to customers	4,860,606	968,737	9,135,990	52,309,620	19,343,358	**86,618,311**
Other assets	484,714	1,615,700	809,300	-	-	**2,909,714**
Total undiscounted financial assets	20,446,775	12,595,031	16,176,435	62,007,154	27,669,813	**138,895,208**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	5,082,791	265,500	-	-	-	**5,348,291**
Customers' deposits	81,285,150	31,346,471	11,310,477	-	-	**123,942,098**
Loans	-	-	-	142,713	-	**142,713**
Other financial liabilities	2,691,509	-	-	-	-	**2,691,509**
Total undiscounted financial liabilities	89,059,450	31,611,971	11,310,477	142,713	-	**132,124,611**
Net liquidity gap	**(68,612,675)**	**(19,016,940)**	**4,865,958**	**61,864,441**	**27,669,813**	**6,770,597**
Assets not recognised in statement of financial position	6,174,628	3,672,974	5,520,113	351,226	-	**15,718,941**
Liabilities not recognised in statement of financial position	6,174,628	3,672,974	5,520,113	351,226	-	**15,718,941**

(B) Liquidity risk *(Continued)*

31 December 2009	Available immediately and up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
FINANCIAL ASSETS	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cash and balances with Central Bank of Kenya	8,551,464	-	-	-	-	**8,551,464**
Deposits and balances due from 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	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	2,397,512	-	-	-	-	**2,397,512**
Total undiscounted financial assets	20,388,778	4,918,633	10,478,012	54,119,450	14,458,728	**104,363,601**
FINANCIAL 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**
Other liabilities	1,478,704	-	-	-	-	**1,478,704**
Total undiscounted financial liabilities	64,384,733	25,470,071	4,152,849	208,827	-	**94,216,480**
Net liquidity gap	**(43,995,955)**	**(20,551,438)**	**6,325,163**	**53,910,623**	**14,458,728**	**10,147,121**
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 Bank ratio of net liquid assets to deposits and customers at the reporting date and during the reporting year were as follows:

	2010	2009
	%	%
At 31 December	39.4	34.9
Average for the year	39.6	34.1
Maximum for the year	43.7	38.3
Minimum for the year	34.5	28.8
Statutory minimum ratio	20.0	20.0

(C) Market risk

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

Management of market risk

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

Exposure to market risk – trading portfolios

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

i) 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.

i) Exposure to interest rate risk *(Continued)*

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.

31 December 2010 ASSETS	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Non interest bearing KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	14,033,477	-	-	-	-	-	**14,033,477**
Deposits and balances due from banks	6,657,745	84,109	-	-	-	-	**6,741,854**
Investment in financial instruments	3,836,052	5,926,467	6,327,150	9,846,946	8,454,742	-	**34,391,357**
Investment in associate	-	-	-	-	-	260,531	**260,531**
Loans and advances to customers	4,860,606	968,737	9,135,990	52,309,620	19,343,358	-	**86,618,311**
Other assets	-	-	-	-	-	5,314,624	**5,314,624**
Intangible assets	-	-	-	-	-	586,939	**586,939**
Prepaid lease rentals	-	-	-	-	-	40,092	**40,092**
Property and equipment	-	-	-	-	-	6,355,795	**6,355,795**
Total assets	29,387,880	6,979,313	15,463,140	62,156,566	27,798,100	12,557,981	**154,342,980**
LIABILITIES							
Deposits and balances due to banks	4,017,695	1,130,530	200,066	-	-	-	**5,348,291**
Customers' deposits	81,285,150	31,320,371	11,272,901	-	-	-	**123,878,422**
Loans	-	-	-	138,556	-	-	**138,556**
Tax payable	-	-	-	-	-	175,582	**175,582**
Provisions	-	-	-	-	-	56,126	**56,126**
Other liabilities	-	-	-	-	-	4,012,670	**4,012,670**
Deferred tax liability	-	-	-	-	-	134,337	**134,337**
Share capital & Reserves	-	-	-	-	-	20,598,996	**20,598,996**
Total liabilities	85,302,845	32,450,901	11,472,967	138,556	-	24,977,711	**154,342,980**
Interest sensitivity gap	(55,914,965)	(25,471,588)	3,990,173	62,018,010	27,798,100	(12,419,730)	**-**

i) Exposure to interest rate risk *(Continued)*

31 December 2009 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	(53,466,227)	(19,503,905)	6,325,163	52,863,090	14,404,409	(622,530)	**-**

i) Exposure to interest rate risk *(Continued)*

Interest rate risk sensitivity analysis

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

	2010			2009		
	Carrying amount	1%	1%	Carrying amount	1%	1%
ASSETS	KShs'000	increase	decrease	KShs'000	increase	decrease
Deposits and balances due from banks	**6,741,854**	674,185	(674,185)	**4,642,338**	464,233	(464,233)
Held -for- trading investments	**4,062,391**	406,239	(406,239)	**4,416,800**	441,680	(441,680)
Investment securities	**30,328,966**	3,032,896	(3,032,896)	**22,081,293**	2,208,129	(2,208,129)
Loans and advances to customers	**86,618,311**	8,661,831	(8,661,831)	**62,274,194**	6,227,419	(6,227,419)
TOTAL		**12,775,151**	**(12,775,151)**		**9,341,461**	**(9,341,461)**
LIABILITIES & EQUITY						
Balances due to Central Bank of Kenya	**2,699,244**	(269,924)	269,924	**-**	-	
Deposits and balances due to banks	**2,649,047**	(264,904)	264,904	**1,010,216**	(101,021)	101,021
Customers' deposits	**123,878,422**	(12,387,842)	12,387,842	**91,518,733**	(9,151,873)	9,151,873
Loans	**138,556**	(13,855)	13,855	**208,827**	(20,882)	20,882
		(12,936,525)	**12,936,525**		**(9,273,776)**	**9,273,776**
Effect on profit before tax		**(161,374)**	**161,374**		**(67,685)**	**67,685**
As percentage of profit before tax (%)		(2.79%)	2.79%		(1.81%)	1.81%

ii) Exposure to currency risk

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

The table below summarises foreign currency exposure to the Bank as at close of period.

CURRENCY TYPE	USD	GBP	EURO	JPY	CHF	ZAR	OTHERS	TOTAL
EXCHANGE RATE	81	125	108	1	86	12		
31 December 2010	**Kshs 000**	**Kshs 000**	**Kshs 000**	**Kshs 000**	**Kshs 000**	**Kshs 000**	**Kshs 000**	**Kshs 000**
FOREIGN CURRENCY ASSETS:								
Cash and balances with banks abroad	2,740,476	54,906	3,004,038	5,948	18,188	208,177	28,610	**6,060,343**
Loan and advances	3,072,851	42,134	27,833	-	-	2	31	**3,142,851**
Other foreign assets	10,433,740	164,215	5,892,589	17,586	15,977	31,671	8,101	**16,563,879**
Total statement of financial position items	16,247,067	261,255	8,924,460	23,534	34,165	239,850	36,742	**25,767,073**
Items not recognised in statement of financial position	8,251,886	125,176	5,446,568	-	-	134,175	107,843	**14,065,648**
Total foreign assets	**24,498,953**	**386,431**	**14,371,028**	**23,534**	**34,165**	**374,025**	**144,585**	**39,832,721**
FOREIGN CURRENCY LIABILITIES:								
Balances due to banks abroad	168,288	593	-	-	2	-	1	**168,884**
Deposits	4,962,283	100,357	2,986,347	1,167	-	16,467	6,438	**8,073,059**
Other foreign liabilities	11,015,822	176,260	5,925,802	21,790	17,543	219,084	11,951	**17,388,252**
Total statement of financial position items	16,146,393	277,210	8,912,149	22,957	17,545	235,551	18,390	**25,630,195**
Items not recognised in statement of financial position	8,251,886	125,176	5,446,568	-	-	134,175	107,843	**14,065,648**
Total Foreign liabilities	**24,398,279**	**402,386**	**14,358,717**	**22,957**	**17,545**	**369,726**	**126,233**	**39,695,843**
Net Exposure	**100,674**	**(15,955)**	**12,311**	**577**	**16,620**	**4,299**	**18,352**	**136,878**

ii) Exposure to currency risk *(Continued)*

CURRENCY TYPE EXCHANGE RATE 31 December 2009	USD 75.82 KShs`000	GBP 121.89 KShs`000	EURO 108.94 KShs`000	JPY 0.82 KShs`000	CHF 73.28 KShs`000	ZAR 10.22 KShs`000	OTHERS KShs`000	TOTAL 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
Items not recognised in statement of financial position	4,117,015	247,566	2,189,808	24,039	-	-	135,254	6,713,682
Total Foreign Assets	**14,242,093**	**1,044,566**	**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
Items not recognised in statement of financial position	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	**(18,711)**	**1,236**	**3,640**	**176**	**2,883**	**245**	**5,049**	**(5,482)**

ii) Exposure to currency risk *(Continued)*

Currency risk sensitivity analysis

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

	2010 Carrying amount KShs'000	10% appreciation	10% depreciation	2009 Carrying amount KShs'000	10% appreciation	10% depreciation
Foreign Currency Assets:						
USD	**24,498,953**	(2,449,895)	2,449,895	**14,242,093**	(1,424,209)	1,424,209
GBP	**386,430**	(38,643)	38,643	**1,044,566**	(104,456)	104,456
EURO	**14,371,028**	(1,437,102)	1,437,102	**8,046,701**	(804,670)	804,670
JPY	**23,534**	(2,353)	2,353	**41,229**	(4,122)	4,122
CHF	**34,165**	(3,416)	3,416	**4,128**	(412)	412
ZAR	**374,024**	(37,402)	37,402	**13,903**	(1,390)	1,390
Other currencies	**144,585**	(14,458)	14,458	**158,084**	(15,808)	15,808
		(3,983,269)	**3,983,269**		**(2,355,067)**	**2,355,067**
Foreign Currency Liabilities:						
USD	**24,398,280**	2,439,828	(2,439,828)	**14,260,804**	1,426,080	(1,426,080)
GBP	**402,385**	40,238	(40,238)	**1,043,330**	104,333	(104,333)
EURO	**14,358,717**	1,435,871	(1,435,871)	**8,043,061**	804,306	(804,306)
JPY	**22,957**	2,295	(2,295)	**41,053**	4,105	(4,105)
CHF	**17,545**	1,754	(1,754)	**1,245**	124	(124)
ZAR	**369,726**	36,972	(36,972)	**13,658**	1,365	(1,365)
Other currencies	**126,235**	12,623	(12,623)	**153,035**	15,303	(15,303)
		3,969,581	(3,969,581)		2,355,616	(2,355,616)
Effect on profit before tax		**(13,688)**	**13,688**		**549**	**(549)**
As percentage(%) of profit before tax		**(0.2%)**	**0.2%**		**0.01%**	**(0.01%)**

(D) Operational risk

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

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

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

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

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

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

4. CAPITAL MANAGEMENT

Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the Banking industry as a whole. The statutory minimum core capital is KShs 500 million. In implementing current capital requirements The Central Bank of Kenya requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

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

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

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

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

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

4. CAPITAL MANAGEMENT *(Continued)*

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

	2010	2009
Tier I Capital	**Kshs'000**	**Kshs'000**
Ordinary share capital	3,492,370	3,492,370
Share premium	4,286,736	4,286,736
Retained earnings	9,578,701	6,432,563
Other reserves	615,610	636,057
Less: Investments in equity of other institutions	(2,120)	(24,310)
Core Capital	**17,971,297**	**14,823,416**
Tier II Capital:		
Revaluation reserves	86,696	88,510
Term subordinated debt	138,556	203,974
Loan loss provisions	204,954	203,019
Supplementary capital	430,206	495,503
Total regulatory capital	**18,401,503**	**15,318,919**
Total risk weighted assets	**111,233,493**	**72,927,893**
Capital ratios:		
Core capital to Total deposit liabilities (CBK minimum 8%)	14.4%	16.0%
Core capital to Total risk weighted assets (CBK minimum 8%)	16.2%	20.3%
Total capital to Total risk weighted assets (CBK minimum 12%)	16.5%	21.0%

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. 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 2010 or 2009.

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 2010	Wholesale Banking KShs'000	Retail Banking KShs'000	Un-allocated KShs'000	Total KShs'000
Net interest income	3,901,606	5,231,760	369,142	**9,502,508**
Non-funded income	2,678,482	3,034,122	455,758	**6,169,406**
Operating income	6,580,088	8,265,882	825,944	**15,671,914**
Depreciation	(61,456)	(478,039)	(313,859)	**(853,354)**
Amortisation	(6,979)	(54,292)	(35,646)	**(96,917)**
Other Operating expenses	(653,830)	(5,085,952)	(3,339,220)	**(9,079,002)**
Operating profit	5,857,823	2,647,599	(2,862,781)	**5,642,641**
Share of profit in associate	-	-	129,977	**129,977**
Profit before tax	**5,857,823**	**2,647,599**	**(2,733,848)**	**5,772,618**

Profit or loss for the year ended 31 December2009				
Net interest income	2,453,001	4,568,359	32,395	**7,053,755**
Non-funded income	1,449,684	2,306,012	908,734	**4,664,430**
Operating income	3,902,685	6,874,371	941,129	**11,718,185**
Depreciation	(42,717)	(337,974)	(224,698)	**(605,389)**
Amortisation	(5,962)	(47,172)	(31,361)	**(84,495)**
Other Operating expenses	(514,574)	(4,071,289)	(2,706,743)	**(7,292,606)**
Profit before tax	3,339,432	2,417,936	(2,021,673)	**3,735,695**

5. SEGMENT REPORTING *(Continued)*

	Wholesale Banking KShs'000	Retail Banking KShs'000	Un-allocated KShs'000	Total KShs'000
Statement of financial position as at 31 December 2010				
Assets				
Segment assets	100,416,215	47,965,168	-	**148,381,383**
Unallocated assets	-	-	5,961,597	**5,961,597**
Total Assets	**100,416,215**	**47,965,168**	**5,961,597**	**154,342,980**
Liabilities and equity				
Segment liabilities	76,632,480	49,887,863	-	**126,520,343**
Unallocated liabilities	-	-	27,822,637	**27,822,637**
Inter-segment lending	23,783,735	(1,922,695)	(21,861,040)	**-**
Total liabilities and equity	**100,416,215**	**47,965,168**	**5,961,597**	**154,342,980**
Statement of financial position as at 31 December 2009				
Assets				
Segment assets	73,448,868	35,051,525	-	**108,500,393**
Unallocated assets	-	-	2,177,698	**2,177,698**
	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**

Geographical information

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

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

a) Determination of fair value and fair value hierarchy

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

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

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

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

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

	Level 1	Level 2	Level 3	Total
As at 31 December 2010	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Held-for-trading investments:				
Treasury bonds	4,030,262			**4,030,262**
Unquoted equities	-	-	54,319	**54,319**
Available-for-sale investment				
Treasury bonds	16,188,611	-	-	**16,188,611**
Corporate bonds	4,185,500	-	-	**4,185,500**
	24,404,373	**-**	**54,319**	**24,458,692**
As at 31 December 2009				
Held-for-trading investments:				
Treasury bonds	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 9 (b).

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

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

	2010 Carrying amount	Fair value	2009 Carrying amount	Fair value
Financial assets	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cash and balances with Central Bank of Kenya	14,033,477	14,033,477	8,551,464	8,551,464
Deposits and balances due from other banks	6,741,854	6,741,854	4,642,338	4,642,338
Held-to-maturity investments	9,954,855	9,954,855	22,081,293	21,687,412
Loans and advances to customers	86,618,311	86,618,311	62,274,194	62,274,194
	117,348,497	**117,348,497**	**97,549,289**	**97,155,408**
Financial liabilities				
Deposits and balances due to banks	5,348,291	5,348,291	1,010,216	1,010,216
Customer deposits	123,878,422	123,878,422	91,518,733	91,518,733
Loans	138,556	138,556	208,827	208,827
	129,365,269	**129,365,269**	**92,737,776**	**92,737,776**

6. FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

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

i) Assets for which fair value approximates carrying value

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

ii) Loans and advances to customers

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

(iii) Deposits from banks and due to customers

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

iv) Loans

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

7. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	Group and Bank	
	2010	**2009**
	KShs'000	**KShs'000**
Cash on hand	5,298,211	4,202,707
Central Bank of Kenya:		
Restricted balances (Cash Reserve Ratio)	5,277,670	3,845,168
Unrestricted balances available for use by the Group	3,457,596	503,589
	14,033,477	**8,551,464**

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 2010, the Cash Reserve Ratio requirement was 4.5% (2009 – 4.5%) of all deposits. These funds are not available for use by the Group in its day to day operations.

8. DEPOSITS AND BALANCES DUE FROM BANKS

	Group		Bank	
	2010 KShs'000	2009 KShs'000	2010 KShs'000	2009 KShs'000
Local banks	1,958,487	1,007,200	1,887,890	1,007,200
Foreign banks	4,783,367	3,635,138	4,783,367	3,635,138
	6,741,854	**4,642,338**	**6,671,257**	**4,642,338**

9. HELD-FOR-TRADING INVESTMENTS

	Group		Bank	
	2010	2009	2010	2009
a) Treasury Bonds	KShs'000	KShs'000	KShs'000	KShs'000
Maturing within 91 days of reporting date	86,052	283,726	86,052	283,726
Maturing after 91 days of reporting date	3,944,210	4,078,755	3,852,824	3,986,414
	4,030,262	4,362,481	3,938,876	4,270,140

The weighted average effective interest rate on government and other securities held-for-trading at 31 December 2010 was 8.35% (2009- 11.20%).

b) Equity Investments				
Consolidated Bank of Kenya Ltd:-				
135,000 ordinary shares of KShs 20 each	2,700	2,700	2,700	2,700
580,000 4% non-cumulative preference shares of KShs 20 each	11,600	11,600	11,600	11,600
Co-operative Insurance Company Ltd:-				
943,388 ordinary shares of KShs 21.30 each	-	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
	44,309	65,399	44,309	65,399
Less: Provision for diminution in value of investment in Consolidated Bank of Kenya Ltd	(12,180)	(11,080)	(12,180)	(11,080)
	32,129	54,319	32,129	54,319
Total held -for -trading investments	4,062,391	4,416,800	3,971,005	4,324,459

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

10. HELD-TO-MATURITY INVESTMENTS

	Group		Bank	
	2010 KShs'000	2009 KShs'000	2010 KShs'000	2009 KShs'000
Government treasury bills				
Maturing within 91 days of the reporting date	7,978,591	3,459,706	7,978,591	3,459,706
Maturing after 91 days of the reporting date	1,976,264	5,779,073	1,976,264	5,779,073
Treasury Bonds:				
Maturing within 91 days of the reporting date	-	1,267,761	-	1,267,761
Maturing after 91 days of the reporting date	-	8,069,153	-	8,069,153
Corporate bonds:				
Maturing within 91 days of the reporting date	-	-	-	-
Maturing after 91 days of the reporting date	-	3,505,600	-	3,505,600
	9,954,855	22,081,293	9,954,855	22,081,293

11. AVAILABLE- FOR -SALE INVESTMENTS

Treasury Bonds:				
Maturing within 91 days of the reporting date	1,721,612	-	1,721,612	
Maturing after 91 days of the reporting date	14,466,999	-	14,465,243	
Corporate bonds:				
Maturing within 91 days of the reporting date	-	-	-	-
Maturing after 91 days of the reporting date	4,185,500	-	4,185,500	-
	20,374,111	-	20,372,355	-
Movement in the year				
At start of the year	12,842,514	-	12,842,514	-
Additions	15,283,233	-	15,281,588	-
Disposals	(8,099,918)	-	(8,099,918)	-
Change in fair value	348,282	-	348,171	-
	20,374,111	-	20,372,355	-

In 2010, the Bank disposed significant amount of corporate bonds held-to-maturity. Consenquently, all treasury and corporate bonds held-to-maturity were reclassified to available-for-sale-investments category. The related change in fair value was recognised as other comprehensive income.

The weighted average effective interest rate on held-to-maturity investments as at 31 December 2010 was 3.24% (2009- 8.76%) and 10.19% (2009- none held) for available for sale investments.

12. LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
	2010	2009	2010	2009
A) Net Loans and Advances	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Finance lease receivables (note 12 d)	2,667,353	1,869,073	2,667,353	1,869,073
Overdrafts	7,035,320	2,441,441	7,035,320	2,441,668
Commercial loans	77,145,602	58,483,851	77,145,602	58,483,851
Government/Donor funded loan schemes	1,316,526	1,551,628	1,316,526	1,551,628
Credit card balances	554,731	535,632	554,731	535,632
Micro enterprises	2,245,407	1,738,852	2,245,407	1,738,852
Gross loans and advances	**90,964,939**	**66,620,477**	**90,964,939**	**66,620,704**
Impairment losses on loans and advances (note 12 e)	(4,346,628)	(4,346,283)	(4,346,628)	(4,346,283)
	86,618,311	**62,274,194**	**86,618,311**	**62,274,421**
b) Aging:				
Repayable on demand	3,986,206	8,110,849	3,986,206	8,111,076
1-3 months	1,843,137	657,440	1,843,137	657,440
3-12 months	9,135,990	4,718,907	9,135,990	4,718,907
1-5 years	52,550,610	44,521,438	52,550,610	44,521,438
Over 5 years	23,448,996	8,611,843	23,448,996	8,611,843
Gross loans and advances	**90,964,939**	**66,620,477**	**90,964,939**	**66,620,704**

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

	Group and Bank	
	2010	**2009**
	%	%
Finance lease receivables	12.7	13.9
Overdrafts	13.7	16.7
Commercial loans	10.9	11.3
Government/Donor funded loan schemes	5.2	5.1
Credit card balances	42.0	42.0
Micro enterprises	25.6	22.7

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

	Group and Bank	
	2010	**2009**
	KShs'000	**KShs'000**
d) Analysis of finance lease receivables:		
Repayable on demand	108,858	133,232
1-3 months	217,716	144,017
3-12 months	979,379	264,043
1-5 years	2,504,340	2,079,640
Gross Investment in finance leases	3,810,293	2,620,932
Unearned future finance income	(1,142,940)	(751,859)
Present value of minimum lease payments receivable	**2,667,353**	**1,869,073**

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 Bank 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 (2009: nil). The accumulated allowances for uncollectible minimum lease payments receivable are nil (2009: nil).

e) Impairment losses on loans and advances:

Group and Bank	**Specific impairment losses KShs'000**	**Collective impairment losses KShs'000**	**Total KShs'000**
Balance at 1 January 2010	3,702,192	644,091	4,346,283
Impairment losses during the year through profit or loss	525,668	272,998	798,666
Interest on impaired loans not recognised as income	19,788	-	19,788
Impairment losses written off during the year	(504,215)	-	(504,215)
Amounts released to income	(313,894)	-	(313,894)
Balance at 31 December 2010	**3,429,540**	**917,089**	**4,346,628**
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**

f) The Bank continues to carry classified impaired and delinquent accounts on its books even after making allowances for impairment in accordance with IAS 39. Interest is accrued on these accounts for contractual/ litigation purposes only and accordingly not taken to income. The carrying amount of such accounts/loans at year end was KShs 4.9 billion (2009 - KShs 6.5 billion).

13. INVESTMENT IN SUBSIDIARIES

The following subsidiaries are owned by the Bank:-

Company	Ownership	Status	2010 KShs'000	2009 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	100%	Active	70,000	40,000
Co-optrust Investment Services Ltd	100%	Active	20,000	20,000
Kingdom Securities Limited	60%	Active	150,000	150,000
			280,000	250,000

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

14. INVESTMENT IN ASSOCIATE

The Bank invested an additional KShs 100 million in Co-operative Insurance Company (CIC) Limited in August 2010. This resulted in the interest held in the company increasing from 4% to 21%. In addition, the Bank appointed two directors in the Board level of CIC.

CIC Ltd is a private entity incorporated in Kenya whose principal activity is insurance business. The company is not listed on any public exchange.

	Group		Bank	
	2010 KShs'000	2009 KShs'000	2010 KShs'000	2009 KShs'000
At start of the year	-	-	-	-
Cost on acquisition	121,090	-	121,090	-
Post acquisition share of profit	144,892	-	-	-
Intra-group transactions	(9,541)	-	-	-
At end of year	**256,441**	**-**	**121,090**	**-**

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

	2010 KShs'000	As at 1 August 2010 KShs'000
Share of the associate's statement of financial position:		
Total assets	1,449,415	892,598
Total liabilities	(954,134)	(657,182)
Equity	**495,281**	**235,416**

15. OTHER ASSETS

	Group		Bank	
	2010 KShs'000	2009 KShs'000	2010 KShs'000	2009 KShs'000
Interest receivable	1,011,081	930,715	1,011,081	930,715
Items in the course of collection from other banks	366,306	340,550	366,306	340,550
Deposits with default financial Institutions	43,052	43,052	43,052	43,052
Prepaid expenses	179,910	137,176	179,910	137,176
Sundry debtors and prepayments	3,758,430	990,571	3,684,678	967,280
	5,358,779	2,442,064	5,285,027	2,418,773
Impairment losses on deposits with default financial institutions	(43,052)	(43,052)	(43,052)	(43,052)
	5,315,727	2,399,012	5,241,975	2,375,721

16. INTANGIBLE ASSETS

(a) Group

	Computer Software KShs'000	Other intangible assets KShs'000	2010 Total KShs'000	2009 Total KShs'000
Cost/Valuation				
Cost at 1 January	495,517	251,000	746,517	883,110
Transfers from Work in Progress				77,236
Additions	142,591	-	142,591	55,874
Write down of value	-	-	-	(519,683)
Revaluation	-	-	-	249,980
Cost at 31 December	638,108	251,000	889,108	746,517
Accumulated amortisation at 1 January	205,252	-	205,252	631,696
Write back of amortisation	-	-	-	(510,939)
Amortisation for the year	96,917	-	96,917	84,495
Accumulated amortisation at 31 December	302,169	-	302,169	205,252
Net book value at 31 December	335,939	251,000	586,939	541,265

Other intangible assets consist of NSE seat in Kingdom Securities Limited. The NSE seat was revalued to KShs 251 million as at 31 December 2009 by the Board of Nairobi Stock Exchange based on the last open market purchase price for a seat at the Nairobi bourse.

16. INTANGIBLE ASSETS *(Continued)*

(b) Bank	**2010**	**2009**
	KShs'000	**KShs'000**
Computer software		
Cost at 1 January	473,027	860,997
Transfers from Work in Progress	-	77,236
Additions	142,591	54,477
Write down of value	-	(519,683)
Cost at 31 December	615,618	473,027
Accumulated amortisation at 1 January	186,573	615,129
Write back of amortisation	-	(510,939)
Amortisation for the year	95,623	82,383
Accumulated amortisation at 31 December	282,196	186,573
Net book value at 31 December	333,422	286,454

Amortisation has not been charged in arriving at the results for the year in respect of certain fully amortised software assets with a cost of KShs. 57,776,468 (2009- KShs. Nil), 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.11,555,293 (2009- Nil).

17. PREPAID LEASE RENTALS

	Group and Bank	
	2010	**2009**
	KShs'000	**KShs'000**
Cost at 1 January	54,568	55,568
Disposal	-	(1,000)
Cost at 31 December	54,568	54,568
Amortisation:		
At 1 January	13,864	14,251
Disposal	-	(1,000)
Charge for the year	613	613
At 31 December	14,477	13,864
Net book value at 31 December	40,091	40,704

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

18 (a) PROPERTY AND EQUIPMENT - GROUP

COST/VALUATION	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
At 1 January 2010	1,470,997	1,181,020	1,918,957	1,034,825	154,285	2,087,419	7,847,503
Additions	-	989,230	100,995	177,365	12,939	322,374	1,602,903
Disposals	-	-	(26,862)	(529)	(20,564)	(1,200)	(49,155)
Impairment	-	(16,713)	-	-	-	-	(16,713)
Reclassifications	-	-	-	(45)	-	45	-
Transfer from WIP	-	(1,415,211)	1,275,251	-	-	139,960	-
At 31 December 2010	1,470,997	738,326	3,268,341	1,211,616	146,660	2,548,598	9,384,538
Comprising:							
Cost	1,271,413	738,326	3,268,341	1,211,616	146,660	2,548,598	9,184,954
Valuation	199,584	-	-	-	-	-	199,584
	1,470,997	738,326	3,268,341	1,211,616	146,660	2,548,598	9,384,538
DEPRECIATION							
At 1 January 2010	46,852	-	451,813	453,384	71,388	1,172,656	2,196,093
Charge for the year	46,851	-	311,810	175,677	23,868	295,148	853,354
Disposals	-	-	(1,045)	(399)	(18,783)	(476)	(20,703)
At 31 December 2010	93,703	-	762,578	628,662	76,473	1,467,328	3,028,744
NET BOOK VALUE							
At 31 December 2010	1,377,294	738,326	2,505,763	582,954	70,187	1,081,270	6,355,794

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

ii. Land and Buildings were revalued on open market value basis by professional valuers (Manclem Valuers) as at 31 December 2009. 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 KShs38,926,467 (2009- KShs38,926,467) against which no depreciation has been charged, as these are pieces of land.

iv. No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs1,121,093.974.05(2009- KShs 803,230,910), 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.222,889,265.6 (2009- KShs160,646,182). Included in these fully depreciated assets is KShs Nil (2009-KShs.Nil) 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.

18 (a) PROPERTY AND EQUIPMENT - GROUP

COST/VALUATION	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
At 1 January 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 Bank.

ii. Land and Buildings were revalued on open market value basis by professional valuers (Manclem Valuers) as at 31 December 2009. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve

iii. eehold 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.

18 (b) PROPERTY AND EQUIPMENT - BANK

COST/VALUATION	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
At 1 January 2010	1,470,997	1,181,020	1,904,628	1,026,771	150,519	2,078,862	7,812,797
Additions	-	989,230	88,462	176,429	12,939	321,610	1,588,670
Disposals	-	-	-	(246)	(20,564)	(1,082)	(21,892)
Impairment	-	(16,713)	-	-	-	-	(16,713)
Reclassifications	-	-	-	-	-	-	-
Transfer from WIP	-	(1,415,211)	1,275,251	-	-	139,960	-
At 31 December 2010	1,470,997	738,326	3,268,341	1,202,954	142,894	2,539,350	9,362,862
Comprising:							
Cost	1,271,413	738,326	3,268,341	1,202,954	142,894	2,539,350	9,163,278
Valuation	199,584	-	-	-	-	-	99,584
	1,470,997	738,326	3,268,341	1,202,954	142,894	2,539,350	9,362,862
DEPRECIATION							
At 1 January 2010	46,852	-	450,769	450,430	70,886	1,167,985	2,186,922
Charge for the year	46,851	-	311,810	174,136	23,115	293,735	849,647
Disposals	-	-	-	(178)	(18,783)	(441)	(19,402)
Impairment	-	-	-	-	-	-	-
At 31 December 2010	93,703	-	762,579	624,388	75,218	1,461,279	3,017,167
NET BOOK VALUE At 31 December 2010	1,377,294	738,326	2,505,762	578,566	67,676	1,078,071	6,345,695
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

19. DEFERRED TAX

Deferred tax movement and balances are analysed as follows:

GROUP	2010 KShs'000	Profit or loss KShs'000	Other comprehensive income KShs'000	Equity KShs'000	2009 KShs'000
Collective allowance for impairment disallowed for tax purposes	(183,418)	54,600	-	-	(128,818)
Revaluation surplus	66,817	-	-	3,628	70,445
Accelerated depreciation over wear and tear	49,198	(63,277)	-	-	(14,079)
Unrealised exchange gains	110,805	(110,805)	-	-	-
Provisions and other deferred tax assets	19,487	(26,646)	-	-	(7,159)
Change in fair value on available for sale	71,288	-	(71,288)	-	-
	134,177	(146,128)	(71,288)	3,628	(79,611)
BANK					
Collective allowance for impairment disallowed for tax purposes	(183,418)	54,600	-	-	(128,818)
Revaluation surplus	66,817	-	-	3,628	70,445
Accelerated depreciation over wear and tear	49,689	(62,925)	-	-	(13,236)
Unrealised exchange gains	110,805	(110,805)	-	-	-
Provisions and other deferred tax assets	19,413	(26,448)	-	-	(7,035)
Change in fair value on available for sale	69,634	-	(69,634)	-	-
	132,940	(145,578)	(69,634)	3,628	(78,644)

20. DEPOSITS AND BALANCES DUE TO BANKS

	Group and Bank	
	2010 KShs'000	2009 KShs'000
Balances due to Central Bank	2,699,244	-
Deposits and balances due to other banks	2,649,047	1,010,216
	5,348,291	1,010,216

In the ordinary course of business, the Group borrows from Central Bank of Kenya as is deemed necessary. On 31 December 2010 the effective interest rate was 1.5%.

The weighted average effective interest rate on deposits from other banks at 31 December 2010 was 6.64% (2009-8.98%)

21. CUSTOMER DEPOSITS

a)	Group 2010 KShs'000	Group 2009 KShs'000	Bank 2010 KShs'000	Bank 2009 KShs'000
Call deposits	7,515,994	6,105,638	7,515,994	6,105,638
Fixed deposits	36,675,247	23,234,391	36,675,247	23,234,391
Transaction accounts	33,901,293	26,421,982	33,901,293	26,421,982
Savings accounts	2,111,929	1,079,376	2,111,929	1,079,376
Current accounts	35,715,382	28,842,619	35,857,999	28,876,394
Foreign currency deposits	7,958,577	5,834,727	7,958,577	5,834,727
	123,878,422	**91,518,733**	**124,021,039**	**91,552,508**
b) From government and parastatals:-				
Payable on demand	6,720,191	4,661,281	6,720,191	4,661,281
Payable within 30 days	2,016,971	2,672,015	2,016,971	2,672,015
Payable after 30 days but within 1 year	19,940,767	14,746,464	19,940,767	14,746,464
	28,677,929	22,079,760	28,677,929	22,079,760
From private sector and individuals:-				
Payable on demand	64,467,863	51,137,330	64,610,480	51,171,105
Payable within 30 days	5,619,546	3,480,561	5,619,546	3,480,561
Payable after 30 days but within 1 year	25,113,084	14,821,082	25,113,084	14,821,082
	95,200,493	69,438,973	95,343,110	69,472,748
	123,878,422	**91,518,733**	**124,021,039**	**91,552,508**

Included in customers' deposits is an amount of KShs 2,492 Million (2009- KShs 3,300 Million) that have been pledged to the Bank by customers as security for loans and advances.

The weighted average effective interest rate on interest-bearing customer deposits as at 31 December was 2.08% (2009-6.6%).

22. LOANS

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

	Group 2010 KShs'000	Group 2009 KShs'000	Bank 2010 KShs'000	Bank 2009 KShs'000
IFAD	30,000	30,000	30,000	30,000
European Investment Bank	14,493	25,724	14,493	25,724
AFD Microfinance	32,063	56,250	32,063	56,250
Women Enterprise Fund	62,000	92,000	62,000	92,000
Others	-	4,853	-	-
	138,556	**208,827**	**138,556**	**203,974**

22. LOANS *(Continued)*

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 Bank holds the funds for onward lending to customers.

European Investment Bank

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

AFD Microfinance

The loan agreement was entered into on 14 February 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.

23. PROVISIONS

	Group and Bank	
	2010	**2009**
	KShs'000	**KShs'000**
Leave liability	56,126	26,123
Other provisions	-	33,053
	56,126	**59,176**
Movement in provisions		
Balance at 1 January	59,176	272,865
Provisions arising during the year	33,053	30,057
Provisions utilised during the year	(36,103)	(243,746)
Balance at 31 December	**56,126**	**59,176**

24. INCOME TAX EXPENSE

	Group		Bank	
	2010 KShs'000	**2009 KShs'000**	**2010 KShs'000**	**2009 KShs'000**
a) Profit or loss:-				
Current tax at 20% (2009 - 20%) on the taxable profit for the year	1,048,153	788,733	1,036,580	788,733
Over-provision in previous years	(2,361)	(11,359)	(2,361)	(11,516)
Deferred tax charge/(credit)	146,128	(9,676)	145,578	(9,220)
Others	-	35	-	-
	1,191,920	767,733	1,179,797	767,997
b) Statement of financial position:-				
Balance brought forward	110,843	133,789	116,347	133,493
(Over)/Under-provision in previous years	(2,691)	(11,359)	(2,361)	(11,516)
Charge for the year	1,048,153	788,733	1,036,580	788,733
Paid during the year	(980,723)	(800,320)	(979,446)	(794,363)
	175,582	110,843	171,120	116,347
c) Reconciliation of tax expense to tax based on accounting profit:-				
Accounting profit	5,781,042	3,735,695	5,559,028	3,735,695
Tax applicable rate (Bank 20%, Subsidiaries 30%)	1,139,854	751,209	1,111,806	745,371
(Over)/Under-provision in previous years	(2,691)	(11,359)	(2,361)	(11,516)
Tax effect of items not eligible for tax	54,757	27,848	70,352	34,142
Others	-	35	-	-
Tax in the statement of comprehensive income	1,191,920	767,733	1,179,797	767,997

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

25 OTHER LIABILITIES

	Group		Bank	
	2010 KShs'000	**2009 KShs'000**	**2010 KShs'000**	**2009 KShs'000**
Interest payable:				
Customer deposits	446,403	487,283	446,403	487,283
Loans and borrowings	2,287	770	2,287	770
Sundry creditors and accruals	3,564,038	990,651	3,473,318	997,840
	4,012,728	**1,478,704**	**3,922,008**	**1,485,893**

26. SHARE CAPITAL

	Group and Bank	
	2010 KShs'000	2009 KShs'000
Authorised :-		
3,700,000,000 (2009: 3,700,000,000) ordinary shares of KShs 1 each.	3,700,000	3,700,000
Issued and fully paid:		
3,492,370,900 (2009: 3,492,370,900) ordinary shares of KShs 1 each.	3,492,370	3,492,370

27. SHARE PREMIUM

These reserves arose in 2008 when the Bank issued 557,242,300 new shares through an Initial Public Offering. The shares, with a par value of KShs 1 were issued at KShs9.50. These reserves may be applied towards capital in the future.

28. RESERVES

	Group		Bank	
	2010 KShs'000	2009 KShs'000	2010 KShs'000	2009 KShs'000
Revaluation reserve	346,782	354,039	346,782	354,039
Retained earnings	9,851,595	6,514,270	9,580,515	6,432,563
Available for sale reserve	282,369	-	278,537	-
Statutory reserve	204,954	203,019	204,954	203,019
	10,685,700	**7,071,328**	**10,410,788**	**6,989,621**

Revaluation Reserve

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

Retained earnings

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

Statutory reserve

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

Available for sale reserve

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

29. CAPITAL GRANTS

	Group and Bank	
	2010	2009
	KShs'000	KShs'000
Grant net of amortisation at 1 January	636,058	656,505
Amortisation for the year	(20,447)	(20,447)
At 31 December	**615,611**	**636,058**

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 Bank	
	2010	2009
	KShs'000	KShs'000
Proposed dividends	1,396,948	698,474

(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 2010 financial statements, a first and final dividend in respect of year 2010 of KShs. 0.40 (2009 - KShs 0.20) 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		Bank	
	2010	2009	2010	2009
	KShs'000	KShs'000	KShs'000	KShs'000
Loans and advances to customers	8,980,117	7,285,907	8,980,117	7,285,907
Finance leases	294,794	174,508	294,794	174,508
Investment securities:				
Held-to-maturity	1,008,432	831,852	1,008,432	831,852
Available for sale investments	1,510,767	670,082	1,501,128	669,905
Deposits and balances due from other banks	32,636	101,278	31,723	100,532
Interest on previously impaired loans	313,894	284,468	313,894	284,468
	12,140,640	9,348,095	12,130,088	9,347,172

32. INTEREST EXPENSE

	Group and Bank	
	2010	2009
	KShs'000	KShs'000
Call deposits	232,515	330,350
Fixed deposits	1,558,028	1,340,944
Savings accounts	202,519	203,647
Current accounts	417,051	319,334
Deposits and balances due to banks	83,322	58,222
Loans	139,893	39,647
Other borrowings	4,804	2,196
	2,638,132	**2,294,340**

33. FEES AND COMMISSIONS

	Group		Bank	
	2010	2009	2010	2009
	KShs'000	KShs'000	KShs'000	KShs'000
Fees and commissions on loans and advances	908,280	637,454	908,280	637,454
Ledger fees & service charges	563,422	529,161	563,422	529,161
Other fees and commissions	2,912,816	2,248,859	2,708,238	2,132,110
	4,384,518	**3,415,474**	**4,179,940**	**3,298,725**

34. OTHER INCOME

	Group		Bank	
	2010	2009	2010	2009
	KShs'000	KShs'000	KShs'000	KShs'000
Gain / (loss) on disposal of property and equipment	4,173	(1,345)	4,173	(1,345)
Dividend income	6,563	7,154	6,563	7,154
Franchise project	-	7,551	-	7,551
Rental income (net)	55,291	44,474	55,291	44,474
Insurance premium rebate	-	20,272	-	20,272
Discount on acquisition of a subsidiary	-	17,142	-	-
Loan recoveries	24,325	234,880	24,325	234,880
Miscellaneous	260,831	254,920	249,853	247,232
	351,183	**585,048**	**340,205**	**560,218**

35. OTHER OPERATING EXPENSES

	Group		Bank	
	2010	**2009**	**2010**	**2009**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
a) Salaries and wages (35 b)	4,493,620	3,844,312	4,417,583	3,777,942
Depreciation on property and equipment	853,354	605,389	849,647	600,100
Rent and maintenance costs for branch premises	551,904	400,973	545,761	398,891
Motor vehicle running & other equipment maintenance	426,008	351,561	425,136	349,533
Stationery & printing	311,826	236,798	309,918	234,987
Travelling & insurance	279,670	236,079	260,252	212,413
Telephone, postage, electricity & water	413,652	314,102	412,852	313,300
Contribution to Deposit Protection Fund	120,892	94,069	120,892	94,069
Amortisation of intangible assets	96,821	84,495	95,623	82,383
Amortisation of leasehold land	613	613	613	613
Directors' emoluments	89,887	75,512	71,619	63,639
Other operating & administrative expenses	1,592,356	1,110,203	1,535,958	1,071,661
	9,230,603	**7,354,106**	**9,045,854**	**7,199,531**
b) Salaries and wages:				
Basic salaries	3,750,066	2,779,336	3,689,320	2,730,204
Allowances	113,855	522,014	111,642	513,365
Pension scheme contribution	432,333	359,128	426,315	355,624
Medical expenses	123,468	87,036	121,304	85,624
Others	73,898	96,798	69,002	93,125
	4,493,620	**3,844,312**	**4,417,583**	**3,777,942**

36. PROFIT BEFORE TAX

Profit before tax is stated after charging:-

	Group		Bank	
	2010	**2009**	**2010**	**2009**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Staff costs	4,493,620	3,844,312	4,417,583	3,777,942
Directors' emoluments:				
- Fees	79,608	56,087	66,243	51,792
- Others	10,279	19,425	5,376	11,847
Depreciation on property and equipment	853,354	605,389	849,647	600,100
Amortisation of leasehold land	613	613	613	613
Amortisation of intangible assets	96,917	84,495	95,623	82,383
Auditors' remuneration	9,485	8,998	7,600	7,350
Impairment of loans and advances	798,666	628,384	798,666	628,384
Contribution to Deposit Protection Fund	120,892	94,069	120,892	94,069
Contribution to staff retirement benefit scheme	432,333	359,128	426,315	355,624
and after crediting:-				
Foreign exchange gains	621,201	375,887	621,201	375,887
Gain / (loss) on disposal of property and equipment	4,173	(1,345)	4,173	(1,345)
Net rental income	55,291	44,474	55,291	44,474
Amortisation of capital grants	20,447	20,447	20,447	20,447
Interest on previously impaired loans	313,894	284,468	313,894	284,468

37. BASIC AND DILUTED EARNINGS PER SHARE

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

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. 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		Bank	
	2010	**2009**	**2010**	**2009**
Profit for the year attributable to shareholders (KShs'000)	4,568,580	2,975,831	4,379,231	2,958,856
Weighted average number of ordinary shares at 31 December	3,492,370	3,492,370	3,492,370	3,492,370
Basic and diluted earnings per share (KShs)	1.31	0.85	1.25	0.85

38. CASH AND CASH EQUIVALENTS

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

	Group		Bank	
	2010	**2009**	**2010**	**2009**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Cash on hand	5,298,211	4,202,707	5,298,211	4,202,707
Cash with Central Bank of Kenya	8,735,266	4,348,757	8,735,266	4,348,757
Deposits and balances due from banking institutions	6,741,854	4,642,338	6,671,257	4,642,338
Items in the course of collection from other Banks	366,306	340,550	366,306	340,550
Government securities and other investments maturing within 91 days	9,786,255	5,011,193	9,786,255	5,011,193
	30,927,892	18,545,545	30,857,295	18,545,545
Less: CBK Cash ratio	(5,277,670)	(3,845,168)	(5,277,670)	(3,845,168)
Cash and cash equivalents	**25,650,222**	**14,700,377**	**25,579,625**	**14,700,377**

39. RELATED PARTY TRANSACTIONS

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

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

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

	2010	**2009**
	KShs'000	**KShs'000**
Directors	152,102	132,306
Employees	4,116,202	3,543,965
	4,268,304	**3,676,271**

The weighted average interest on loans to related parties during the year was 4.7% (2009-4.3%). The interest income earned on loans and advances to directors, employees and associates amounted to KShs 179,608,624 (2009-KShs137,804,348). 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 (2009-Nil).

39. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Inter-company balances and transactions:-

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

	Bank	
	2010	**2009**
	KShs'000	**KShs'000**
Due from:-		
Kingdom Securities Limited	1,812	16,085
Co-operative Consultancy Limited	-	1,604
Co-opholdings Co-operative Society Limited	19,433	28,408
	21,245	46,097
Due to:-		
Co-operative Consultancy Limited	17,422	404
Co-optrust Investment Services Limited	-	2,887
	17,422	3,291
Interest expenses:-		
Directors and staff	15,118,991	14,344,999
Insurance premium:-		
Co-operative Insurance Company Limited	266,294	-

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

Deposits held with the Bank as at 31 December 2010 for subsidiaries and associate companies amounted to KShs 1,092,255,640 (2009-KShs 33,775,254). Deposits from directors and staff amounted to KShs 250,980,533 (2009 - KShs239, 462,598).

(c) Compensation of key management personnel

	Group		Bank	
	2010	**2009**	**2010**	**2009**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Directors	89,887	75,512	71,619	63,639
Senior managers	**636,786**	**485,035**	**611,811**	**469,718**

(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 2010, KShs 38 Million (2009- KShs 30 million) was disbursed to the Foundation. At 31 December 2010, the Foundation held deposits of KShs 22,715,319 (2009- KShs 8,841,616) with the Bank.

40. RELATED PARTY TRANSACTIONS *(Continued)*

(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 Co-operative Bank of Kenya Limited and its subsidiaries. The Group contributed KShs.420,165,165 (2009- KShs 350,322,008) as at 31 December 2010. Under the terms of their appointment, Co-optrust Investment Services Limited is responsible for the investment of funds and is a related entity to the Scheme by virtue of shareholding. Deposits held by the Bank on behalf of the Scheme were nil (2009-Nil).

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

	2010	2009
	KShs'000	KShs'000
Rent received from the scheme	4,480	4,722
Scheme Administration fees paid by the Bank	3,691	4,722
Dividends paid by the Bank's ordinary shares	3,061	2,442

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

	Group and Bank	
	2010	2009
Management	301	268
Supervisory and unionisable	2,414	2,021
Others	51	163
	2,766	**2,452**

41. OPERATING LEASE COMMITMENTS

As lessor:

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

	Group and Bank	
	2010	2009
	KShs'000	KShs'000
Within one year	76,831	49,159
Between 2 and 5 years	282,466	198,618
Over 5 years	40,188	4,160
	399,486	**251,937**

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

41. OPERATING LEASE COMMITMENTS *(Continued)*

As lessee:

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

	Group and Bank	
	2010	**2009**
	KShs'000	**KShs'000**
Within one year	315,575	301,765
Between 2 and 5 years	792,118	850,242
Over 5 years	66,419	81,461
	1,174,112	**1,233,468**

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.

42. COMMITMENTS

	Group and Bank	
	2010	**2009**
	KShs'000	**KShs'000**
i) Capital: Authorised and contracted for	481,234	211,593
ii) Capital: Authorised and not contracted for	2,419,160	2,410,906
iii) Loans committed but not disbursed at year end	831,573	189,392

43. CONTINGENT LIABILITIES

	Group and Bank	
	2010	**2009**
	KShs'000	**KShs'000**
a) Not recognised in statement of financial position		
Letters of credit, guarantees, acceptances, and other engagements entered into on behalf of customers	15,718,941	7,662,651

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.

43. CONTINGENT LIABILITIES *(Continued)*

b) Pending legal suits

i) Raki Investments Limited

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

ii) Kenya Continental Holdings

This is a claim for KShs 193,814,764 against the Bank seeking injunction against sale of company's security alleging fraud and misrepresentation on the part of the Bank. The Bank has a counterclaim amounting to KShs 521,318,439 against the debtor.

iii) Boaz Mathews Ouma Awiti & three others

This is a claim for KShs 31,864,120 against the Bank relating to the sale and purchase of shares in Bob Mathews Stock Brokers Ltd (now Kingdom Securities Limited). The Bank has applied for a stay of proceedings and referral of the matter to arbitration.

iv) Joseph Kililo Mwanghazi & Others vs Co-operative Bank of Kenya Limited Retirement Benefit Scheme, 2007

This is a claim by some Bank's ex-staff against the Bank's Retirement Benefits Scheme. The Bank's Scheme was converted from a defined benefit scheme to a defined contribution scheme in 2007.

The claim has been filed with the Retirement Benefits Authority (RBA) under section 46 of the RBA Act alleging that the scheme had not computed and paid the ex-staff the correct amounts. The estimated amount allegedly due to the ex-staff is KShs 2 billion. The Bank has provided the required information in respect of 69 claimants to the RBA as requested. The previous scheme administrators have been petitioned to provide records for the remaining 19 claimants.

Based on advice received from the Scheme Administrators and the Actuaries, no liability is expected to arise in future in respect of this claim.

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.

44. 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's Custodial Services department holds asset security documents on behalf of customers with a value of KShs 12,200 million (2009 – KShs 5,136 million). In the year, the Group's Scheme Administration Services department ceased offering services of administration of pension and provident funds. As at 31 December 2009 the value of funds administered was KShs 3,510 Million. The Group, through Co-op Trust Investment Services manages securities with a value of KShs 30,843 million (2009- KShs 16,982 million) on behalf of customers.

45. ASSETS PLEDGED AS SECURITY

As at 31 December 2010, there were no assets pledged by the Group to secure liabilities.

46. 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.

47. EVENTS AFTER THE REPORTING DATE

On 10 November 2010, the Board of Directors approved an additional investment of KShs 200 million in ordinary shares of Co-operative Insurance Company Limited. The additional investment was to ensure that the Bank continued to be the single largest shareholder at 21% once the company increases its share capital through rights issue. The Bank was allotted 6,972,712 ordinary shares of KShs 188 million in January 2011.

48. INCORPORATION

The Bank is incorporated in Kenya under the Companies Act.

49. CURRENCY

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

Asanteni sana...

A big Thank You to all our customers and stakeholders for continuing to believe in the '***Kingdom Bank'***, as demonstrated by ***The Best Bank in Kenya 2010 Global Award*** by the Financial Times of London. Indeed ***'We are you!'***


Money Transfers


Co-op Bank Foundation


New Regions

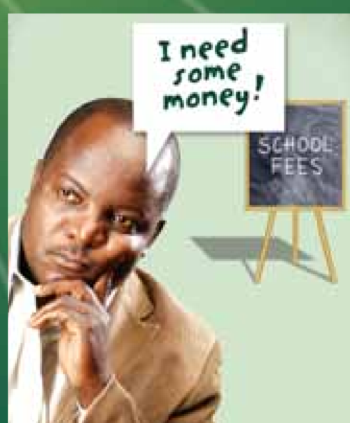
Our Offering

Mobile Banking


Corporate Banking


ATMs & POS


The Co-operative Movement



Personal Loans


Stock Broking


Innovative Products

Cards


Mortgages

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E-mail: customerservice@co-opbank.co.ke • Website: www.co-opbank.co.ke