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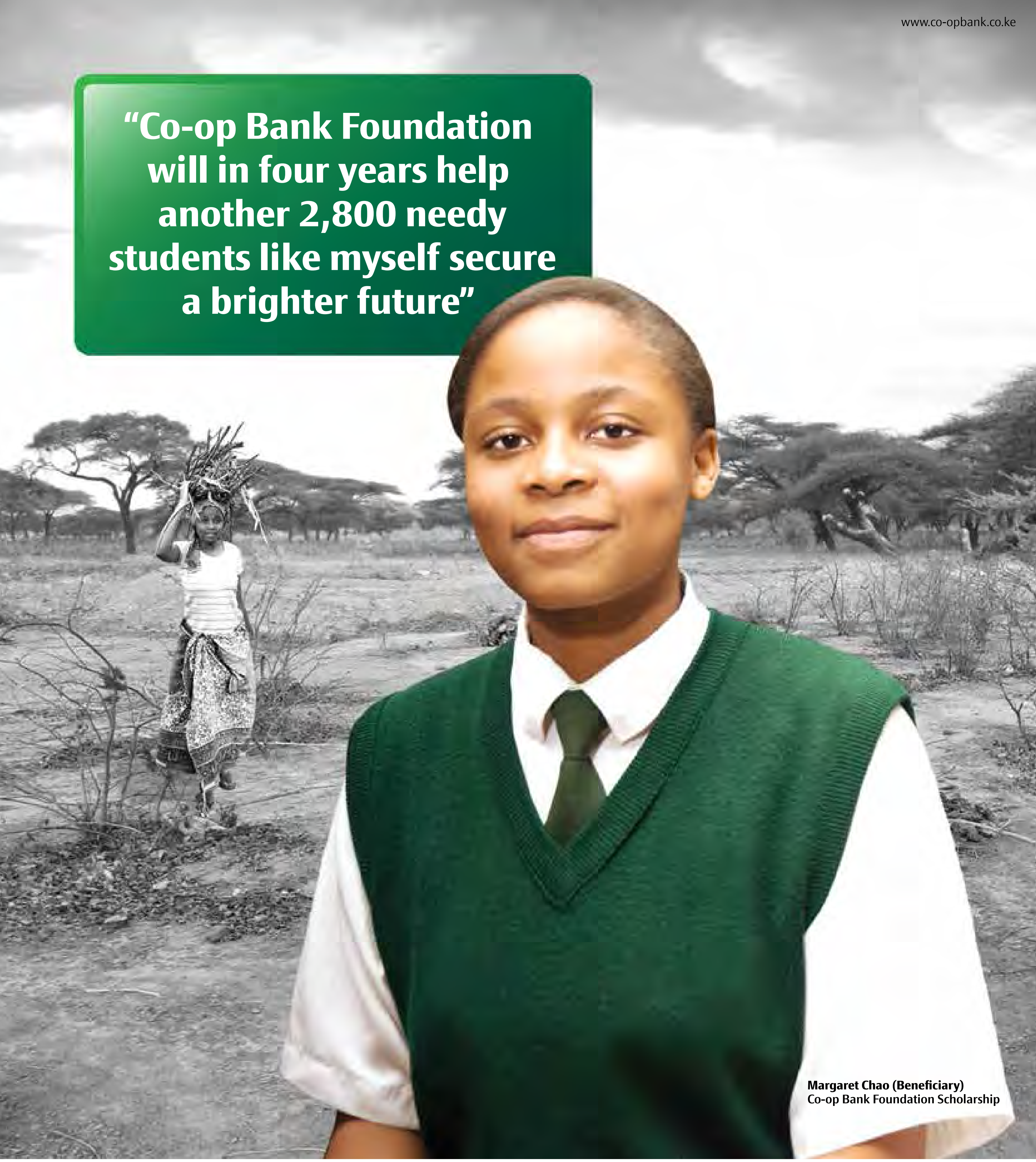


The Board of Directors of Co-operative Bank is pleased to announce an enhanced annual intake of 655 bright but needy students across the country to join the Co-op Foundation Scholarship scheme in 2014. The Co-operative Bank will, after four years, have provided free secondary school education to over 5,000 bright and needy children from all regions of Kenya and over 200 university scholarships. Out of the enhanced 655 scholarships, 420 will be awarded by Co-op Bank Regional Delegates forums and 235 by the 47 County Governors / County Executive Members for Education. The Co-operative Movement represents the face of Kenya and The Co-operative Bank is proud to be investing in the future of our youth and our great Nation.

FOUNDATION BANK

CO-OPERATIVE BANK
We are you

REGISTERED OFFICE AND HEAD OFFICE

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

SUBSIDIARIES

Co-operative Bank of South Sudan Ltd,
L.R. No. 7 GIV
Tel: +211 913085760
JUBA

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

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

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

COMPANY SECRETARY

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

SHARES REGISTRAR

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

LAWYERS

Various
A list is available at the Bank

AUDITOR

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

Showcasing the co-operative movement at Mombasa ASK Show

Dr. Gideon Muriuki, GMD & CEO Co-operative Bank shares the success story of Co-operative Bank with His Excellency Yoweri Museveni, President of the Republic of Uganda and His Excellency Hon. Uhuru Kenyatta, President of the Republic of Kenya during the Mombasa International Show and Trade Fair last year. The Heads of State were visiting the Co-operative Bank stand.

Chairman's Report

Stanley C. Muchiri, EBS
Group Chairman, Co-operative Bank

"The Co-operative Bank Foundation targets bright but less endowed students and has been paying full secondary school fees for over 2,800 students for secondary education and 88 students for university education."

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, 2013.

Economic and Business Environment

The year 2013 was election year and thus posed an uncertain business environment. However, the country managed to hold a peaceful election and transition smoothly into the devolved system of governance. The stable political environment thereafter has favourably boosted Kenya's macroeconomic environment. Kenya is now a frontier economy in similar ranks with Nigeria.

Kenya's inflation rate remained stable and within single digit, averaging 5.72% in the year, well within the targeted upper band of 7.5% by the National Treasury. At the same time, Interest rates have been stable in 2013 owing to the stable inflation environment. CBK managed to keep the macroeconomic environment stable resulting in a stable money market. The CBR rate was maintained at 8.5% through most of the year signifying the Monetary Policy Committee's strategy to maintain a stable money market environment.

The productive sectors of the economy realized mixed performance during the year; Kenya's minerals, oil and gas offers good deals in the medium and long term with commercial production of titanium already started at the coast. Commercial reserves have been confirmed for crude oil in northern Kenya, as well as coal in Mui basin in Kitui. The Construction sector was relatively strong mainly due to the effect of the ongoing infrastructure upgrade projects and the continued development of housing units. Other sectors such as agriculture, trade and telecommunications and small and medium enterprises grew marginally during the year.

Kenya's external position continued to strengthen with current account deficit narrowing to 7.5% of GDP from an average of 10% in the previous 2 years. The country's foreign exchange reserves averaged 4.3months' worth of import cover compared to 3.1 for COMESA and 3.9 for EAC. Economic growth rate has recovered steadily from 1.5% in 2008 to 4.4% in Q3 2013 and an estimated 5% for the whole 2013. This growth is commendable given Kenya's history of very low economic growth in an election year.

Banking Sector Developments

The banking sector started off 2013 on a low note attributed mainly to reduced economic activity during the periods towards and after the March 2013 general elections. This exerted pressure on the level of gross non-performing loans (NPLs) in the banking industry. The ratio of gross NPLs to gross loans increased from 4.5% in 2012 to 5.0% in 2013. The Co-operative bank's asset quality (NPLs at 4.3%) in 2013 was very impressive, outperforming both the industry and peer banks.

The change to devolved system of governance has created new sources of revenue growth for the banking sector and the Co-operative bank has managed to bank over 35 of these counties.

Various economic sectors continue to dominate bank advances that saw gross loans grow by 17.9% in 2013 compared to 2012. The Co-operative bank continues its strategy of quality lending and will thus concentrate on sectors that pose less credit risk.

Bank's Performance

The Bank has delivered exemplary results in 2013 Financial Year, an improvement on the previous year's financial results. The Group reported a remarkable Profit before Tax of Kshs. 10.87 billion for the year ended December 31, 2013. This represented a commendable 9% increase in profits before tax compared to Kshs. 9.97 billion recorded in the year 2012. This was achieved through prudent execution of our growth strategies resulting in increased revenues.

The Bank continues to record an excellent performance despite the challenging macroeconomic environment especially 2013 having been an election year. The good performance was supported by adherence to strategies set out by your Board.

The Co-operative Bank of Southern Sudan opened its doors to customers on 19th September 2013, and we are now in a position to tap the niche agribusiness market, forex business and benefit from the fast growing formal SME sector in the market. Our Subsidiary will also present to us an opportunity to extend our rich co-operative heritage to South Sudan by increasing access to formal financial services which currently stands at less than 3% of the population. The Bank is expected to contribute to group profit this year.

Your Bank continues to be feted locally and internationally, maintaining a powerful brand. We won the "Most Green Bank" Award 2013 Energy Managements Awards. We also got world recognition by The Banker being among Top 1000 WORLD BANKS 2013 and country ranked Number 3.

Dividends

In view of the bank's good performance, the Board of Directors is recommending a dividend of Ksh 0.50 in 2013 and a bonus share issue of one new ordinary share for every six ordinary shares held. This is in line with our strategy of deepening stakeholder value.

Corporate Social Responsibility

The Bank has continued to play its corporate social responsibility role through various activities. The Co-operative Bank Foundation targets bright but less endowed student and has been paying full secondary school fees for over 2,800 students for secondary education and 88 students for university education. The top students are selected from all over the country.

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

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

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

Future Outlook

The Co-operative Bank has positioned itself to harness the potential banking and business opportunities both in Kenya with 67% of Kenyans having formal financial access and in the region especially South Sudan which remains largely untapped market. Our sustained investment in world class technologies and service channels will optimise operational efficiency and ensure we provide an unrivalled service to our Customers.

We expect to see increased competition in all market segments but look forward to growing our market share robustly in the coming years.

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

Acknowledgement

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

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

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

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

Stanley C. Muchiri, EBS,
Group Chairman

Ripoti ya Mwenyekiti

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

> "Wakfu wa Co-operative Bank unalenga wanafuzi ambao ni washupavu kwa masomo lakini hawana uwezo wa kulipa karo. Kwa sasa Wakfu huu unasaidia kuwalipia wanafunzi 2,800 karo zao zote za shule za upili na wengine 88 wako vyuo vikuu."

Wapendwa Wanahisa,
Nina furaha kuwasilisha kwenu Ripoti ya Co-operative Bank ya mwaka uliomalizikia Disemba 31, 2013 na ambayo imeambatana na taarifa iliyokaguliwa ya fedha ya mwaka huo huo.

Mazingira ya uchumi na biashara

Mwaka wa 2013 ulikuwa ni mwaka wa uchaguzi kukiwa na sitofahamu kubwa mazingira ya biashara yangekuwaje baada ya uchaguzi. Hata hivyo, uchaguzi ulifanyika kwa njia ya amani na nchi imefanya juhudi nzuri za kutekeleza mfumo wa ugatuzi chini ya serikali za kaunti. Hali na mazingira shwari ya kisiasa ambayo yamejithibiti baada ya uchaguzi imeongeza msukumo wa kuwezesha uchumi wetu kuwa mkubwa zaidi. Uchumi wa Kenya sasa ni sawa na ule wa Nigeria katika hali ya unavyokua.

Mfumuko wa bei ulikuwa wa wastani mwaka mzima kwa kiwango cha aslimia 5 nukta 72 kikiwa ni chini ya kile cha asilimia 7 nukta 5 kilichokadiriwa na Treasury. Viwango vya riba havikuwa na panda shuka zozote mwaka wa 2013 kwa sababu hakukutokea mfumuko wa bei mwaka huo. CBK iliweza kuimarisha mazingira ya kiuchumi yanayohusika na wingi wa bidhaa, hali ambayo ilienda kuimarisha soko la pesa na kuondoa kuyumba-yumba katika uchumi wote kwa jumla.

Utendaji kazi wa sekta za uchumi zinazohusika na uzalishaji wa bidhaa na huduma zilikuwa hazina mwelekeo wa pamoja mwaka mzima. Mali asili za Kenya kama vile mafuta ya petrol na gas, zitaanza kuwa ni za manufaa makubwa kiuchumi kutoka miaka ya hivi karibuni hadi karne nyingi zijazo na sana tukifahamu kwamba uchimbaji wa madini ya titanium tayari umeanza huko pwani. Imethibitishwa pia kwamba kuna mafuta ya kutosha kaskazini mwa Kenya na makaa ya chuma (coal) katika eno la Mui, Kitui. Sekta ya ujenzi inafanya vizuri kutokana na miradi mingi ya miundo misingi ambayo serikali inaendelea kutekeleza, pia ongezeko la ujenzi wa nyumba kwa jumla. Sekta za kilimo, biashara, mawasiliano na biashara ndogo na za wastani zilikua kwa unyonge mwaka mzima.

Uwezo wa Kenya wa kulipia madeni yake ya nje uliiendelea kuimarika kutoka asilimia 10 ya pato la nchi (GDP) miaka miwili iliyopita hadi asilimia 7 nukta 5 mwaka wa 2013. Pia kulikuwa na pesa za kutosha za kigeni kuweza kulipia mahitaji ya miezi 4 nukta 3 ya bidhaa na huduma Kenya ilizohitaji kuagiza kutoka nje, sawa na miezi 3 nukta 1 ya bidhaa kutoka COMESA au miezi 3 nukta 9 ya bidhaa kutoka Jumuia ya Afrika Mashariki. Uchumi uliendelea kukua kutoka kiwango cha asilimia 1 nukta 5 mwaka wa 2008 hadi asilimia 4 nukta 7 mwaka wa 2013 – jambo la kupongezwa kwa sababu uchumi wa Kenya unajulikana kukua kwa kiwango kidogo sana wakati wa mwaka wa uchaguzi.

Maendeleo ya Sekta ya Benki

Sekta ya benki ilianza mwaka wa 2013 kwa hali ya udhaifu uliochangiwa sana na upungufu wa shughuli za kibiashara kabla na baada ya uchaguzi wa Machi 2013. Hii ilifanya mikopo ambayo ilikuwa hailipiwi kuongezeka kutoka asilimia 4 nukta 5 ya thamani ya mikopo ya benki zote nchini mwaka wa 2012 hadi asilmia 5 mwaka wa 2013. Kiwango cha asilimia 4 nukta 3 katika Co-operative Bank, kilikuwa ni cha kupongezwa sana ukilinganisha na hali ya mikopo hiyo katika benki zingine nchini wakati huo.

Benki Kuu ya Kenya iliamua kuweka masharti mapya kuhusu rasilmali za benki zote, hatua ambayo ilifanya benki zingine kuhitajika kuongeza rasilmali zao ili kutimiza masharti haya. Co-operative Bank haikuhitaji kufanya hivyo kwa sababu tayari ilikuwa iko na rasilmali ya kutosha kutimiza masharti hayo.

Mfumo wa serikali za ugatuzi umetoa nafasi nyingi nzuri kwa benki kuweza kujikuza kimapato nayo Co-operative Bank imejiweka mstari wa mbele katika kuimarisha huduma zake katika Kaunti hizi.

Utendakazi wa benki yetu

Benki yetu ilikuwa na matokeo bora sana mwaka wa pesa wa 2013 yakilinganisha na yale ya mwaka uliotangulia. Faida kutoka kwa biashara zote za Co-operative Bank katika mwaka uliomalizikia Disemba 31, 2013 ilikuwa ni shilingi billion 10 nukta 87 kabla ya kukatwa ushuru. Ni ongezeko la faida la asilimia 9 kabla ya kukatwa ushuru ikilinganishwa na faida ya bilioni 9 nukta 97 ya mwaka wa 2012. Pongezi kwa wahusika wote. Na yote haya yaliwezekana kwa kufuatilia kwa makini sera na mikakati tuliyoweka ya kuongeza mapato na kuikuza benki. Benki yetu imeendelea kuwa na matokeo bora kibiashara hata ingawa mwaka tunaozungumzia wa 2013 ulikuwa ni mwaka wa uchaguzi. Haya yote yaliwezekana kwa sababu ya kufuatiliwa kwa ushauri na uongozi mwema ambao tumeendelea kuupata kutoka kwa Halimashauri yetu ya Wakurugenzi.

Co-operative Bank ya South Sudan ilifungua milango yake kwa wateja tarehe 19 Septemba 2013 jambo ambalo limetuweka katika nafasi nzuri sana ya kuweza kufaidi pato la kigeni na la kibiashara ndogo ndogo (SME) ambazo zinaendelea kukua na kuongezeka katika taifa hili jipya la South Sudan. Uhusiano huu utatuwezesha pia kueneza ujuzi mwingi ambao tumeurithi katika kuhudumia vikundi vya ushirika nchini Kenya na hivyo kuiwezesha idadi kubwa zaidi ya wananchi wa South Sudan kuweza kupata huduma za benki. Kwa sasa ni asilima 3 peke yake wanapata huduma hizo.

Benki yetu imeendelea kusifiwa ndani na nje ya nchi kwa kuweza kupokea tuzo la 'MOST GREEN BANK' katika 2013 Energy Management Awards' na kutambuliwa kama moja ya benki 1000 bora zaidi duniani – Top 1000 WORLD BANKS AWARD. Humu nchini tumeshikilia nafasi ya 3.

Gawio

Kulingana na matokeo haya bora, Halmashauri ya Wakurugenzi imependekeza mgawo wa senti 50 kwa kila hisa moja ya kawaida. Pia bonus ya hisa moja (1) ya kawaida kwa kila hisa sita (6) za kawaida mwanahisa alizo nazo.

Uwajibikaji wetu kwa jamii

Benki yetu imeendelea kutimiza wajibu wake kwa jamii kupitia shughuli tofauti tofauti. Wakfu wa Co-operative Bank unalenga wanafuzi ambao ni washupavu kwa masomo lakini hawana uwezo wa kulipa karo. Kwa sasa Wakfu huu unasaidia kuwalipia wanafunzi 2,800 karo zao zote za shule za upili na wengine 88 wako vyuo vikuu. Wanaosaidiwa katika vyuo vikuu ni kati ya wale waliosaidiwa katika shule za upili ambao wamefanya vizuri zaidi. Wanaosaidiwa na masomo ya vyuo vikuu wana nafasi ya kuweza kuajiriwa na Co-operative Bank ikiwa wamechagua taaluma ya kufanya kazi na benki. Ni kwa kuitambua jamii nzima kama kiungo muhimu cha shughuli zetu ndio sababu tunawashughulikia vijana hawa wapate elimu ya kuwawezesha kuwa na mwelekeo bora maishani.

Mtazamo wa hali ya baadaye

Co-operative Bank imejipanga vizuri kuchukua nafasi zitakazoendelea kujitokeza katika utoaji wa huduma za benki na biashara zingine ikifahamika kwamba kuna nafasi kubwa ya kufanya hivyo nchini Kenya ambako tayari asilimia 67 ya wa-Kenya wanapokea kiwango fulani cha huduma za benki na kadhalika South Sudan ambako huduma hizo ndio tu zimeanza kubuniwa.

Kuwekeza kwetu kunakoendelea katika technologia na mitindo mipya ya huduma yenye kusifika dunia nzima kutaufanya utendakazi wetu kuwa wa hali ya juu zaidi na kutuwezesha kutoa huduma kwa wateja wetu kwa njia ya kipekee.

Ni wazi kutakuwa na ushindani mkubwa katika sekta zote za huduma na biashara za benki. Kwa upande wetu tunatarajia tangu sasa, na kwa miaka mingi ijayo, tutaendelea kujitahidi vilivyo ili tuweze kuchukua sehemu kubwa zaidi ya pato lote la nchi linalotokana na biashara za benki.

Uhusiano wetu na vyama vya ushirika ndio tegemeo letu la kuendelea kuwekeza, kuboresha na kudumisha huduma kwa watu wa Kenya.

Shukrani

Kwa niaba ya Halmashauri ya Wakurugenzi, ningependa kuwashukuru wateja wetu wote ambao wameendelea kutumia huduma zetu na kutuunga mkono miaka hii yote. Pia nawashukuru washiriki wetu kibiashara na wengine wengi ambao walitupatia huduma tofauti tofauti kwa kuendelea kufanya kazi pamoja nasi na kutuwezesha kufikia malengo yetu.

Natoa pia shukrani zangu nyingi kwa mameneja na wafanya kazi wetu wote kwa vile walivyojitolea kazini kuhakikisha kwamba yote tuliyopanga yametekelezwa vilivyo ingawa hali ya mazingira ya kibiashara ilikuwa ni ngumu na ya ushindani mwingi mwaka wote. Kwa wenzangu katika Halimashauri ya Wakurugnze, nawashukuru kwa vile mliniunga mkono na kujitolea kuhakikisha kwamba benki yetu imefikia upeo wa juu zaidi wa huduma kwa wateja wetu.

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

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

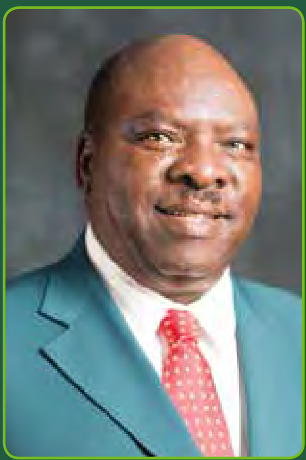
Stanley C. Muchiri, EBS,
Mwenyekiti

The Board of Directors

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

Stanley C. Muchiri, (67), EBS, Group Chairman

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



Julius Riungu, (65), Vice Chairman

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

Dr. Gideon Muriuki, MBS, (49), 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. 10.87 billion in 2013. Joined the Bank in 1996 as a Senior Corporate Manager then became Director, Corporate and Institutional Banking in 1999 before his appointment as Managing Director in 2001 with a clear mandate to return the Bank into profitable trading. Holds a Bachelor of Science degree in Mathematics, is a Fellow of the Kenya Institute of Bankers and was awarded an Honorary Doctorate in Business Management in year 2011. He has over 23 years experience in banking and finance.

He is also the Managing Director of Co-optrust Investment Services Limited and Co-op Consultancy & Insurance Agency Ltd – both subsidiaries of the Bank. He is a Director of Kingdom Securities Limited, Vice-President Africa – International Co-operative Banking Alliance (ICBA), Executive Committee Member of the Kenya Bankers Association. He received a Distinguished Leadership Award from Africa International University and is a Goodwill Ambassador for African Rural and Agriculture Credit Organisation (AFRACA). The International Banker has voted him as the CEO of the Year Africa – 2014.

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

Julius Sitienei, (59), Director

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

Major (Rtd) Gabriel J. S. Wakasyaka, (71), Director

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

Macloud Malonza, (43), Director

Joined the Board of Directors 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.

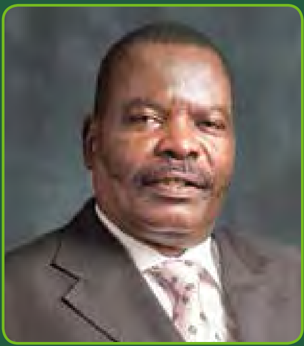
Richard L. Kimanthi, (57), Director

Joined the Board of Directors 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.

Wanyambura Mwambia, (58), Representing Principal Secretary – National Treasury, Director

Mr. Wanyambura Mwambia was appointed a Director on 7th August 2013, as the appointee of the Principal Secretary – National Treasury. He replaced Mr. John Murugu who retired from the Civil Service and who rendered exemplary service to the bank as a director for a period of over 6 years. Mr. Mwambia is the Deputy Director Economic Affairs in charge of Tax and Administration and private Sector issues and holds a BA (Hons) in Economics and Sociology from the University of Nairobi and an MA in Development Economics from Dalhouse University Canada. He has had a chequered career in the Civil service for a period of over 30 years in the Ministry of Foreign Affairs and Ministry of Finance & Planning. He brings on board a wealth of experience in finance and management in the public sector.

The Board of Directors



Wilfred Ongoro, (59), Director

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

Rose Simani (Mrs), (55), Director

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

Patrick L. M. Musyimi, (59), HSC, Ag. Commissioner for Co-operative Development, Director

Mr. Patrick Musyimi was appointed to the Board by virtue of his position as the Ag Commissioner for Co-operative Development. He replaced Mr. Fredrick Odhiambo who retired from the Civil service and who has rendered exemplary service to the bank as Director and to the co-operative movement at large. Mr. Musyimi holds a Bsc. Agriculture from the University of Nairobi and an Msc. Entrepreneurship from the Jomo Kenyatta University of Agriculture and Technology and has had a chequered career in the Civil service spanning a period of over 30 years steadily rising to the current position that he holds. He brings on board a wealth of experience on the co-operative sector.

Donald K. Kibera, (66), Director

Joined the Board of Directors 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), (50), Company Secretary

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

Board of Directors of Kenya Subsidiary Companies

(Co-optrust Investment Services Limited & Co-op Consultancy & Insurance Agency Limited)

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

Dr. James M. Kahunyo, (59), Director

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

Elijah K. Mbogo, (70), Director

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

Patrick K. Githendu, (60), Director

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

Cyrus N. Kabira, (71), Director

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

Scholastica Odhiambo (Mrs), (53), Director

Joined the boards of the subsidiaries in 2009. She has served at the Ministry of Finance and continues to work with the Kenya Revenue Authority as a Revenue Officer, where she has served for over 29 years. She holds a Bachelor of Business Administration and a Diploma in Corporate Governance from the KCA University. She is a Director of Coopholdings Co-operative Society Limited.

Godfrey K. Mburia, (57), Director

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

Board of Directors of the Co-operative Bank of South Sudan Limited

The Group Chairman, Stanley Muchiri, the Vice Chairman Julius Riungu, the Group Managing Director & CEO, Dr. Gideon Muriuki and the Group Company Secretary Rosemary Majala Githaiga serve on the Board of Directors of the Co-operative Bank of South Sudan. The other directors are:

Dr. Suzana Donato Deng, (47), Chairperson

Appointed Chairperson of Co-operative Bank of South Sudan on 8.2.2013. She is a South Sudanese citizen by birth. She is a medical doctor by profession; the holder of an M.B.B.S. degree from Juba University with Distinction in Surgery. She has served in various positions in the medical field in both South Sudan and the United States of America, including at the Chandler Medical Center, Kentucky USA and Colorado Health and Sciences Center. She is a respected business leader and is currently the Chairperson of the Chamber of Women Entrepreneurs (South Sudan) and Chairperson of TCI Consultancy, South Sudan.

William Osir, (53), Managing Director

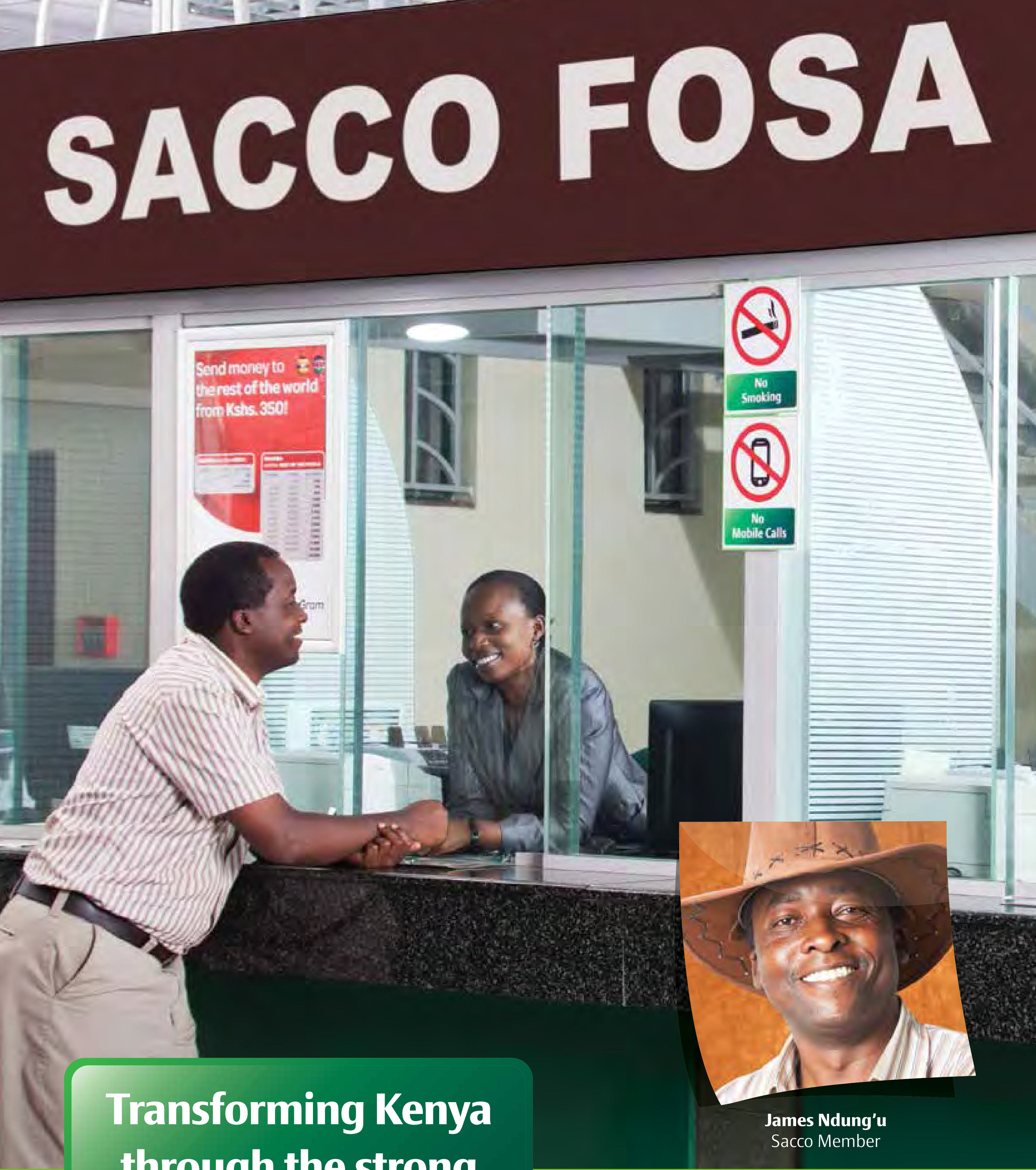
Has served the Co-operative Bank of Kenya for over ten (10) years, the last position being Director, Special Projects. He holds a Bachelors degree in Financial Services as well as a Diploma in Mortgage Lending. Prior to joining the bank, he held senior positions in both local and international banks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

Prof. Mathew Gordon Udo, (55), Director

He was appointed a director of Co-operative Bank of South Sudan on 23.8.2012. He is South Sudanese citizen by birth and currently is Under Secretary in the Ministry of Agriculture, Forestry, Co-operatives and Rural Development in charge of Administrative Affairs, Planning and Forestry Development. He has a strong base and wide knowledge in different field of agriculture and natural resource management and has served in various capacities in both the academic field and Civil service in South Sudan spanning a period of over 29 years. He holds an Msc (Agric) Animal production from the Sokoine University of Agriculture Morogoro Tanzania and a BA Sa (Hons) Agriculture (animal production) from Gezira University of Agriculture wad Medani Sudan. He was appointed Professor of animal genetics and animal breeding – CNRES University of Juba, - which position he continues to hold.

Mr. Wani Buyu Dyori, (68), Director

He was appointed a director in Co-op Bank of South Sudan on 23.8.2012. He is a South Sudan citizen and has a wide knowledge in different fields and is currently the Under-Secretary at the Ministry of Finance and Planning Juba.



James Ndung'u
Sacco Member

Transforming Kenya through the strong Sacco movement

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CO-OPERATIVE BANK
We are you

Group Managing Director & CEO's Report

Dr. Gideon Muriuki, MBS
Group Managing Director & CEO.

"We will continue to develop innovative and sustainable ways to optimize operational efficiency while providing unrivalled service. We are set to launch our enhanced mobile and internet solutions mid this year."

The year 2013 started with political uncertainty before settling down after a peaceful election and smooth transition to new governance. The stable political environment thereafter has favourably boosted Kenya's macroeconomic environment and raised the overall optimism of the business environment. Domestic inflation rate remained stable and within single digit, averaging 5.72% in the year and Interest rates have been stable in 2013 owing to the stable inflation environment. The CBR rate was maintained at 8.5% through most of the year signifying the Monetary Policy Committee's strategy to maintain a stable money market environment.

Given this economic environment the bank was able to continue growth and sustainability by aligning to the county governance structure opening 20 more branches to a total of 134 branches, 535 ATMs and over 7,099 operational agents.

Financial Performance

I am delighted to report a remarkable profit before tax of Kshs 10.87 billion for the Group for the year ended December 2013. This represents a commendable 9% growth compared to Kshs 9.98 billion recorded in the year 2012. The good performance has been achieved despite the difficult macroeconomic environment characterized by election year challenges.

Our customer deposits grew by 11% to Kshs 180.9billion from Kshs 162.3 billion in the year 2012. The growth was well supported by the increased client base to over 4.1 million account holders.

Loans and advances registered a 15% net growth to Kshs 137.1 from Kshs 119.1 in 2012 mainly supported by diversified product lines and a competitive pricing mechanism.

Total operating income surged from Kshs 23.76 billion in 2012 to Kshs 27.89 billion, a 17% growth. This was backed by growth in net interest income which increased by 19% from Kshs 15.95 billion to Kshs 18.6 billion. Fees and commissions on loans and advances grew by 33% from Kshs 1.5 billion in 2012 to Kshs 1.9 billion in 2013. Other Non-funded income increased to Kshs 9.3 billion in 2013 compared to Kshs 8.2 billion in 2012, a 13% growth.

Total operating expenses increased by a modest 22% despite the significant growth in branch network and investment in ICT infrastructure. These investments will enhance overall efficiency and support higher level of operations as we expand our reach.

Our successful financial deepening and business diversification model, has now positively contributed to the Group's good performance. Co-optrust investment services ltd, the largest locally owned fund Management Company made a profit before tax of Kshs 82.5 Million in the year 2013. Our investment in CIC Insurance group Ltd contributed over Kshs 365 Million to our profits. Kingdom securities Ltd registered a profit of Kshs 22.2 Million, while our consultancy arm Co-op Consultancy and Insurance agency Ltd contributed Kshs 16.4 Million. Our South Sudan subsidiary operated for only three months during the year and recorded an initial loss of equivalent Kshs 267 Million. This was mainly due to one off establishment expenses and we expect the subsidiary to contribute positively during the current year.

Our good performance is thus a clear indication of our commitment to increase shareholders return. The board of directors has therefore recommended a dividend of 50 cents per share and in addition a bonus share issue of one new ordinary share for every six ordinary shares held. This is in line with our strategy of deepening stakeholder value. While retaining and capitalizing adequate funds to sustain our projected growth.

Business Development

The Bank has over time built a strong foundation, created by a presence across various business lines and employed specific strategies which will deliver sustainable value to its shareholders now and in the future. We have aligned our business to the country financial needs and we are focused on meeting customers' needs and expectations. In line with our positioning strategy to align with the country's financial needs, we opened 20 new branches in the year 2013 bringing us to a total of 134 branches. The expansions target specific locations based on their profiles and business potential. We are now represented in all the counties in the country.

The co-operative movement continues to be one of our core market segments. We continue retailing banking services through FOSA's to over 10 million member of this unique model. We have deepened our outreach through provision of wholesale financial services to over 540 Sacco FOSA outlets that reach out to millions of unbanked Kenyans in the rural areas. Through this model the bank has currently issued over 632,000 Sacco link cards.

To grow our transaction based income, we continued to increase our outreach through our agency banking platform "Co-op Kwa Jirani". We now have a network of over 7,099 operational agents spread through the counties. The impact has been increase transaction volumes and commission incomes. We also invested in our ATM network and are now accessible in 535 service points well distributed across the network for ease of access by customers. We have enhanced our mobile banking service now with an active user base of over 1.3 Million customers. The strategic focus is to roll out a mobile wallet solution increasing customer penetration.

The Co-operative bank appreciates the importance of ICT in efficient service delivery. During the year, we changed our core banking platform to Bank Fusion Universal Banking aimed at positioning us for future growth. We will continue to develop innovative and sustainable ways to optimize operational efficiency while providing unrivalled service. We are set to launch our enhanced mobile and internet solutions mid this year.

Our expansion in the East African Region will ensure that our success story of partnering with the Co-operative movement in Kenya is spread in the region. The Co-operative bank of Southern Sudan began operations on September 19, 2013 and is on way to positively contributing to Group performance this year. We are proud of our chosen entry strategy which ensures delivery of inclusive growth and a more equitable sharing of the benefits of the rising prosperity with our host communities. We shall pursue a similar strategy in expansion to other countries in the region.

Human Capital

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

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

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

Conclusion

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

I would also like to sincerely thank all our customers and business partners for their support in the year 2013. We look forward to doing business with you in the year 2014.

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

Thank you and May God richly bless you.

Dr. Gideon Muriuki, MBS
Group Managing Director & CEO.

Ripoti ya Mkurugenzi Mtendaji

Dr. Gideon Muriuki, MBS
Group Managing Director & CEO.

> "Matumizi ya technologia hii itainua hali ya utendakazi wetu na kutuwezesha kutumia technologia zingine za kando zitakazotusaidia kufanya maamuzi muhimu ya kibiashara na utendakazi. Co-operative Bank inatarajia kuwa na mtandao wake wa 'mobile internet' kuanzia katikati ya mwaka wa 2014."

Mwaka wa 2013 ulianza kwa unyonge kiuchumi kwa sababu ya ukosefu wa mwelekeo wazi wa siasa za uchaguzi uliotarajiwa mapema mwaka huo. Hali hii ilibadilika baada ya uchaguzi kufanyika kwa njia ya amani na mfumo wa ugatuzi chini ya serikali mpya za kaunti kuanza kutekelezwa. Hali shwari ya kisiasa ilyodhihirika baada ya uchaguzi ilifanya mazingira ya uchumi wa nchi kuwa mema zaidi kibiashara na kuongeza matumaini ya ukuaji wa uchumi kwa kiwango ambacho kilifikia asilimia 4 nukta 7 kutoka kiwango cha asilimia 1 nukta 8 kilichosuhudiwa mwaka wa 2008. Mwaka wa 2013 mfumuko wa bei ulikuwa wa kiwango cha wastani cha asili mia 5 nukta 72. Kwa sababu hiyo, viwango vya riba pia vilikuwa ni vya wastani. Kiwango cha riba cha Benki Kuu ya Kenya kilibaki asili mia 8 nukta 5 kwa karibu mwaka mzima, jambo ambalo lilithibitisha lengo la Kamati ya Fedha (Monetary Policy Committee) la kuweka mfumo wa pesa usiobadilika badilika kila mara.

Chini ya mazingira haya mema ya kiuchumi, Co-operative Bank imeendelea kukua na kuimarika kibiashara kwa kujihusisha kikamilifu na mfumo wa serikali za Kaunti. Imefungua matawi mengine 20 na sasa inayo jumla ya matawi 134, ATM 535 na ma-ajenti 7,099 kote nchini.

Utenda kazi wetu kifedha

Benki yetu imeendelea kufanya kazi nzuri katika shughuli zake za mapato na matumizi ya pesa na nina furaha kubwa kutangaza faida ya kiwango cha shilingi billioni 10 nukta 87 katika mwaka uliomalizikia Desemba 31, 2013. Faida hii imeongezeka kwa kiwango cha asili mia 9 ikilinganishwa na shilingi bilioni 9 nukta 98 tulizopata mwaka 2012. Tukiondoa ushuru, faida hii itakuwa imeongezeka kwa asilimia 18 kutoka bilioni 7 nukta 72 mwaka wa 2012 hadi bilioni 9 nukta 11 mwaka wa 2013.

Matokeo haya mema yaliwezekana hata ingawa kulikuwa na changamoto ngumu za kiuchumi zilizoambatana na harakati za uchaguzi mkuu.

Kiwango cha akiba za wateja kiliongezeka kwa asilimia 11 na kufikia shilingi bilioni 180 nukta 9 kutoka bilioni 162 nukta 3 mwaka wa 2012. Hii ilitokana na ongezeko la idadi ya wateja wetu ambao wenye akaunti sasa wamefikia milioni 4 na laki moja.

Mikopo ya aina zote iliongezeka kwa asilimia 15 na kufikia shilingi bilioni 137 nukta 1 kutoka shilingi bilioni 119 nukta 1 mwaka 2012. Ongezeko hili lilichangiwa na kubuniwa kwa huduma nyingi mpya na kuwekwa kwa bei za huduma zetu katika viwango ambavyo vitavutia wateja wengi zaidi.

Kiwango cha rasilmali zilizotumika kufanyia biashara kiliongezeka kutoka shilingi bilioni 23 nukta 76 mwaka wa 2012 hadi bilioni 27 nukta 89 mwaka wa 2013 – kikiwa ni asilimia 17. Wakati huo huo, pesa zilizolipwa kama pato la riba ziliongezeka kwa asilimia 19 kutoka shilingi bilioni 15 nukta 95 hadi shilingi bilioni 18 nukta 6. Zile wanazotozwa wateja kwa huduma mbali mbali ziliongezeka kwa asilimia 33 kutoka shilingi bilion 1 nukta 5 mwaka wa 2012 hadi shilingi bilion 1 nukta 9 mwaka wa 2013. Mapato mengine yasiyo ya kibiashara yaliongezeka hadi bilioni 9 nukta 3 mwaka wa 2013 kutoka bilioni 8 nukta 2 mwaka 2012 – sawa na asilimia 13.

Gharama za uendeshaji biashara ziliongezeka kwa kiwango cha asilimia 22 hata ingawa kulikiwa na uwekezaji mkubwa katika ufunguzi wa matawi, uteuzi wa ma-ajenti na uwekezaji katika muundo msingi wa ICT. Uwekezaji katika sehemu hizi muhimu utasaidia sana katika shughuli za upanuzi na uboreshaji wa huduma zetu siku zijazo.

Mpangilio wetu wa kutumia pesa kulenga biashara tofauti tofauti zenye uwezo wa kufanikisha shughuli za benki yetu sasa umeamza kuzaa matunda. Co-optrust Investment Services Ltd, kampuni kubwa zaidi ya humu nchini inayojihusisha na shughuli za uwekezaji. ilipata faida ya shilingi milioni 82 nukta 5 katika mwaka wa 2013 kabla ya kukatwa kodi. Uwekezaji wetu katika CIC Insurance Group Ltd ulichangia faida yetu kwa kiwango cha shilingi milioni 365, Kingdom Securities Ltd. ilipata faida ya shilingi million 22 nukta 2. Nayo kampuni yetu inayotoa ushauri wa kibiashara na bima Co-op Consultancy and Insurance Agency Limited ilichangia million 16 na nukta 4 katika faida yetu. Benki yetu ya South Sudan ilihudumu kwa miezi 3 katika mwaka mzima wa 2013 na iliweka hasara ya shilingi milioni 267. Hii ilikuwa ni kwa sababu ya gharama ya mara moja ya uanzilishi wa biashara hili ambayo intarajiwa kuleta faida mwaka wa 2014.

Matokeo haya bora ni kielelezo cha kujitolea kwetu kuhakikisha wanahisa wanapokea mgawo bora zaidi kwa hisa zao. Kufuatana na hilo, Halmashauri ya Wakrugenzi imependekeza mgawo wa senti 50 kwa kila hisa moja ya kawaida. Pia bonus ya hisa moja (1) ya kawaida kwa kila hisa sita (6) za kawaida. Hatua hii inalingana na lengo letu la kuwashirikisha kwa undani wanahisa wetu katika umiliki wa benki yao wakati huo huo tukiwa tunatenga rasilmali ya kutosha kuweza kugharamia na kuendeleza mipango ya kupanua shughuli zetu nchini na katika kanda hii.

Vile tunavyoendeleza biashara

Kwa muda mrefu sasa, Co-operative Bank imeweza kujiwekea msingi bora kwa kujishirikisha na biashara zingine ambazo zinachangia na kudumisha mapato yake na kuwahakikishia wawekezaji mgawo mzuri sasa na kwa miaka mingi ijayo. Biashara yetu imelenga kuyatimiza mahitaji na matarajio ya kifedha ya Kaunti zote nchini. Kufuatana na hilo, Co-operative Bank imefungua matawi mapya 20 mwaka wa 2013 na kufanya idadi ya matawi yetu nchini kufikia 134. Upanuzi wetu wa huduma kupitia kwa matawi mapya kumelenga sehemu za Kaunti ambazo zimetafitiwa na kuonyesha zina biashara za kutosha matawi hayo.

Vyama vya ushirika vimeendelea kuwa watumiaji wakubwa zaidi wa huduma zetu. Hii ndio sababu wanachama milioni 10 wa shirika la FOSA wanazidi kufaidi huduma zetu za benki. Tumeongeza shughuli zetu za kuwafikia wateja wapya kupitia pesa za jumla tulizopatia mashirika 540 ya FOSA na ambazo zimelengwa kuwafikia mamilioni ya wananchi ambao kwa kawaida hawapati huduma za benki. Na kufuatia mpango huu wa biashara, Co-operative Bank hivi karibuni imetoa kadi 632,000 za kuwawezesha wanachama wa Sacco kutumia mtandao wetu wa ATM moja kwa moja.

Mpango wetu wa kupeana huduma za benki kwa watu wote umefaulu sana hivi kwamba umeifanya Co-operative Bank kuwa ndiyo inaongoza katika huduma kama vile Retail Banking, Co-operatives Banking, Corporate and Institutional Banking, SME Banking, Micro Banking, Mortgage and Asset Financing, Bank Assurance, Fund Management, Share trading na pia Treasury Banking.

Ili kukuza pato linatokana na huduma za benki kwa wateja, imetubidi kupanua upokeaji wa huduma hizi kupitia kwa 'Co-op Kwa Jirani'. Kufikia sasa, tuna mtandao wa ma-ajenti zaidi ya 7099 ambao wameenea Kaunti zote. Jambo kubwa ambalo limetokana na 'Co-op Kwa Jirani' ni ongezeko kubwa la watu ambao sasa wanatumia benki yetu kujiwekea akiba jambo ambalo pia limeongezea benki yetu faida kwa malipo wanayofanya wateja wetu wa Co-op Kwa Jirani. Tumebuni na kupanua mtandao wetu wa mashini za ATM 535 kuwezesha wateja kufikia na kutumia huduma zetu kwa njia rahisi na ya haraka. Pia kwa kusambaza huduma zetu za 'mobile banking', sasa tuna wateja wanaozidi million 1 na laki 3. Tunalotaka sasa ni kuifanya huduma hii kuwa kibeti cha wengi wanaozingojea huduma za benki pale walipo.

Co-operative Bank inatambua umuhimu wa technologia katika uimarishaji wa huduma. Matumizi ya technologia mpya ya Bank Fusion Universal Banking ilianza kutumika mwaka wa 2013. Matumizi ya technologia hii itainua hali ya utendakazi wetu na kutuwezesha kutumia technologia zingine za kando zitakazotusaidia kufanya maamuzi muhimu ya kibiashara na utendakazi. Co-operative Bank inatarajia kuwa na mtandao wake wa 'mobile internet' kuanzia kati kati ya mwaka wa 2014.

Kujitolea kwetu kuendelea kukuza pato letu na kufanya biashara inayounga mkono wateja wetu wote katika kanda hii pamoja na kupanua huduma za benki nchini South Sudan, itatuwezesha kuhakikisha kwamba kufaulu kwa ushirikiano wetu na vyama vya ushirika nchini Kenya kutaenea katika nchi zingine za kanda hii. Co-opertative Bank of South Sudan, ambayo inamilikiwa asilimia 51 kwa 49 kati ya Co-operative Bank of Kenya na Serikali ya South Sudani ilianza shughuli zake rasmi tarehe 19 September 2013 na itachangia vyema kufaulu kwetu katika mapato ya mwaka wa 2014. Tunajivunia sana muundo wetu wa biashara ambako tunashirikiana kikamilifu na wenyeji wa mahali tunapofanyia biashara ili tunapofaidika tuwe tunafaidika pamoja na wao. Huo ndio muundo wa biashara tutakaotumia wakati tumeamua kupanua biashara nchi zingine za kanda hii.

Kazi ni watu

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

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

Mwisho

Kushikana na kufanya kazi kama timu moja ndiko kumetuwezesha kuwa na mwaka mzuri kibiashara kama huu. Nawapongeza na kuwashukuru wafanyakazi wetu wote kwa kuwapa wateja wetu huduma za hali ya juu na vile mlivyojizatiti kupunguza gharama za utendakazi na madhara ya mikopo. Mameneja wenu wote wamejitolea kuzingatia sera zinazohakikishia Co-operative Bank kuendelea kukua kwa miaka mingi ijayo.

Shukurani nyingi pia nazitoa kwa wateja wetu wote na washirki wetu kibiashara kwa kutuunga mkono vilivyo mwaka wote wa 2013. Tunaamini tutazidi kufanya kazi pamoja mwaka wa 2014.

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

Asanteni na Mungu awabariki.

Dr. Gideon Muriuki, MBS
Group Managing Director & CEO.

Board of Management

Board of Management of Co-operative Bank of Kenya Limited

Dr. Gideon Muriuki, MBS, (49), Group Managing Director & CEO

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

Zachary Chianda, (56), Director, Operations Division

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

Rosemary Majala Githaiga (Mrs), (50), Company Secretary

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

Samuel Birech, (50), Director, Retail Banking Division

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

Weda Welton, (56), Director, Human Resources Division

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

Anthony Mburu, (48), Director, Credit Management

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

Patrick Nyaga, (46), Director, Finance & Administration Division

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

Catherine Munyiri, (50), Director, Innovation and Customer Support 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 on management.

Lydia Rono, (48), Director, Corporate & Institutional Banking Division

A career banker with 27 years of banking and has worked in various senior positions in the Co-operative Bank of Kenya, last position being Chief Manager – Institutional Banking. She holds a Bachelors Degree in Commerce and an MBA from University of Nairobi and has attended various local and international courses on management.

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

Joined the bank in 2009 and has over 14 years experience in financial services having previously ran the Bank's Advisory and Asset Management subsidiaries. He holds a Bachelor of Commerce Degree, a Diploma in Information Science and is a qualified accountant under ACCA.

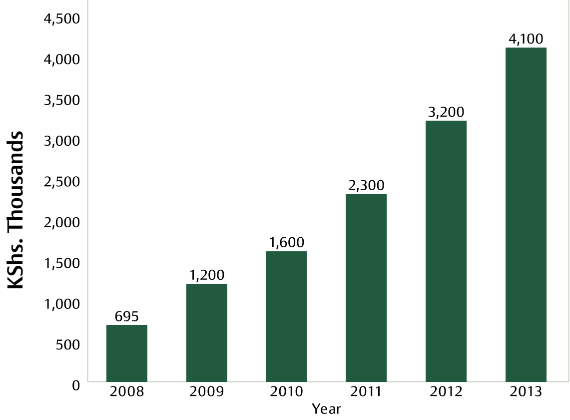
Geoffrey Odundo, (45), Managing Director & CEO, Kingdom Securities

Has been with the bank for over 15 years and holds a Bachelors degree in Mathematics and Economics and a Masters in Business Administration (Strategic Management). Previously he was a Senior Manager at British American Insurance Company. He is a Director of the Nairobi Securities Exchange (NSE), a Director/Secretary of the Kenya Association of Stock Brokers and Investment Banks (KASIB) and represents the banking sector in the Financial Standards Committee of the Kenya Bureau of Standards where he is the current Chairman.

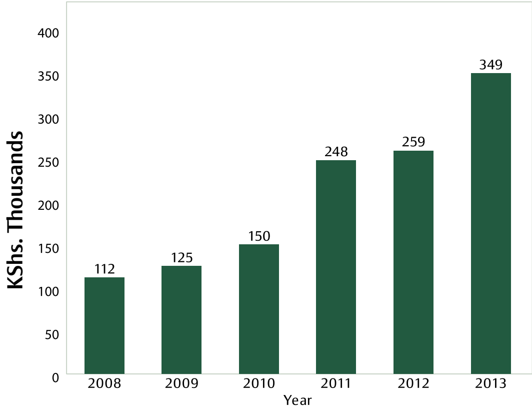
Business Review

Five Year Financial Review	2009	2010	2011	2012	2013
Statement of Financial Position			**KShs million**		
Cash and short term funds	13,194	20,775	21,616	31,100	30,754
Loans & Advances to Customers (gross)	66,620	90,965	114,101	123,824	145,735
Impairment losses on loans & advances	(4,346)	(4,346)	(4,692)	(4,736)	(4,521)
Government & other Securities	26,498	34,391	22,237	33,391	41,055
Property and equipment	6,192	6,943	9,336	11,133	13,102
Other assets	2,420	5,611	5,714	5,876	9,217
Total Assets	**110,678**	**154,339**	**168,312**	**200,588**	**231,215**
Customer Deposits	92,529	129,226	144,514	163,149	180,887
Loans & Borrowings	209	139	234	4,572	10,252
Other liabilities	1,648	4,379	2,613	3,500	3,492
Total liabilities	**95,022**	**134,359**	**147,360**	**171,221**	**194,631**
Net assets/Shareholders Equity	15,656	19,980	20,951	29,367	36,584
Income Statement					
Net Interest Income	7,054	9,503	11,885	13,581	15,869
Non-Interest Income	4,664	6,168	6,451	10,200	12,021
Operating Expenses	(7,354)	(9,231)	11,417	13,171	16,605
Provision for loans impairment	(628)	(799)	710	999	778
Share of profit of associate	-	130	158	374	365
Profit before Tax	3,736	5,771	6,366	9,984	10,872
Profit after tax	2,968	4,580	5,366	7,724	9,108
Earnings per share	0.85	1.31	1.54	1.84	2.20
Dividend per share	0.20	0.40	0.40	0.50	0.50
KEY RATIOS (%)					
PROFITABILITY					
Return on Equity-ROE (%)	20%	25%	26%	31%	30%
Return on Total Assets (%)	3.1%	3.5%	3.3%	4.2%	4.5%
EFFICIENCY					
Cost to income (%)	68%	64%	66%	60%	62%
Interest expenses on Interest income (%)	25%	22%	27%	39%	27%
CAPITAL ADEQUACY					
Shareholders equity/Total assets (%)	15%	13%	12%	15%	16%
Capital funds/Total assets (%)	7%	5%	5%	4%	3%
ASSET QUALITY					
Impairment provisions/Gross loans & advances (%)	7%	5%	0.6%	0.8%	0.8%
Non-performing loans (NPLs) to Gross loans (%)	7%	5%	4.0%	3.8%	3.8%
Loan loss provisions to Non-performing loans (NPLs) (%)	66%	89%	90%	76%	74%
Loan loss provisions to Shareholders equity (%)	27%	21%	22%	16%	12%
LIQUIDITY					
Gross Loans to Deposit Ratio in %	72%	70%	79%	76%	76%
Borrowed funds/Total deposits (%)	0.2%	0.1%	0.2%	2.8%	5.7%
Borrowed funds/Gross Loans (%)	0.3%	0.2%	0.2%	3.7%	7.0%

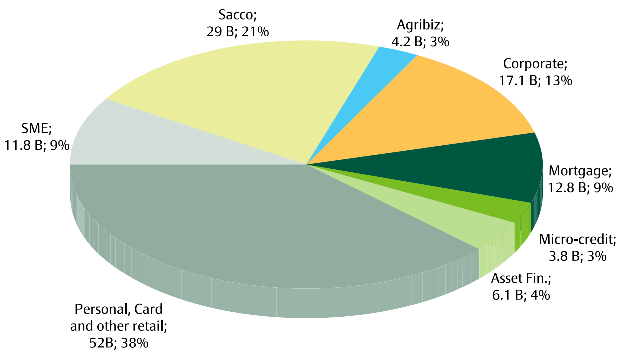
Remarkable Growth in Account Numbers



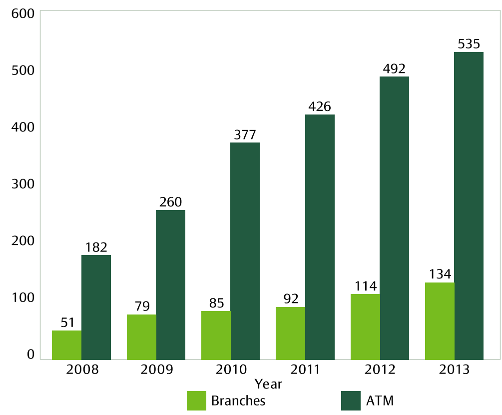
Growing Borrowing Customer Base



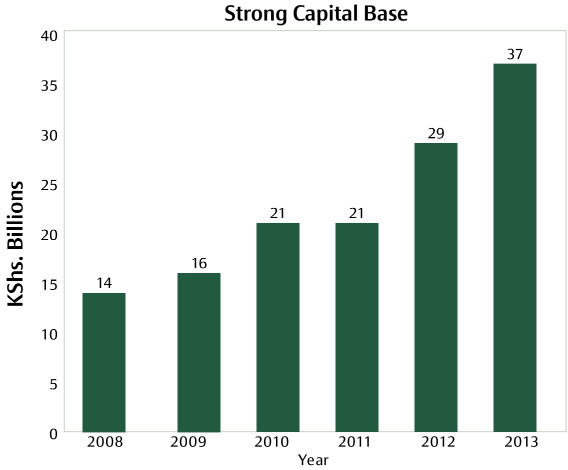
Balance Sheet : Loan Distribution



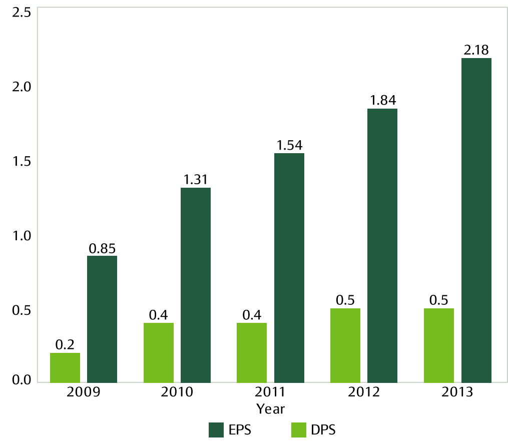
Branch & ATM Network



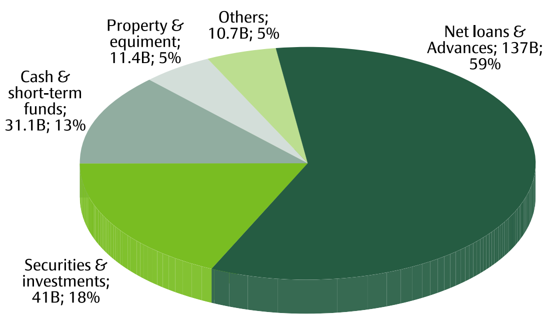
Strong Capital Base



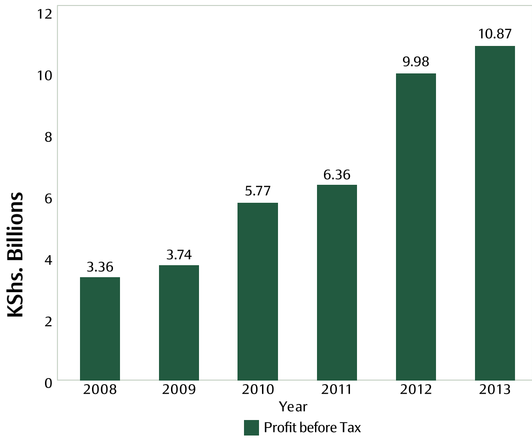
Return on Assets



Balance Sheet : Asset Distribution



Sustainable Profitability



Corporate Responsibility

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 and has grown over the decades to become a leading financial institution.

Financial Freedom through the Co-operative Movement

The original dream of the Bank's founders is alive and well and on the path to full achievement A core part of our vision is to economically empower Kenyans and alleviate poverty primarily by supporting the co-operative movement through mobilisation and facilitation of access to financial resources targeted at sustainable development. Co-operative societies and SACCOs directly impact on over 10 million Kenyans and our bank is proud to be an active stakeholder in this movement. The Bank has placed itself in step with Kenya's diverse needs and fulfilling this key responsibility has required the balanced creation of value to customers and the market, shareholders, the environment, employees and society as a whole.

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

Vision:

To be a leading and dominant 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 540 SACCO FOSAs are in operation. In addition, the bank invested in the Sacco Link Switch which has integrated the bank's and SACCOs' financial systems, thereby providing a solution through which ATMs, mobile banking, point of sale (POS) channels and internet banking is facilitated. In this partnership, we offer wholesale banking services to co-operative societies which then provide to their members retail services complete with full technological capabilities. To date, over 150 SACCOs are enlisted connected in this partnership and over 631, 400 ATM cards have been issued to co-operative members.

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

Co-op Consultancy & Insurance Agency Ltd's (CCIA) core mandate is to enhance efficiency and profitability of co-operative societies through provision of affordable capacity-building solutions. This subsidiary of the Bank provides professional services at highly concessionary terms, with the Bank providing the subsidy. Over the years, CCIA has impacted over 3,000 societies in the areas of formulation and review of society by-laws, corporate strategic and tactical plans and operating manuals. This in addition to consultancy services on microfinance, lease negotiation, business advisory, restructuring and turn-around, performance management, staff training and recruitment, forensic audits and information technology systems procurement as well as assessment for risk-control. In 2013 we provided these specialised services to 135 Saccos. We have also moved to impact the wider Eastern Africa Region at Kilimanjaro Co-operative Bank in Tanzania as well as partnership with the Government of South Sudan towards set up of a farmers' co-operative union at Aweil Rice Irrigation Scheme.

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

The Co-operative Bank Management Centre (CBMC) conducts training to the co-operative movement as part of its commitment to enhance competencies and equip them with skills. Advanced courses ran include board seminars on corporate governance, Central Management Committee (CMC) workshops, co-operatives management & compliance, delegates training, credit administration, customer service, FOSA operations, frauds & forgeries, strategic planning, business process re-engineering, marketing, performance management, supervisory skills, office administration and team-building exercises. In 2013, the Management Centre carried out 62 courses in which over 760 Saccos participated and more than 3,850members trained.

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

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

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

Economic Growth through Small and Microenterprises (SMEs)

Across the world, small and microenterprises (SMEs) are the primary source of employment to citizens. With activation of the new County Government structure, the bank is consistently reviewing products with a view to enhance potential of our clients, especially small and microenterprises (SMEs) as they endeavour to take advantage of new opportunities arising. Our country-wide branch network covering over 46/47 counties is geared-up to offer our customers all the necessary support. Our procurement policy also favours local suppliers as part of our broader support to the economy.

One-Stop-Shop Financial Supermarket

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

Kingdom Securities has taken stock brokerage services to urban centres across the country, including members of the co-operative movement through over 160 institutional agents countrywide. The Bank also holds the largest interest either directly or indirectly in the Co-operative Insurance Company Ltd (CIC), an NSE quoted company which offers a broad range of insurance as well as fund management services. Over and above diversification of investments, this partnership has created synergy in joint distribution of insurance products through bancassurance. Co-op Consultancy & Insurance Agency Ltd (CCIA) is the insurance agent in this bancassurance arrangement while the bank provides a wide distribution channel through the countrywide branch network. This collaboration extends to entry strategies for investment in regional countries. Co-op Trust Investment Services Ltd is the largest locally-owned fund management and investment services provider in Kenya and is a key part of the one-stop-shop financial services model.

Convenient Agent & Point of Sale (POS) Banking

Our Bank is at the forefront in the implementation of agent banking model, currently working with over 7,000 agents countrywide. Under this model, the bank appoints and vets agents who are then issued with special gadgets connected to the bank's systems. Agents, who include co-operative societies, supermarkets, ordinary shops, petrol stations among other outlets enable customers' access banking services beyond traditional official banking hours. Due to the greater geographical area covered by agents, customers also enjoy better convenience as services come closer to their most preferred location.

Sustainability Review

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Seamless Mobile and Internet Banking

Our bank's products and brand propositions are designed to far exceed customer expectations and respond to diversification and sophistication of customer needs as well as changes in the business environment. Our mobile phone services product M-banking which also facilitates seamless two-way funds transfer between bank accounts and mobile-money solutions offered by mobile telecommunication firms now has an active client base of over 1,319,400 customers. The bank's internet-banking solution CoopNet has contributed to growth in customer base especially for Kenyans in the Diaspora and already serves over 32,800 clients.

Excellence in Customer Experience

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

Regional Expansion on course

Through the Co-operative Alliance of Kenya (CAK), the bank is active in International Co-operative Alliance Africa whose primary objective is to promote the welfare and growth of co-operative societies in the continent. The bank is in the process of expanding operations in Uganda, Tanzania and South Sudan in partnership with co-operative movements in those countries.

In the third quarter of 2013, the bank launched her first regional operation in South Sudan. The Co-operative Bank of South Sudan is registered as a joint venture with the South Sudan government which will hold shares on behalf of the budding co-operative movement and transfer to them in the next three years.

Caring for the Environment

Sustainable Consumption & Reducing Environmental Impact

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

Enviable Partnerships:

The Bank has over the years partnered with the Government of Kenya, key donors and development agents to implement programs most of which target the rural communities. Through these partnerships, the bank has been able to reach out to communities for financial empowerment as well as fighting poverty in the country. Being the Kingdom bank and owned majorly by the small holder farmers, the bank sees these partnership as key to touching base with the rural communities. The bank has been working more with programs targeting the co-operative movement, Community based organization and other farmer based organizations that are working to build capacity and enhance self-dependency. The following are the key running programs with committed loans in excess of Kes. 5 billion in year 2013.

PROGRAM	Partnership	TARGET
KFW	German Development Bank	Horticulture
EADD	Bill & Melinda Gates Foundation	Dairy sector
IFAD	International Finance for Agriculture Development	Small scale horticulture.
Vuna Kilimo Biashara	Government of Kenya	Cereals and horticulture
MDG/SOROs	Bill & Melinda Gates Foundation	Small scale dairy farmers.
AFD	French Agency for Development	Renewable energy and Energy Efficiency
FEMO	We-Effect formerly Swedish Co-operative Centre	MBOs and CBOs
FSEYK	We-Effect formerly Swedish Co-operative Centre	Out of school youths
STABEX	Government of Kenya and EU	Coffee Sector

Similarly, the bank has a long-standing link with the Nairobi County Government to maintain green-gardens around Co-operative House and the commuter area of Railways bus stage. We have also collaborated with schools and government agencies in tree-planting activities especially the Mau forest in support of Kenya's effort to increase forest cover to the recommended 10% of area. The bank also partnered with Egerton university in rehabilitation of the Njoro river.

Financing Green Projects Awards

Co-operative Bank as one the participating Banks has pushed the renewable energy & energy efficiency agenda and was recognized as a top performer during Annual Energy Management Awards (EMA) awards. The Energy Management Awards program, has grown over the last six years as a result of the need to encourage businesses to implement strategies to use energy more efficiently.

Why Co-op Bank won the 'Green Bank' Award:

- Willingness to take risk in new area of financing (green energy banking)
- Actively promote 'green' energy among our clients
- Fastest turnaround time for Renewable Energy & Energy Efficiency financing for SMEs and large enterprises.
- Currently have the highest achievement in AFD green energy credit line.
- Bank with the largest pipeline of projects seeking RE & EE financing.

Corporate Responsibility

Growing Human Capital

Employer of Choice

Our bank has made it a priority to create an energetic and enjoyable workplace with a reputation to attract and retain the best talent in the market 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. We continue with our policy that allows nursing mothers have shorter working days to enhance convenience in child care. Our bank maintains cordial relations with the staff union, including appropriate implementation of mutually agreed collective bargaining agreements.

Principle of Diversity

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

Staff Profile:

	Year 2013	%	Year 2012	%
No. of employees:	4,177		3,367	
Male	2,384	57%	1,859	55%
Female	1,793	43%	1508	45%
No. of employees of age 35 or under:	3394		2,680	
Male	1,972	58%	1,516	57%
Female	1,422	42%	1,164	43%
No. of senior management positions:	73		65	
Male	48	66%	43	66%
Female	25	34%	22	43%
Average years of service:	4.85	-	5.50	-
Male	4.34	-	5.1	-
Female	5.5	-	6.0	-
Employees taking leave for child-rearing:	256	-	397	-
Male	134	52%	222	56%
Female	122	48%	175	44%

Building Pride & Passion

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

We Grow Our People through Life-long Learning

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

Staff Development through Training

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

Employee Welfare & Sports Activity

We view each other as part of one big family and each member's welfare is our collective responsibility. We continue to invest in out-of-office staff activities such as sports events and team-building in reflection of our deep commitment to staff welfare. Our men and womens' basketball teams are formidable competitors in the respective National Leagues with the mens' team being Kenya Basketball Federation (KBF) Champions in 2011, 2012 and 2013. The bank also supports a volleyball team for men in the Premier League.

Health, Safety & Wellness Programme

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

HIV/Aids Policy towards Positive Living

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

Safeguarding Financial System Security

Rising Anti-Money Laundering and Fraud Awareness among Staff

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

Whistle-Blowing Program

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

Customer Awareness

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

Corporate Responsibility

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.

Enhancing access to secondary education

Lack of education has been observed as a key contributor to poverty in the society. Our bank has devoted considerable resources towards enhancing access to school, leading to a vibrant, well-educated society that will propel Kenya to the envisaged middle-income economy. Since the inception of Co-op Foundation, the bank has funded it with over Kshs. 230 Million to reduce disparities and inequalities in access to education for disadvantaged children. The funding is a full secondary school scholarship which caters for school fees, uniforms and text books. Currently Co-op Foundation is paying school fees for 1,874 students – Secondary Schools: 1,790 Universities: 84, Co-operative University College: 4 – all totalling to over Kes. 87.5M. All students sponsored through the foundation have been proposed and selected through the Co-operative movement.

With the advent of the county Governments, the bank has increased the total number of students being sponsored by the foundation by over 55%! Under the new arrangement, the bank would sponsor five (5) needy students from each of the 47 counties in addition to the increased 60 students per region from the 7 regions in the country as per the co-operative movement nominations. This means that in addition to the ongoing sponsorships, the bank is getting an addition 655 new students to the program.

In our commitment of service to vulnerable groups, the bank also supported various schools across the country including Starehe Girls Centre in infrastructure development projects.

Equipping the next generation through Higher Education

Every year, the top 28 performers in Kenya Certificate of Secondary Education (KCSE) examination from the group of students sponsored by Co-op Foundation through their secondary school, benefit from a scholarship throughout their university studies in any course of their choice. Currently, Co-op Foundation is supporting 84 university students In addition during college holidays the bank offers internship experience to beneficiaries of this program to equip them for the job-market. Thereafter and upon graduation from university, the bank has committed to absorb them as permanent employees. Every year, the Foundation also offers a scholarship package of Sh.120,000 per student to at least two (2) disadvantaged students of the Co-operative College of Kenya who upon graduation will contribute to the leadership and management of the co-operative movement. Four (4) students are currently beneficiaries of this program. To boost progression of secondary school leavers to institutions of higher learning, the bank partnered with Pan-African Christian University as well as Strathmore Business School in construction and expansion projects, putting in over Sh.1.6 Million.

Staff Community Activities

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

National Projects and Economic Development

As part of the wider community in which we operate, the bank collaborates with various stakeholders involved in poverty eradication, advancement of education and activities addressing local challenges such as inadequate access to health services. In this regard, the bank spent over Sh. 7.8 Million in 2013. In an effort to improve the use of modern agricultural technology in the Coconut Sector, we collaborated with Amiran Kenya. To extend the quality of health services offered to citizenry, the bank partnered with the Kenya Diabetes Management and Information Centre as well as the Kenya Psychological Association.

Job Senteu
Resident: Kajiado County

Working hand in hand with the County Governments

CO-OPERATIVE BANK
We are you

Corporate Governance

Statement on Corporate Governance

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

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

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

Code of Conduct

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

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

The Board

Board composition

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

Appointments and induction to the Board

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

Board responsibilities

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

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

Corporate Governance

the selection, supervision and remuneration of Senior Management;

- Ensuring that the business of the Bank is conducted in compliance with relevant laws and regulations; and
- Monitoring the bank's performance and reporting this to shareholders especially at the Annual General Meeting.

Board and Strategy meetings

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

Board Chairman and Managing Director

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

Board Performance Evaluation

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

Directors' remuneration

At every Annual General Meeting (AGM), shareholders pass a resolution authorising the Board to fix the directors' remuneration, emoluments and compensation appropriately. This is after considering industry benchmarks and international practices. Non-executive directors are paid a monthly fee as well as a sitting allowance for every meeting attended. The directors are not eligible for pension scheme membership and do not participate in the bank's remuneration schemes. Information on the aggregate amount of emoluments and fees paid to directors are disclosed in notes to the financial statements.

Internal control and Audit

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

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

Risk Management and Compliance

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

Corporate Governance

The Board's Credit Committee oversees the overall lending policy of the bank by directing, monitoring, reviewing and considering all issues that may materially impact on the present and future quality of the Bank's credit risk management. The Committee also ensures that the credit policy and risk lending limits are reviewed at least on an annual basis and as and when the environment so dictates.

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

Conflict of interest

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

Board Sub-committees

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

i. Audit and Risk Committee;

ii Staff and Nomination Committee; and

iii Credit 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 and Risk Committee

The Committee comprises at least three non-executive directors, the majority of whom shall be independent non-executive directors, currently constituted as hereunder: -

- Mrs. Rose Simani – Chairperson
- Mr. Julius Riungu
- Mr. Wanyambura Mwambia- PS Treasury appointee

The Committee meets at least once every 3 months and at least twice in a year with the external and internal auditors without management being present. Meetings are normally attended by resources from the Departments of Internal Audit, Risk Management and Compliance.

The objective of this Committee is to provide independent oversight of the Group's financial reporting and internal control system, ensure checks and balances within the Bank, its subsidiaries and related institutions are in place and recommend appropriate remedial action regularly and ensure quality integrity and reliability of the Bank's and its subsidiaries risk management. It also assists the Board of Directors in the discharge of its duties relating to the corporate accountability and associated risks in terms of management, assurance and reporting.

The terms of reference of the Committee are achieved through review and evaluation of the financial status of the bank, review of 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, set out the nature, role, responsibility and authority of the risk management and independent compliance functions in the Bank and its subsidiaries and outline the scope of risk management work, monitor external developments relating to the practice of corporate accountability and the reporting of specifically associated risks, including emerging and prospective impact, provide independent and objective oversight and review of the information presented by the management taking account of risk concerns raised by the Asset Liability Committee meetings on financial, business and strategic risk.

Staff and Nomination Committee

This Committee meets at least three times in a year and its current membership includes:

- Mr. S. C. Muchiri – Chairman
- Mr. J. Riungu – Vice-Chairman
- Mr. Patrick Musyimi – Ag. Commissioner for Co-operative Development
- Mr. Julius Sitienei
- Major (Rtd.) G. Wakasyaka
- Dr. Gideon Muriuki – Group Managing Director & CEO

Corporate Governance

The Committee reviews the broad policy framework relating to the bank's and its subsidiaries' human resources, including policies on the hiring, firing, remuneration package, promotions, medical, staff loans, and all other matters as spelt out in the staff policy manual, training and staff development, staff welfare, code of conduct and performance index. The Committee also reviews the mix of skills and experience and other qualities of the Board as a whole, its Committees and the contribution of each and every director, including the Chairman in order to assess the effectiveness of the Board. The Committee reviews Board Evaluation procedures and results as well as considers, reviews and recommends to the full Board of directors candidates for directorship as proposed by the shareholders and the Chief Executive.

Board Credit Committee

The membership of the Committee comprises of at least four directors and the Group Managing Director & CEO currently constituted as hereunder:

- Mr. Donald Kibera - Chairman
- Mr. Macloud Malonza
- Mr. Wilfred Ongoro
- Mr. Richard Kimanthi
- Dr. Gideon Muriuki – Group Managing Director & CEO

The Committee meets at least once every four months. The objective of this Committee is to assist the Board of Directors in reviewing and overseeing the overall lending of the bank. The Committee is responsible to review and oversee the overall lending policy of the bank, deliberate and consider loan applications beyond the discretionary limits of Management as set out in the Credit policy, review lendings by the Credit Board of Management Committee, direct, monitor, review and consider all issues that may materially impact on the present and future quality of the Bank's credit risk management, delegate and review lending limits to the sanctioning arms of the Bank, review the quality of the bank's loan portfolio, ensuring adequate provisions for bad and doubtful debts in compliance with prudential guidelines, ensure that the credit policy and risk lending limits are reviewed at least on an annual basis and as and when the environment so dictates, review and analyse Management's proposed Capital and Recurrent budgets and supplementary and /or revised budgets of the bank for presentation to the full Board of Directors.

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.

**Co-op Bank
Data Centre inspection**

Bharath Kannan (center), a technical consultant from Misys discusses the technical details of the Co-op Bank Data Centre with David Karanja (right) Co-op Bank Chief Manager IT and Martin Ngunjiri (left), Co-op Bank Head of Data Centre. Co-op Bank has invested in the ultra-modern Data Centre and a new core banking platform, Bank Fusion, that will support the new frontiers of growth by the Group.

Corporate Governance

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

Director	Co-operative Bank Group			Board Sub-committees		
	Co-operative Bank of Kenya Ltd	Co-op Consultancy & Insurance Agency Ltd	Co-optrust Investment Services Ltd	Audit Committee	Staff and Nomination Committee	Risk and Finance Committee
Schedule of meetings:	**6**	**6**	**6**	**4**	**3**	**3**
S. C. Muchiri, EBS – Group Chairman	6	6	6	-	3	3
J. Riungu – Vice Chairman	6	-	-	4	3	-
Dr. G. Muriuki, MBS – Group Managing Director & CEO	6	5	5	-	3	3
J. Sitienei	6	-	-	-	3	-
F. Odhiambo- Commissioner of Co-operatives *	3	-	-	-	2	-
P. M. Musyimi, HSC - Commissioner of Co-operatives **	2	-	-	-	1	-
R. L. Kimanthi	6	-	-	-		3
G.J.S. Wakasyaka, Rtd Major	6	-	-	-	3	-
M. Malonza	6	-	-	-	-	3
W. Ongoro	6	-	-	-	-	3
D. Kibera	6	-	-	-	-	3
J. Murugu,OGW – Representing PS Ministry of Finance *	2	-	-	0	-	-
W. J. Mwambia -Representing PS Ministry of Finance **	3	-	-	3	-	-
R. Simani (Mrs)	6	-	-	4	-	-
E.K. Mbogo	-	5	5	-	-	-
P. K. Githendu	-	6	6	-	-	-
G. K. Mburia	-	6	6	-	-	-
S. Odhiambo (Mrs)	-	6	6	-	-	-
Dr. J. Kahunyo	-	6	6	-	-	-
C. Kabira	-	5	6	-	-	-

Attendance is shown only where director is a member of a particular board or committee.
All directors are non-executive, except for the Managing Director who is executive.
* Retired on 07th August 2013 ** Appointed on 07th August 2013

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:

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

	NAME	No. of shares	%
1	Co-op Holdings Co-operative Society Limited	2,705,511,000	64.56
2	Dr. Gideon Maina Muriuki	87,728,700	2.09
3	Kenya Commercial Bank Nominees Limited A/C 771A	26,539,800	0.63
4	NIC Custodial Services A/C 077	22,290,760	0.53
5	Standard Chartered Nominees Non-Resident Ac 9057	22,259,200	0.53
6	Standard Chartered Nominees A/C 9389	17,548,220	0.42
7	Standard Chartered Nominees A/C 9230	16,579,260	0.40
8	CFC Stanbic Nominees Ltd A/C Nr1030682	16,441,224	0.39
9	CFC Stanbic Nominees Ltd A/C R57601	15,000,080	0.36
10	Co-operative Bank Co-operative Savings & Credit Society Ltd	13,946,000	0.33
	TOTAL	**2,943,844,244**	**70.24**

Co-op Holdings 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 3,815 (Yr 2012-3,817) Co-operative Societies covering millions of Kenyans.

Corporate Governance

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

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

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

DIRECTOR	No. of shares	%
S.C. Muchiri, EBS – Chairman	5,360,000	0.13
Julius M Riungu – Vice Chairman	6,132,000	0.15
Dr. G. M. Muriuki, MBS – Managing Director	87,728,700	2.09
M. Malonza	4,000,000	0.10
S. Odhiambo (Mrs)	2,117,160	0.05
P.K. Githendu	128,440	0.00
G. Mburia	4,000,000	0.10
E. K. Mbogo	3,502,680	0.08
Dr. J. Kahunyo	2,516,000	0.06
J. Sitienei	4,873,600	0.12
C. Kabira	4,908,120	0.12
P. M. Musyimi, HSC – Ag. Commissioner of Co-operative Development	NIL	0.00
R. L. Kimanthi	500,000	0.01
G.J.S. Wakasyaka, Rtd Major	1,660,000	0.04
W. Ongoro	1,286,260	0.03
D. Kibera	NIL	0.00
R. Simani (Mrs)	NIL	0.00
W. J. Mwambia – Representing PS National Treasury	NIL	0.00
R. Githaiga (Mrs) – Company Secretary	1,844,640	0.04
TOTAL	**130,557,600**	**3.12**

Shareholding distribution Schedule:

Category	No. of shareholders	No. of shares	%
1-500 shares	8,033	1,699,416	0.04
501-5,000 shares	43,263	78,188,286	1.86
5,001-10,000 shares	32,594	201,254,765	4.8
10,001-100,000 shares	14,535	268,426,040	6.41
100,001-1,000,000 shares	652	176,865,960	4.22
1,000,001 shares and over	**183**	**3,464,408,831**	**82.67**
TOTAL	**99,260**	**4,190,843,298**	**100**

Shareholders' profile:

Category	No. of shareholders	No. of shares	%
Kenyan individual investors	96,977	814,264,481	19.43
Kenyan institutional investors	2,164	3,254,344,071	77.65
East African individual investors	1	2,000	NIL
East African institutional investors	NIL	NIL	NIL
Foreign individual investors	75	837,360	0.02
Foreign institutional investors	43	121,395,386	2.90
TOTAL	**99,260**	**4,190,843,298**	**100.00**

Report of the Directors

For The Year Ended 31 December 2013

The directors submit their report together with the audited financial statements for the year ended 31 December 2013, which show the state of the Group's and the Bank's affairs. This is in accordance with Section 22 of the Banking Act (Cap 488) and Section 157 of the Kenyan Companies Act (Cap 486).

1. Principal Activities

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

2. Group Operations

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

3. Results

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

4. Dividend & Bonus Share Issues

The directors recommend payment of a first and final dividend of KShs. 0.50 (2012 - KShs 0.50) for every ordinary share of KShs 1. The dividends will be paid on or about 30th June 2014 to the shareholders registered on the Bank's Register at the close of business on 29th May 2014. The register will remain closed for one day on 30th May 2014 for the preparation of dividend warrants.

The directors have also approved and recommended a bonus share, one (1) for every six (6) ordinary share held. The bonus issue subject to Capital Markets Authority approval will be credited to the shareholders on the register as at close of business on 13 June 2014.

5. Reserves

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

6. Group Directors

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

S. C. Muchiri, EBS - Group Chairman
J. M. Riungu - Vice Chairman
Dr. G. Muriuki, MBS - Group Managing Director & CEO
J. Sitienei
R. L. Kimanthi
Major (Rtd) G.J.S. Wakasyaka, OGW
M. Malonza
S. Odhiambo (Mrs)
Dr. J. Kahunyo
C. Kabira, HSC
P.K. Githendu
G. K. Mburia
E. K. Mbogo
W. Ongoro, HSC
D. Kibera
R. Simani (Mrs)
J. Murugu, OGW - Retired 7th August 2013
- Representing PS, Ministry of Finance
W. J. Mwambia - Appointed 7th August 2013
- Representing PS, Ministry of Finance
F. Odhiambo, DSM, MBS
- Retired 7th August 2013
- Commissioner of Co-operative Development
P. M. Musyimi, HSC
- Appointed 7th August 2013
- Ag. 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 18th March 2014.

By order of the Board

Group Managing Director & CEO

Statement of Directors' Responsibilities

For The Year Ended 31 December 2013

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

....

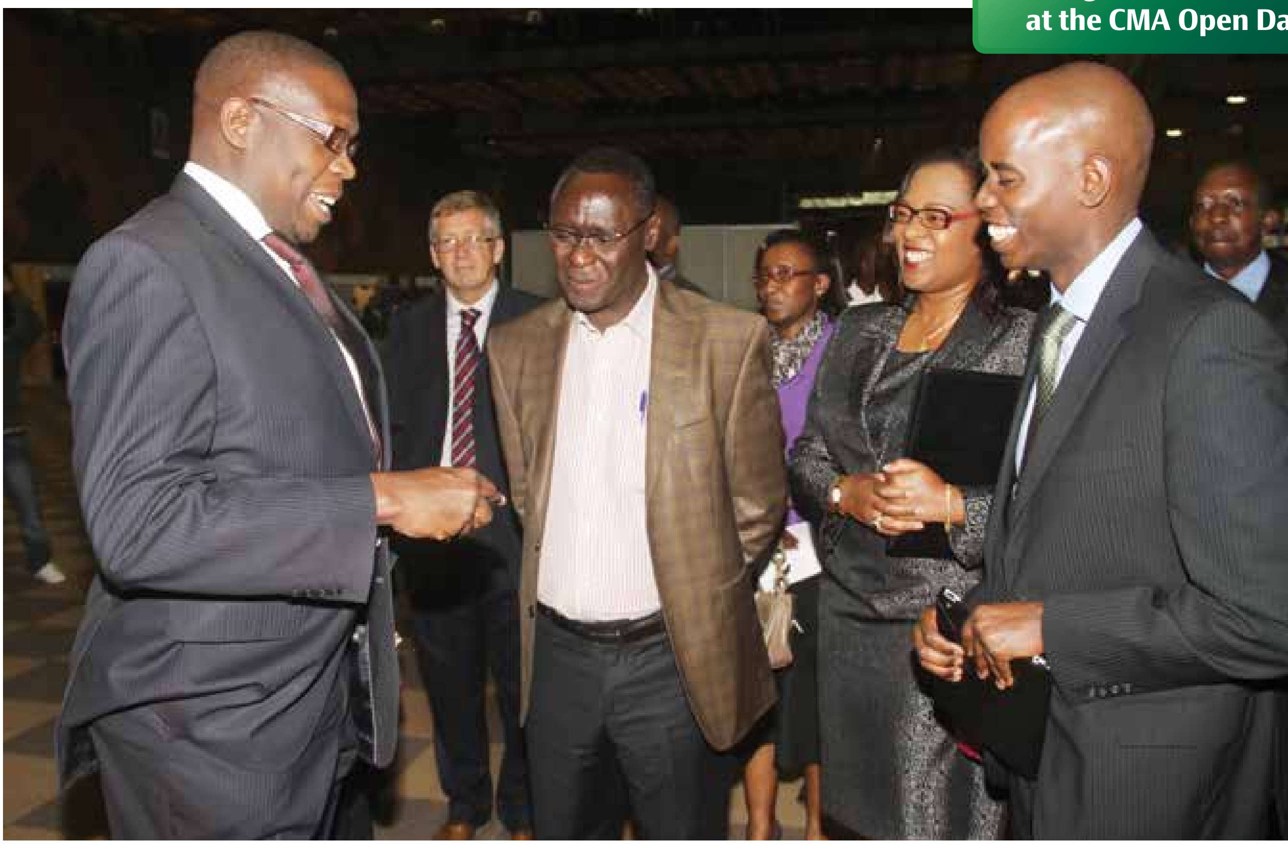
GROUP MANAGING DIRECTOR & CEO

....

COMPANY SECRETARY

18th March 2014

Kingdom Securities at the CMA Open Day



Jeff Odundo (left), MD Kingdom Securities Ltd, shares a light moment with the Capital Markets Authority Director, Humphrey Muga (second left), the Central Depository & Settlement Corporation CEO, Rose Mambo (second right) and the acting CEO for Capital Markets Authority, Mr. Muthaura, at the Capital Markets Authority Open Day Exhibition. Kingdom Securities, a subsidiary of Co-operative Bank, was one of key exhibitors at the open day

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the consolidated and bank's financial statements of The Co-operative Bank of Kenya Limited and its subsidiaries, which comprise the statements of financial position as at 31 December, 2013 and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 40 to 116.

Directors' Responsibility for the Financial Statements

The company's directors 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 consolidated and bank's financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated and bank's financial statements present fairly, in all material respects, the consolidated and bank's financial position of The Co-operative Bank of Kenya Limited and subsidiaries as at 31 December, 2013, and its consolidated and bank's financial performance and its consolidated and bank's cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on other Legal Requirements

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

i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) In our opinion, proper books of account have been kept by the group and the bank, so far as appears from our examination of those books;

iii) The group's and the bank's statements of financial position and statements of comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Joseph K Cheboror Practicing Certificate No. 1145.

Certified Public Accountants (Kenya)

Nairobi

31st March 2014

Beyond Zero Campaign - Marathon Sponsorship

The Group MD & CEO, Dr. Gideon Muriuki, MBS presents a token of Kes. 10m to Her Excellency the First Lady Mrs. Margaret Kenyatta towards the Beyond Zero Marathon in support of Maternal and Child Mortality Fund.

Mwea Prison Visit

Co-operative Bank Mwea Branch Manager, Joan Kaimbiru (left) present some toiletries to the Deputy Officer in Charge at Mwea Prison, Superintendent Mary Muhoro (right) and one of the inmates. The staff from the Mwea Branch visited the prison as part of their service to community. Looking on is representatives from Mwea Prison and the Bank staff.

Joyful Women Organisation (JOYWO) sponsorship

Joyful Women Organisation (JOYWO) Founder and Patron Her Excellency Mrs. Rachel Ruto (left) receives the Co-op Bank Director Corporate & Institional Banking Lydia Rono, as she delivered the bank's Kes. 5 Million sponsorship to JOYWO. The organisation empowers women in deposit mobilisation.

Consolidated Statement of Financial Position

As at 31 December 2013

	Note	2013 KShs'000	2012 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	7	20,713,169	22,214,066
Deposits and balances due from banks	8	10,040,915	8,886,167
Held-for-trading investments	9	30,566	182,199
Held-to-maturity investments	10	14,028,393	3,373,531
Available-for-sale investments	11	25,306,913	29,835,056
Derivative financial instruments	12	294,266	220,275
Loans and advances to customers	13(a)	137,087,227	119,087,748
Investment in associate	15	1,688,888	1,354,935
Other assets	16	8,758,953	4,291,088
Intangible assets	17(a)	1,833,822	2,145,001
Prepaid lease rentals	18	38,180	38,863
Property and equipment	19	11,230,379	8,949,529
Deferred tax asset	20	66,658	308,124
Tax recoverable	24(b)	97,029	-
TOTAL ASSETS		**231,215,358**	**200,886,582**
LIABILITIES			
Deposits and balances due to banks	21	5,462,337	1,065,302
Customer deposits	22(a)	175,425,121	162,083,580
Loans and borrowings	23	10,252,392	4,572,005
Tax payable	24(b)	-	585,429
Provisions	25	74,866	62,953
Other liabilities	26	2,862,381	2,101,321
Government grants	27	554,270	574,717
Deferred tax liability	20	-	473,939
TOTAL LIABILITIES		**194,631,367**	**171,519,246**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT			
Share capital	28	4,190,844	4,190,844
Share premium	29	3,588,262	3,588,262
Revaluation reserve	30(a)	429,704	416,106
Retained earnings	30(b)	26,439,285	19,558,597
Available for sale reserve	30(c)	(1,243,221)	(1,062,887)
Statutory reserve	30(d)	718,026	451,784
Foreign currency translation reserve	30(e)	1,060	-
Proposed dividends	31	2,095,422	2,095,422
		36,219,382	**29,238,128**
Non-controlling interest	32	364,609	129,208
TOTAL EQUITY		**36,583,991**	**29,367,336**
TOTAL LIABILITIES & EQUITY		**231,215,358**	**200,886,582**

The financial statements were approved by the Board of Directors on 18th March 2014 and signed on its behalf by

S.C. Muchiri, EBS - Group Chairman

J.M. Riungu - Vice Chairman

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

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

Consolidated Income Statement

For the Year ended 31 December 2013

	Note	2013 KShs'000	2012 KShs'000
Interest income	33	21,785,057	22,261,087
Interest expense	34	(5,915,809)	(8,680,008)
NET INTEREST INCOME		**15,869,248**	**13,581,079**
Fees and commission income	35	7,160,979	6,064,983
Fees and commission expense	35	(170,487)	(64,544)
NET FEES AND COMMISSION INCOME		**6,990,492**	**6,000,439**
Net trading income	36	4,389,375	3,804,713
Amortisation of government grants	27	20,447	20,447
Other operating income	37	620,241	374,114
OPERATING INCOME		**27,889,803**	**23,780,792**
Net impairment losses on loans and advances	13(d)	778,157	999,882
Amortisation of intangible assets	17(a)	178,201	127,686
Amortisation of leasehold land	18	611	615
Depreciation of property and equipment	19(a)	1,528,961	1,310,631
Employee costs	38	8,013,780	6,096,093
Other operating expenses	39	6,883,017	5,635,745
OPERATING EXPENSES		**17,382,727**	**14,170,652**
OPERATING PROFIT		**10,507,076**	**9,610,140**
Share of profit of an associate	15	365,369	373,632
PROFIT BEFORE TAX		**10,872,445**	**9,983,772**
INCOME TAX EXPENSE	24(a)	(1,764,259)	(2,259,914)
PROFIT FOR THE YEAR		**9,108,186**	**7,723,858**
Attributable to:			
Equity holders of the parent		9,233,281	7,718,784
Non-controlling interest		(125,095)	5,074
		9,108,186	**7,723,858**
Basic earnings per share (KShs)	40	2.20	1.84
Diluted earnings per share (KShs)	40	1.89	1.58

Consolidated Statement of Comprehensive Income

For the Year ended 31 December 2013

	Note	2013	2012
		KShs'000	KShs'000
PROFIT FOR THE YEAR		**9,108,186**	**7,723,858**
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net movement on available-for-sale investments	41(i)	(178,378)	1,997,998
Exchange differences on translation of a foreign operation		1,060	-
Other comprehensive income of an associate		20,713	5,278
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of land and buildings	41(ii)	-	85,652
OTHER COMPREHENSIVE INCOME, NET OF TAX		**(156,605)**	**2,088,928**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF INCOME TAX		**8,951,581**	**9,812,786**
Attributable to:-			
Equity holders of the bank		9,076,676	9,807,712
Non-controlling interest		(125,095)	5,074
		8,951,581	**9,812,786**

Bank Statement of Financial Position

As at 31 December 2013

	Note	2013 KShs'000	2012 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	7	19,296,488	22,214,066
Deposits and balances due from banks	8	10,056,793	8,869,700
Held-for-trading investments	9	30,510	180,834
Held-to-maturity investments	10	13,820,482	3,213,925
Available-for-sale investments	11	25,306,913	29,834,423
Derivative financial instruments	12	294,266	220,275
Loans and advances to customers	13(a)	137,051,537	119,087,748
Investment in subsidiaries	14	1,748,494	240,000
Investment in associate	15	755,118	755,118
Other assets	16	8,583,559	4,172,652
Intangible assets	17(b)	1,311,566	1,892,241
Prepaid lease rentals	18	38,180	38,863
Property and equipment	19	10,424,834	8,943,111
Deferred tax asset	20	56,113	-
Tax recoverable	24(b)	99,631	-
TOTAL ASSETS		**228,874,484**	**199,662,956**
LIABILITIES			
Deposits and balances due to banks	21	5,462,337	1,065,302
Customer deposits	22(a)	174,776,225	162,267,227
Loans and borrowings	23	10,252,392	4,572,005
Tax payable	24(b)	-	581,349
Provisions	25	72,841	62,953
Other liabilities	26	2,658,642	1,971,461
Government grants	27	554,270	574,717
Deferred tax liability	20	-	175,713
TOTAL LIABILITIES		**193,776,707**	**171,270,727**
EQUITY			
Share capital	28	4,190,844	4,190,844
Share premium	29	3,588,262	3,588,262
Revaluation reserve	30(a)	407,035	416,106
Retained earnings	30(b)	25,354,077	18,727,297
Available for sale reserves	30(c)	(1,255,707)	(1,077,486)
Statutory reserve	30(d)	717,844	451,784
Proposed dividends	31	2,095,422	2,095,422
TOTAL EQUITY		**35,097,777**	**28,392,229**
TOTAL LIABILITIES & EQUITY		**228,874,484**	**199,662,956**

The financial statements were approved by the Board of Directors on 18th March 2014 and signed on its behalf by:-

S.C. Muchiri, EBS - Group Chairman

J.M. Riungu - Vice Chairman

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

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

Bank Income Statement

For the Year ended 31 December 2013

	Note	2013 KShs'000	2012 KShs'000
Interest income	33	21,903,506	22,230,164
Interest expense	34	(5,915,809)	(8,680,008)
NET INTEREST INCOME		**15,987,697**	**13,550,156**
Fees and commission income	35	6,830,166	5,787,637
Fees and commission expense	35	(170,487)	(64,544)
NET FEES AND COMMISSION INCOME		**6,659,679**	**5,723,093**
Net trading income	36	4,386,070	3,802,137
Amortisation of government grants	27	20,447	20,447
Other operating income	37	494,200	445,453
OPERATING INCOME		**27,548,093**	**23,541,286**
Net impairment losses on loans and advances	13(d)	773,291	999,882
Amortisation of intangible assets	17(b)	175,565	127,686
Amortisation of leasehold land	18	611	615
Depreciation of property and equipment	19(b)	1,514,249	1,307,024
Employee costs	38	7,825,352	6,031,466
Other operating expenses	39	6,553,568	5,500,682
OPERATING EXPENSES		**16,842,636**	**13,967,355**
PROFIT BEFORE TAX		**10,705,457**	**9,573,931**
INCOME TAX EXPENSE	24(a)	(1,726,266)	(2,244,498)
PROFIT FOR THE YEAR		**8,929,191**	**7,329,433**
Basic earnings per share (KShs)	40	2.14	1.75
Diluted earnings per share (KShs)	40	1.84	1.50

Bank Statement of Comprehensive Income

For the Year ended 31 December 2013

	Note	2013 KShs'000	2012 KShs'000
PROFIT FOR THE YEAR		**8,979,191**	**7,329,433**
OTHER COMPREHENSIVE INCOME:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net movement on available-for-sale investments	41(i)	(178,221)	1,997,637
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of land and buildings	41(ii)	-	85,652
OTHER COMPREHENSIVE INCOME, NET OF TAX		**(178,221)**	**2,083,289**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		**8,800,970**	**9,412,722**

Consolidated Statement of Changes in Equity

For the Year ended 31 December 2013

	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Statutory reserve KShs'000	Fair value reserve KShs'000	Foreign currency translation reserve KShs'000	Proposed dividends KShs'000	Retained earnings KShs'000	Attributable to equity holder of the parent KShs'000	Non-controlling interest KShs'000	Total equity KShs'000
Balance at 1 January 2012	**3,492,370**	**4,286,736**	**339,525**	**205,978**	**(3,066,163)**	**-**	**1,396,948**	**14,171,970**	**20,827,364**	**124,134**	**20,951,498**
Total comprehensive income						-					
Profit for the year	-	-	-	-	-	-	-	7,718,784	7,718,784	5,074	7,723,858
Other comprehensive income	-	-	85,652	-	2,003,276	-	-	-	2,088,928	-	2,088,928
Issue of share capital	698,474	(698,474)	-	-	-	-	-	-	-	-	-
Realisation of revaluation surplus	-	-	(9,071)	-	-	-	-	9,071	-	-	-
Transfers to statutory reserve	-	-	-	245,806	-	-	-	(245,806)	-	-	-
2011- Dividends paid	-	-	-	-	-	-	(1,396,948)	-	(1,396,948)	-	(1,396,948)
Proposed dividends	-	-	-	-	-	-	2,095,422	(2,095,422)	-	-	-
Balance at 31 December 2012	**4,190,844**	**3,588,262**	**416,106**	**451,784**	**(1,062,887)**	**-**	**2,095,422**	**19,558,597**	**29,238,128**	**129,208**	**29,367,336**
Balance at 1 January 2013	**4,190,844**	**3,588,262**	**416,106**	**451,784**	**(1,062,887)**	**-**	**2,095,422**	**19,558,597**	**29,238,128**	**129,208**	**29,367,336**
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	360,321	360,321
Total comprehensive income	-	-		-			-				
Profit for the year								9,233,281	9,233,281	(125,095)	9,108,186
Other comprehensive income			22,669		(180,334)	1,060			(156,605)	-	(156,605)
Realisation of revaluation surplus	-	-	(9,071)	-	-		-	9,071	-	-	-
Transfers to statutory reserve	-	-	-	266,242	-		-	(266,242)	-	175	175
2012- Dividends paid	-	-	-	-	-		(2,095,422)	-	(2,095,422)	-	(2,095,422)
Proposed dividends	-	-	-	-	-		2,095,422	(2,095,422)	-	-	-
Balance at 31 December 2013	**4,190,844**	**3,588,262**	**429,704**	**718,026**	**(1,243,221)**	**1,060**	**2,095,422**	**26,439,285**	**36,219,382**	**364,609**	**36,583,991**

Bank Statement of Changes in Equity

For the Year ended 31 December 2013

	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Statutory reserve KShs'000	Fair value reserve KShs'000	Proposed dividends KShs'000	Retained earnings KShs'000	Total KShs'000
Balance at 1 January 2012	**3,492,370**	**4,286,736**	**339,525**	**205,978**	**(3,075,123)**	**1,396,948**	**13,730,021**	**20,376,455**
Total comprehensive income								-
Profit for the year	-	-	-	-	-	-	7,329,433	7,329,433
Other comprehensive income	-	-	85,652	-	1,997,637	-	-	2,083,289
Issue of share capital	698,474	(698,474)	-	-	-	-	-	-
Realisation of revaluation surplus	-	-	(9,071)	-	-	-	9,071	-
Transfer from retained earnings	-	-	-	245,806	-	-	(245,806)	-
2011- Dividends paid	-	-	-	-	-	(1,396,948)	-	(1,396,948)
Proposed dividends	-	-	-	-	-	2,095,422	(2,095,422)	-
Balance at 31 December 2012	**4,190,844**	**3,588,262**	**416,106**	**451,784**	**(1,077,486)**	**2,095,422**	**18,727,297**	**28,392,229**
Balance at 1 January 2013	**4,190,844**	**3,588,262**	**416,106**	**451,784**	**(1,077,486)**	**2,095,422**	**18,727,297**	**28,392,229**
Total comprehensive income								-
Profit for the year	-	-	-	-	-	-	8,979,191	8,979,191
Other comprehensive income	-	-	-	-	(178,221)	-		(178,221)
Issue of share capital	-	-	(9,071)	-	-	-	9,071	-
Realisation of revaluation surplus	-	-	-	266,060	-	-	(266,060)	-
2012- Dividends paid	-	-	-	-	-	(2,095,422)		(2,095,422)
Proposed dividends	-	-	-	-	-	2,095,422	(2,095,422)	-
Balance at 31 December 2013	**4,190,844**	**3,588,262**	**407,035**	**717,844**	**(1,255,707)**	**2,095,422**	**25,354,077**	**35,097,777**

Consolidated Statement of Cash Flows

For the Year ended 31 December 2013

	Note	2013 KShs'000	2012 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES:-			
Profit before tax		**10,872,445**	**9,983,772**
Adjustments for:-			
Depreciation	19(a)	1,528,352	1,310,631
Amortization of prepaid lease rentals	18	683	615
Impairment on intangible assets	17(a)	-	2,769
Depreciation write-back	19(a)	-	(74,679)
Impairment on property and equipment	19(a)	3,430	-
Net movement in revenue grants		-	-
Revaluation surplus		-	(85,652)
Movement in provisions		(214,818)	43,440
Foreign exchange gain		79,815	73,286
Amortization of intangible assets	17(a)	175,583	127,686
Amortization of capital grants	27	(20,447)	(20,447)
Gain on disposal of property and equipment		(10,632)	(7,154)
Changes in fair value of financial instruments held-for-trading	9	352	(23,573)
Share of profit in associate	15	-	(373,632)
Loan interest	23	104,776	131,214
Amortisation of financial instruments		1,654,956	270,900
Cash flows from operating activities before working capital changes		**14,174,495**	**11,359,176**
Advances to customers		(17,784,661)	(9,722,373)
Other assets		(4,862,570)	(457,347)
Deposits from customers		13,341,541	19,451,272
Deposits from banks		4,397,035	(815,982)
Other liabilities		772,975	165,088
Central Bank of Kenya cash reserve ratio		(921,977)	(826,381)
Held-for-trading investments		151,281	5,421
Available-for-sale investments		2,694,965	(5,454,915)
Equity investments held-for-trading		-	1,020
Cash generated from / (used in) operating activities		**11,963,084**	**13,704,979**
Tax paid	24(b)	(2,679,178)	(1,391,791)
Net cash flows from operating activities		**9,283,906**	**12,313,188**
CASH FLOWS FROM INVESTING ACTIVITIES:-			
Purchase of property and equipment	19(b)	(3,018,173)	(3,008,274)
Purchase of software	17(b)	(664,028)	(52,252)
Proceeds from disposal of property and equipment		12,150	10,324
Purchase of held-to-maturity investments	10	(13,784,364)	(4,618,370)
Maturity of held-to-maturity investments	10	3,129,502	1,438,286
Dividends from associate	15	52,128	52,135
Net cash flows used in investing activities:-		**(14,272,785)**	**(6,178,151)**
CASH FLOWS FROM FINANCING ACTIVITIES:-			
Loan received	23	5,787,690	4,320,173
Loans paid	23	(212,079)	(113,322)
Dividends paid		(2,095,422)	(1,396,948)
Net cash flows from financing activities		**3,480,189**	**2,809,903**
Net movement in cash and cash equivalents		(1,508,690)	8,944,940
Cash and cash equivalents at the beginning of the year		23,607,621	14,735,967
Net foreign exchange gain differences		(338)	
Foreign exchange gain		(79,815)	(73,286)
Cash and cash equivalents at 31 December	**42**	**22,018,778**	**23,607,621**

Bank Statement of Cash Flows

For the Year ended 31 December 2013

	Note	2013 KShs'000	2012 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES:-			
Profit before tax		**10,705,457**	**9,573,931**
Adjustments for:-			
Depreciation	19(a)	1,514,244	1,307,024
Amortization of prepaid lease rentals	18	683	615
Impairment on intangible assets	17(a)	-	1,684
Depreciation write-back	19(a)	-	(74,679)
Impairment on property and equipment		3,430	-
Revaluation surplus		-	(85,652)
Movement in provisions		(214,818)	43,440
Net foreign exchange differences		79,815	73,286
Amortization of intangible assets	17(a)	175,583	127,686
Amortization of capital grants	27	(20,447)	(20,447)
Gain on disposal of property and equipment		(10,632)	(7,154)
Changes in fair value of financial instruments held-for-trading	9	352	(20,997)
Loan interest	15	104,776	131,214
Amortisation of financial instruments	23	1,654,957	270,900
Cash flows from operating activities before working capital changes		**13,993,400**	**11,320,851**
Advances to customers		(17,748,971)	(9,722,373)
Other assets		(4,805,605)	(401,412)
Deposits from customers		12,508,998	19,562,634
Deposits from banks		4,397,035	(815,982)
Other liabilities		697,071	120,781
Central Bank of Kenya cash reserve ratio		(921,977)	(826,381)
Held-for-trading investments		149,972	3,335
Equity investments held-for-trading		-	1,020
Available for sale investment		2,694,340	(5,460,823)
Cash generated from / (used in) operating activities		10,964,263	13,781,650
Tax paid	24(b)	(2,639,081)	(1,374,679)
Net cash flows from operating activities		**8,325,182**	**12,406,971**
CASH FLOWS FROM INVESTING ACTIVITIES:-			
Purchase of property and equipment	19(b)	(2,204,949)	(3,007,868)
Purchase of software	17(b)	(390,884)	(52,252)
Acquisition of a subsidiary		(1,508,494)	-
Proceeds from disposal of property and equipment		12,150	8,819
Purchase of held-to-maturity investments	10	(13,784,364)	(4,618,370)
Maturity of held-to-maturity investments	10	3,177,807	1,408,295
Net cash flows used in investing activities		**(14,698,734)**	**(6,261,376)**
CASH FLOWS FROM FINANCING ACTIVITIES:-			
Loans received	23	5,787,690	4,320,173
Loans paid	23	(212,079)	(113,322)
Dividends paid		(2,095,422)	(1,396,948)
Net cash flows from financing activities		**3,480,189**	**2,809,903**
Net movement in cash and cash equivalents		(2,893,363)	8,955,498
Cash and cash equivalents at the beginning of the year		23,591,154	14,708,942
Net foreign exchange differences		(79,815)	(73,286)
Cash and cash equivalents at 31 December	**42**	**20,617,976**	**23,591,154**

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2013

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 3 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 available –for-sale investments, derivative financial instruments, other financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through profit or loss, land and buildings and some intangible assets.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

b) Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries and associate as at 31 December 2013. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Derecognises the assets (including goodwill) and liabilities of the subsidiary

- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2013

c) Changes in accounting policies and disclosures

New and amended standards and interpretations

The following standards have been adopted by the group for the first time for the financial year beginning on or after 1 January 2013:

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

The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position (as at 1 January 2012 in the case of the Group), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments have no impact on the Group's financial position or performance.

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

These amendments require an entity to disclose information about rights of set-off and related arrangements (e.g. collateral agreements). The disclosures will provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with IAS 32. The amendments affect presentation only and have no impact on the Group's financial position or performance.

IAS 16 Property, Plant and Equipment

The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment. This is effective for annual periods beginning on or after 1 January 2013 but has no impact on the group as the group does not hold spares and servicing equipment.

IAS 32 Financial Instruments: Presentation

The amendment clarifies the treatment of income tax relating to distributions and transaction costs. The amendment clarifies that the treatment is in accordance with IAS 12. So, income tax related to distributions is recognised in the income statement, and income tax related to the costs of equity transactions is recognised in equity. This is effective for annual periods beginning on or after 1 January 2013 but has no impact on the group as the group does not hold spares and servicing equipment

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment clarifies that an entity may apply IFRS 1 more than once under certain circumstances.

The amendment clarifies that an entity can choose to adopt IAS 23, 'Borrowing costs', either from its date of transition or from an earlier date.

The consequential amendment (as a result of the amendment to IAS 1 discussed below) clarifies that a first-time adopter should provide the supporting notes for all statements presented. This is effective for annual periods beginning on or after 1 January 2013 but has no impact on the group

The IASB amended the meaning of "Effective IFRSs". An entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. Amendment to the basis for conclusions only and is effective immediately. The Group has not early adopted the standard

IFRS 11 Joint Arrangements

The amendment clarifies that the date of initial application is the first day of the annual period in which IFRS 10 is adopted – for example, 1 January 2013 for a calendar-year entity that adopts IFRS 10 in 2013. Entities adopting IFRS 10 should assess control at the date of initial application; the treatment of comparative figures depends on this assessment. The amendment also requires certain comparative disclosures under IFRS 12 upon transition.

This has no effect on the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries.

Some of the more extensive qualitative and quantitative disclosures of IFRS 12 include:

- Summarised financial information for each subsidiary that has non-controlling interests that are material to the reporting entity
- Significant judgements used by management in determining control, joint control and significant influence, and the type of joint arrangement (i.e., joint operation or joint venture), if applicable
- Summarised financial information for each individually material joint venture and associate
- Nature of the risks associated with an entity's interests in unconsolidated structured entities, and changes to those risks

IFRS 12 disclosures are provided in Notes 14 and 15.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities, which resulted in SIC-12 being withdrawn. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures, and associates in separate financial statements. IFRS 10 does not change consolidation procedures (i.e., how to consolidate an entity). Rather, IFRS 10 changes whether an entity is consolidated by revising the definition of control. Control exists when an investor has:-

- Power over the investee (defined in IFRS 10 as when the investor has existing rights that give it the current ability to direct the relevant activities)
- Exposure, or rights, to variable returns from its involvement with the investee

And

- The ability to use its power over the investee to affect the amount of the investor's returns

IFRS 10 also provides a number of clarifications on applying this new definition of. The standard has no material impact on the Group's financial statements.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11, 'Joint arrangements'

IAS 19 Employee Benefits

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures and in determining the discount rate used in accounting for employee benefit plans, an entity would include high quality corporate bonds issued by entities operating in other countries, provided that those bonds are issued in the currency in which the benefits are to be paid. Consequently, the depth of the market for high quality corporate bonds would be assessed at the currency level and not at the country level.

In case of the Group, the transition to IAS 19R had no impact as the pension is a defined contribution plan.

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2013

IAS 34: Interim Financial Reporting

The proposed amendment clarifies the meaning of disclosure of information 'elsewhere in the interim financial report' (e.g., the management report). In addition, when the required disclosures are presented 'elsewhere in the interim financial report' the entity would be required to include a cross-reference from the interim financial statements to the location of this information. Consequently, IAS 34's Basis for Conclusions would also clarify that disclosure of information 'elsewhere in the interim financial report' would extend the financial statements to include that part of the interim financial report. These amendments are not expected to be relevant to the Group.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 16.

Standards issued but not yet effective

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

IAS 24 Related Party Disclosures

The amendment clarifies that a management entity – an entity that provides key management personnel services – is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment is effective retrospectively. The amendment is effective for annual periods beginning on or after 1 July 2014 and will have no impact on the group

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9, issued in November 2013, tentatively decided to defer the mandatory effective date until the standard is complete with a new impairment model and finalisation of any limited amendments, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

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

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

IAS 40 Investment Property

The amendment is effective for annual periods beginning on or after 1 January 2014. The IASB clarified the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property. The description of ancillary services in IAS 40 differentiates between investment property and owner occupied property. IFRS 3 is used to determine if the transaction is the purchase of an asset or a business combination. The group is assessing the impact of the amendment on its financial statements

IAS 39 Financial Instruments: Recognition and Measurement

The IASB amended IAS 39 to provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. Novation indicates that parties to a contract agree to replace their original counterparty with a new one. This is effective for annual periods beginning on or after 1 January 2014.

Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception This amendment Applies when IFRS 9 is applied

At the time of issue of the revised version of IFRS 9 including the hedge accounting chapter, IFRS 9 had no stated mandatory effective date

IAS 16 Property, Plant and Equipment

The amendment to IAS 16.35(a) and IAS 38.80(a) clarifies that revaluation can be performed, as follows:

Adjust the gross carrying amount of the asset to market value, Or

Determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying amount equals the market value.

The IASB also clarified that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount of the asset (i.e., gross carrying amount – accumulated depreciation/amortisation = carrying amount).

The amendment to IAS 16.35(b) and IAS 38.80(b) clarifies that the accumulated depreciation/amortisation is eliminated so that the gross carrying amount and carrying amount equal the market value.

This amendment provides more detail when users revalue assets and clarifies how an adjustment is recognised. The amendment is effective retrospectively. The Group is still assessing the impact however, the amendment is effective for annual periods beginning on or after 1 July 2014

IAS 19 Employee Benefits

With Defined Benefit Plans: Employee Contributions (Amendments to IAS 19 Employee Benefits) the IASB has amended the requirements in IAS 19 for contributions from employees or third parties that are linked to service:

If the amount of the contributions is independent of the number of years of service, contributions may be recognised as a reduction in the service cost in the period in which the related service is rendered (note: this is an allowed but not required method).

If the amount of the contributions depends on the number of years of service, those contributions must be attributed to periods of service using the same attribution method as used for the gross benefit in accordance with paragraph 70 of IAS 19.

The amendments are intended to provide relief in that entities are allowed to deduct contributions from service cost in the period in which the service is rendered. This was common practice prior to the 2011 amendments to IAS 19. In those cases the impact of retrospective application would be minimal. The amendments are to be applied retrospectively. The amendment is effective for annual periods beginning on or after 1 July 2014 and will have no impact on the Group

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2013

IAS 36 Impairment of Assets

The amendments relate to the disclosure in respect of fair value less costs of disposal. The amendments are intended to clarify the IASB's original intentions when amendments were made to IAS 36 as a result of the issuance of IFRS 13 Fair Value Measurement. The amendments also require additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal and the discount rates that have been used when the recoverable amount.

The amendment to IAS 16.35(a) and IAS 38.80(a) clarifies that revaluation can be performed, as follows:

Adjust the gross carrying amount of the asset to market value, Or

Determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying amount equals the market value.

The IASB also clarified that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount of the asset (i.e. gross carrying amount – accumulated depreciation/amortisation = carrying amount) the amendment to IAS 16.35(b) and IAS 38.80(b) clarifies that the accumulated depreciation/amortisation is eliminated so that the gross carrying amount and carrying amount equal the market value. This amendment provides more detail when users revalue assets and clarifies how an adjustment is recognised. The amendment is effective retrospectively and is effective for annual periods beginning on or after 1 July 2014

IFRS 3 Business Combinations

The IASB clarified that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments. Contingent consideration cannot be measured at fair value through other comprehensive income. The amendment is effective for business combinations prospectively. Amendment clarifies that:

Joint arrangements are outside the scope of IFRS 3, not just joint ventures.

The scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The amendment is effective prospectively. This amendment I is effective for annual periods beginning on or after 1 July 2014

IFRS 8 Operating Segments

Aggregation of operating segments:

The amendment clarifies that operating segments may be combined/aggregated if they are consistent with the core principle of the standard, if the segments have similar economic characteristics and if they are similar in other qualitative respects. If they are combined, the entity must disclose the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar 'it further states that, the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities. This amendment is applicable for annual periods beginning on or after 1 July 2014.

IFRS 12 Disclosure of Interests in Other Entities

The amendment is effective for annual periods beginning on or after 1 January 2014. The investment entities amendments apply to investments in subsidiaries, joint ventures and associates held by a reporting entity that meets the definition of an investment entity.

The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 (or IAS 39, as applicable), except for investments in subsidiaries, associates and joint ventures that provide services that relate only to the investment entity, which must be consolidated (investments in subsidiaries) or accounted for using the equity method (investments in associates or joint ventures).

The IASB amended the definitions relating to vesting conditions. Performance condition and service condition are defined in order to clarify various issues, including the following:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition

If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied .This amendment I is effective for annual periods beginning on or after 1 July 2014

IFRS 7 Financial Instruments: Disclosures

The IASB has published an amendment to IFRS 9, 'Financial instruments' that delays the effective date to annual periods beginning on or after 1 January 2015. The original effective date was for annual periods beginning on or after from 1 January 2013. This amendment is a result of the board extending its timeline for completing the remaining phases of its project to replace IAS 39 (for example, impairment and hedge accounting) beyond June 2011, as well as the delay in the insurance project. The amendment confirms the importance of allowing entities to apply the requirements of all the phases of the project to replace IAS 39 at the same time. The requirement to restate comparatives and the disclosures required on transition have also been modified.

The IASB has published an amendment to IFRS 9, 'Financial instruments' that delays the effective date to annual periods beginning on or after 1 January 2015. The original effective date was for annual periods beginning on or after from 1 January 2013. This amendment is a result of the board extending its timeline for completing the remaining phases of its project to replace IAS 39 (for example, impairment and hedge accounting) beyond June 2011, as well as the delay in the insurance project. The amendment confirms the importance of allowing entities to apply the requirements of all the phases of the project to replace IAS 39 at the same time. The requirement to restate comparatives and the disclosures required on transition have also been modified.

d) Significant accounting estimates and assumptions

The preparation of the Bank's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Bank based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

Going concern

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer–dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. The valuation of financial instruments is described in more detail in Note 6.

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2013

Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each statement-of-financial-position date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually (and found not to be impaired) are assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics. This is to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan-to-collateral ratios, etc.), and judgements on the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

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.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. Management do not foresee changes in control or diminished returns over the investee.

e) Recognition of income and expenses

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

i) Interest and similar income and expenses

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

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

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

ii) Fee and commission income

Fee and commission income including account servicing fees, investment management fees, placement fees and syndication fees, are recognised as the related services are performed. Other fee and commission expense relates mainly to transaction and service fees, which are expensed as the services are received

iii) Dividend income

Dividends from associate and 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 and is recognised on a monthly basis when it falls due.

(v) Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded in hedging transactions

f) Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non–restricted current accounts with central banks and amounts due from banks on demand or with an original maturity of three months or less.

g) 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.

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2013

h) Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the income statement in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash–generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with IFRS 8 Operating Segments.

Where goodwill has been allocated to a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances are measured based on the relative values of the disposed operation and the portion of the CGU retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the income statement.

i) 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.

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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.

j) Investment in an associate

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

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

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

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

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

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

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

k) Finance and operating leases

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

i) Operating leases:

Where:-

- Group is the lessee

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

- Group is the lessor

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

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ii) Finance leases:

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

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.

l) Financial assets

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

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

i) Financial assets at fair value through profit or loss

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

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

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

ii) Held-to-maturity financial assets

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

iii) Loans and receivables

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

iv) Available-for-sale financial assets

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

v) Fair value

The Group's fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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.

m) Derivative financial instruments

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank. Over–the–counter derivatives may expose the Bank to the risks associated with the absence of an exchange market on which to close out an open position. The Bank's exposure under derivative contracts is closely monitored as part of the overall management of its market risk.

Changes in fair value of any derivative instruments are recognised immediately in the profit or loss. Derivative financial instruments are initially recognised at fair value. Subsequent to initial recognition, derivative financial instruments are measured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore , do not indicate the Bank's exposure to credit or price risks. The derivative instruments become assets or liabilities as a result of fluctuations in foreign exchange rates relative to their terms.

The Bank uses the following derivative instruments:

Currency Forwards

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over–the–counter market. The Bank has credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and result in market risk exposure.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as a foreign currency rate. In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency.

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n) 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.

(4) Derecognition of financial assets

A financial asset is derecognised when:

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

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

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

o) Financial liabilities

a) Customer deposits

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

b) Deposits from/to other banks

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

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

c) Other borrowed funds and borrowing costs

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

d) Financial guarantee contracts

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

e) Provisions

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

p) 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.

For the Year ended 31 December 2013

q) 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'.

r) 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.

s) 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.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the reporting date. The monetary liability for employees' accrued annual leave entitlement at the end of reporting period is recognised as an expense accrual.

t) 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

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(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.

u) 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.

v) 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.

w) 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.

For the Year ended 31 December 2013

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.

aa) Impairment of non-financial assets

The carrying amounts of the group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The CGU is used when assessing for impairment. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, an appropriate valuation model is used. Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for a property previously re-valued where the valuation was taken to other comprehensive income. In this case, the impairment loss is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets other than goodwill an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. Impairment losses on goodwill are not reversed

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.

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

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

A. Credit risk

B. Liquidity risk

C. Market risks

D. Operational risks

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

(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.

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

	Note	Group 2013 KShs '000	Group 2012 KShs '000	Bank 2013 KShs '000	Bank 2012 KShs '000
Carrying amount		**145,735,287**	**123,823,553**	**145,699,597**	**123,823,553**
Staff loans marked -to-market		(4,053,334)	-	(4,053,334)	-
Individually assessed for impairment:					
Grade 5: Loss category		1,183,892	950,971	1,183,892	950,971
Grade 4: Doubtful category		2,791,828	2,740,959	2,791,828	2,740,959
Gross amount		3,975,720	3,691,930	3,975,720	3,691,930
Allowance for impairment		(2,666,242)	(2,852,977)	(2,666,242)	(2,852,977)
Carrying amount		**1,309,478**	**838,953**	**1,309,478**	**838,953**
Collectively assessed for impairment:					
Grade 1: Normal		132,655,793	105,153,902	132,620,103	105,153,902
Grade 2: Watch list		6,976,031	12,466,374	6,976,031	12,466,374
Gross amount		139,631,824	117,620,276	139,596,134	117,620,276
Allowance for impairment		(1,550,775)	(1,428,171)	(1,550,775)	(1,428,171)
Carrying amount		**138,081,049**	**116,192,105**	**138,045,359**	**116,192,105**
Past due but not impaired loans (Grade 3 - Substandard):					
Past due up to 30 days		1,895,181	2,236,953	1,895,181	2,236,953
Past due 31-60 days		13,405	15,693	13,405	15,693
Past due 61-90 days		16,384	19,368	16,384	19,368
Past due 91-150 days		202,774	239,334	202,774	239,334
Gross amount		2,127,743	2,511,348	2,127,743	2,511,348
Allowance for impairment		(377,708)	(454,658)	(377,708)	(454,658)
Carrying amount		**1,750,035**	**2,056,690**	**1,750,035**	**2,056,690**
Net carrying amount	**13 (a)**	**137,087,227**	**119,087,748**	**137,051,537**	**119,087,748**

Maximum exposure to credit risk before collateral held:

	Group 2013 KShs '000	Group 2012 KShs '000	Bank 2013 KShs '000	Bank 2012 KShs '000
Items recognised in the statement of financial position:				
Items in the course of collection	509,030	770,485	449,770	770,485
Deposits and balances due from banking institutions	10,040,915	8,869,700	10,056,793	8,869,700
Financial assets:				
-Held-to-maturity	14,028,393	3,373,531	13,820,482	3,373,531
-Held-for-trading	30,566	182,199	30,510	182,199
-Available-for-sale	25,306,913	29,835,056	25,306,913	29,835,056
Interest receivable	1,450,079	2,125,948	1,450,079	2,125,948
Loans and advances to customers	137,087,227	119,087,748	137,051,537	119,087,748
	188,453,123	**164,244,667**	**188,166,084**	**164,244,667**
Items not recognised in the statement of financial position	16,971,431	14,434,139	16,971,431	14,434,139
	205,424,554	**178,678,806**	**205,137,515**	**178,678,806**

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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. 41,037 Million (2012- KShs 34,629 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.

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

	2013 KShs '000	2012 KShs '000
Due from banks	-	-
Financial assets at fair value through profit or loss	-	-
Loans and advances to customers:-		
Commercial loans	480,354	570,793
	480,354	**570,793**

Loans with renegotiated terms

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

Allowances for impairment

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

Write-off policy

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

Collateral on loans and advances

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

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2013

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

	Group and Bank	
	2013	**2012**
	KShs '000	**KShs '000**
i)Categorised by loans & advances:		
Doubtful & loss categories	2,766,360	1,040,914
Past due but not impaired (Sub-standard) category	1,850,527	1,531,132
Normal & watch categories	325,048,156	92,518,377
	329,665,043	**95,090,423**
ii) Categorised by nature of collateral:		
Land & buildings	129,968,061	73,857,282
Cash & other pledges	2,390,671	4,361,003
Motor vehicles	156,571,382	7,059,308
Hypothecation of stock	607,138	1,429,591
Debentures & guarantees	36,195,632	6,659,569
Other chattels	3,932,159	1,723,669
	329,665,043	**95,090,422**

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.

Loans and advances:-	**Group**		**Bank**	
	2013 KShs '000	**2012 KShs '000**	**2013 KShs '000**	**2012 KShs '000**
i) Concentration by sector:				
Agriculture	7,516,210	6,489,414	7,516,210	6,489,414
Manufacturing, energy & water	10,150,684	10,084,938	10,150,684	10,084,938
Financial services	24,622,265	22,555,426	24,622,265	22,555,426
Tourism & hospitality	1,537,534	1,463,894	1,537,534	1,463,894
Wholesale and retail trade	18,579,007	13,960,692	18,579,007	13,960,692
Transport and communication	6,208,064	4,487,132	6,208,064	4,487,132
Real Estate, building & construction	16,804,887	11,488,658	16,769,554	11,488,658
Consumer & household	60,242,897	53,293,399	60,242,541	53,293,399
	145,661,548	**123,823,553**	**145,625,859**	**123,823,553**
Less: staff loans marked to market	(4,053,334)	-	(4,053,334)	-
	141,608,214	**123,823,553**	**141,572,525**	**123,823,553**
ii) Concentration by business:				
Corporate	53,319,703	44,338,581	53,284,370	44,338,581
Mortgage & Asset Finance	20,476,636	14,586,545	20,476,636	14,586,545
Small, Medium and Microenterprises	16,230,778	12,976,536	16,230,778	12,976,536
Retail	51,217,627	47,830,072	51,217,271	47,830,072
Agribusiness	4,416,804	4,091,819	4,416,804	4,091,819
	145,661,548	**123,823,553**	**145,625,859**	**123,823,553**
Staff loans mark to market	(4,053,334)	-	(4,053,334)	-
	141,608,214	**123,823,553**	**141,572,525**	**123,823,553**

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Customer deposits:-	Group		Bank	
	2013 KShs '000	2012 KShs '000	2013 KShs '000	2012 KShs '000
Private enterprises	45,829,555	40,623,706	45,138,654	40,623,706
Non-profit institutions	12,714,996	10,218,403	12,714,996	10,218,403
Individuals	62,841,235	62,720,139	62,574,745	62,720,139
Others	54,039,335	48,704,979	54,347,830	48,704,979
	175,425,121	**162,267,227**	**174,776,225**	**162,267,227**

Settlement Risk

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

(B) Liquidity risk

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

Management of liquidity risk

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

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

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

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2013

Exposure to liquidity risk

The table below analyses the Group's assets and liabilities into relevant groupings based on the remaining period at 31 December to the contractual maturity dates:

31 December 2013 FINANCIAL ASSETS	Available immediately and up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	20,713,169	-	-	-	-	**20,713,169**
Deposits and balances due from banks	9,500,296	540,619	-	-	-	**10,040,915**
Investment in financial instruments	(1,768,921)	3,348,402	5,159,240	13,727,403	18,899,748	**39,365,872**
Loans and advances to customers	15,259,593	1,809,232	19,437,357	63,095,988	37,485,057	**137,087,227**
Other assets	12,233,586	-	-	-	11,774,590	**24,008,176**
Total undiscounted financial assets	**55,937,723**	**5,698,253**	**24,596,597**	**76,823,391**	**68,159,395**	**231,215,359**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	5,462,337	-	-	-	-	**5,462,337**
Customers' deposits	141,933,446	26,572,605	6,888,290	650	30,130	**175,425,121**
Loans	-	30,000	-	5,265,475	4,956,917	**10,252,392**
Other financial liabilities	3,491,519	-	-	-	-	**3,491,519**
Total undiscounted financial liabilities	**150,887,302**	**26,602,605**	**6,888,290**	**5,266,125**	**4,987,047**	**194,631,369**
Net liquidity gap at 31 December 2013	**(94,949,579)**	**(20,904,352)**	**17,708,307**	**71,557,266**	**63,172,348**	**36,583,990**
Assets not recognised in statement of financial position	8,616,352	3,802,004	4,060,127	492,949	-	16,971,431
Liabilities not recognised in statement of financial position	8,616,352	3,802,004	4,060,127	492,949	-	16,971,431

Notes to the Consolidated Financial Statements

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

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:

	2013 **%**	**2012** **%**
At 31 December	32.6	35.8
Average for the year	36.2	29.3
Maximum for the year	40.3	37.5
Minimum for the year	28.8	24.3
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.

Exposure to interest rate risk – non-trading portfolios

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

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

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i) Exposure to interest rate risk

31 December 2013 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	-	-	-	-	-	20,713,169	**20,713,169**
Deposits and balances due from banks	9,500,296	540,619	-	-	-	-	**10,040,915**
Investment in financial instruments	(1,768,921)	3,348,402	5,159,240	13,727,403	18,899,748	-	**39,365,872**
Loans and advances to customers	15,259,593	1,809,232	19,437,357	63,095,988	37,485,057	-	**137,087,227**
Other assets	-	-	-	-	-	24,008,176	**24,008,176**
Total assets	**22,990,968**	**5,698,253**	**24,596,597**	**76,823,391**	**56,384,805**	**44,721,345**	**231,215,359**
LIABILITIES							
Deposits and balances due to banks	5,462,337	-	-	-	-	-	**5,462,337**
Customers' deposits	141,933,446	26,572,605	6,888,290	650	30,130	-	**175,425,121**
Loans	-	30,000	-	5,265,475	4,956,917	-	**10,252,392**
Other financial liabilities	-	-	-	-	-	40,075,509	**40,075,509**
Total liabilities	**147,395,783**	**26,602,605**	**6,888,290**	**5,266,125**	**4,987,047**	**40,075,509**	**231,215,359**
Interest sensitivity gap	**(124,404,815)**	**(20,904,352)**	**17,708,307**	**71,557,266**	**51,397,758**	**4,645,836**	**-**

31 December 2012 ASSETS	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Non- interest bearing KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	-	-	-	-	-	22,214,066	**22,214,066**
Deposits and balances due from banks	2,035,968	6,299,486	550,713	-	-	-	**8,886,167**
Investment in financial instruments	4,282,212	3,071,478	3,935,800	13,322,389	8,778,907	-	**33,390,786**
Loans and advances to customers	13,850,086	1,224,705	13,705,709	51,010,160	39,297,088	-	**119,087,748**
Other assets	-	-	-	-	-	17,307,815	**17,307,815**
Total assets	**20,168,266**	**10,595,669**	**18,192,222**	**64,332,549**	**48,075,995**	**39,521,881**	**200,886,582**
LIABILITIES							
Deposits and balances due to banks	970,671	48,095	46,536	-	-	-	**1,065,302**
Customers' deposits	132,198,294	23,898,089	4,969,438	1,017,759	-	-	**162,083,580**
Loans	-	-	-	4,551,932	20,073	-	**4,572,005**
Other financial liabilities	-	-	-	-	-	33,165,695	**33,165,695**
Total liabilities	**133,168,965**	**23,946,184**	**5,015,974**	**5,569,691**	**20,073**	**33,165,695**	**200,886,582**
Interest sensitivity gap	**(113,000,699)**	**(13,350,515)**	**13,176,248**	**58,762,858**	**48,055,922**	**6,356,186**	**-**

Interest rate risk sensitivity analysis

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

	2013			2012		
ASSETS	**Carrying amount KShs'000**	**1% increase**	**1% decrease**	**Carrying amount KShs'000**	**1% increase**	**1% decrease**
Deposits and balances due from banks	**10,040,915**	100,409	(100,409)	**8,886,167**	88,862	(88,862)
Held -for- trading investments	**30,566**	306	(306)	**182,199**	1,822	(1,822)
Held to maturity investments	**14,028,393**	140,284	(140,284)	**3,373,531**	33,735	(33,735)
Available for sale investments	**25,306,913**	253,069	(253,069)	**26,987,094**	269,871	(269,871)
Loans and advances to customers	**137,087,227**	1,370,872	(1,370,872)	**119,087,748**	1,190,877	(1,190,877)
		1,864,940	**(1,864,940)**		**1,585,167**	**(1,585,167)**
LIABILITIES & EQUITY						
Deposits and balances due to banks	**5,462,337**	(54,623)	54,623	**1,065,302**	(10,653)	10,653
Customers' deposits	**175,425,121**	(1,754,251)	1,754,251	**162,083,580**	(1,620,836)	1,620,836
Loans and borrowings	**10,252,392**	(102,524)	102,524	**4,572,005**	(45,720)	45,720
		(1,911,399)	**1,911,399**		**(1,677,209)**	**1,677,209**
Effect on profit before tax		**(46,458)**	**46,458**		**(92,042)**	**92,042**
As percentage of profit before tax (%)		**(0.43%)**	**(0.43%)**		**(0.92%)**	**0.92%**
Effect on equity						
Available- for-sale investments	**25,306**	**253,069**	**(253,069)**	**29,835,055**	**298,351**	**(298,351)**

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	**86**	**142**	**119**	**1**	**97**	**8**		
31 December 2013	**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	5,405,685	465,798	3,164,673	1,463,707	71,254	6,725	108,743	10,686,586
Loan and advances	14,291,540	10,487	282	-	-	-	-	14,302,309
Other foreign assets	238,544	958	1,226	-	-	5	13,683	254,416
Total statement of financial position items	**19,935,769**	**477,242**	**3,166,180**	**1,463,707**	**71,254**	**6,731**	**122,426**	**25,243,310**
Items not recognised in statement of financial position	12,848,088	719,338	1,848,804	251,644	-	-	2,350	15,670,223
Total Foreign Assets	**32,783,857**	**1,196,580**	**5,014,984**	**1,715,351**	**71,254**	**6,731**	**124,776**	**40,913,533**
Foreign Currency Liabilities:								
Balances due to banks abroad	-	-	-	-	-	-	-	-
Deposits	7,993,676	420,062	2,677,186	1,511,192	271	2,824	1,036	12,606,247
Loan and advances	4,977,056	-	-	-	-	-	-	4,977,056
Other foreign liabilities	961,735	34,279	133,724	10	16	12	643	1,130,420
Total statement of financial position items	**13,932,467**	**454,341**	**2,810,909**	**1,511,202**	**287**	**2,836**	**1,679**	**18,713,722**
Items not recognised in statement of financial position	18,616,966	719,338	2,432,996	209,673	51,333	8,472	71,789	22,110,568
Total Foreign liabilities	**32,549,434**	**1,173,679**	**5,243,906**	**1,720,876**	**51,621**	**11,308**	**73,468**	**40,824,291**
Net Exposure at 31 December 2013	**234,423**	**22,901**	**(228,921)**	**(5,524)**	**19,633**	**(4,577)**	**51,308**	**89,243**

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

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:

	2013 Carrying amount KShs'000	10% appreciation	10% depreciation	2012 Carrying amount KShs'000	10% appreciation	10% depreciation
Foreign Currency Assets:						
USD	**19,935,769**	(1,993,577)	1,993,577	**15,496,524**	(1,549,652)	1,549,652
GBP	**477,242**	(47,724)	47,724	**43,581**	(4,358)	4,358
EURO	**3,166,180**	(316,618)	316,618	**1,621,117**	(162,112)	162,112
JPY	**1,463,707**	(146,371)	146,371	**44,790**	(4,479)	4,479
CHF	**71,254**	(7,125)	7,125	**82,135**	(8,214)	8,214
ZAR	**6,731**	(673)	673	**133**	(13)	13
Other currencies	**122,426**	(12,243)	12,243	**51,190**	(5,119)	5,119
		(2,524,331)	**2,524,331**		**(2,854,656)**	**2,854,656**
Foreign Currency Liabilities:						
USD	**13,932,467**	1,393,247	(1,393,247)	**6,780,412**	678,041	(678,041)
GBP	**454,341**	45,434	(45,434)	**(102,850)**	(10,285)	10,285
EURO	**2,810,909**	281,091	(281,091)	**1,517,853**	151,785	(151,785)
JPY	**1,511,202**	151,120	(151,120)	**2,368**	237	(237)
CHF	**287**	29	(29)	**36**	4	(4)
ZAR	**2,836**	284	(284)	**(3,687)**	(369)	369
Other currencies	**1,679**	168	(168)	**11,570**	1,157	(1,157)
		1,871,372	**(1,871,372)**		**820,570**	**(820,570)**
Effect on profit before tax		**(652,959)**	**652,959**		**(2,034,086)**	**2,034,086**
As percentage(%) of profit before tax		**(6.01%)**	**6.01%**		**(20.36%)**	**20.36%**

(D) Operational risk

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

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

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

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

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

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

4. CAPITAL MANAGEMENT

Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the Banking industry as a whole. The statutory minimum core capital is KShs 1,000 million. In implementing current capital requirements The Central Bank of Kenya requires the Bank to maintain a 14.5% prescribed ratio of total capital to total risk-weighted assets. The Bank has already met this requirement.

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.

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

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

	2013	2012
Tier I Capital:	**KShs '000**	**KShs '000**
Ordinary share capital	4,190,844	4,190,844
Share premium	3,588,262	3,588,262
Retained earnings (current year profits - 50%)	25,354,077	21,060,125
Other reserves	554,268	574,715
Less: Investments in equity of other institutions & deferred tax	(1,564,609)	-
Core Capital	**32,122,842**	**29,413,946**
Tier II Capital:		
Revaluation reserves (25%)	101,759	104,480
Term subordinated debt	10,252,392	4,572,005
Loan loss provisions	717,844	451,784
Supplementary capital	11,071,995	5,128,270
Total regulatory capital	**43,194,837**	**34,542,216**
Total risk weighted assets	**205,151,872**	**145,187,161**
Capital ratios:		
Core capital to Total deposit liabilities (CBK minimum 8%)	18.2%	18.0%
Core capital to Total risk weighted assets (CBK minimum 8%)	15.7%	20.3%
Total capital to Total risk weighted assets (CBK minimum 12%)	21.1%	23.8%

Capital Allocation

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

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

Notes to the Consolidated Financial Statements

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5. SEGMENT REPORTING

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

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

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

The Group's segment operations are all financial with a majority of revenues deriving from interest. The management relies primarily on net interest revenue to assess the performance of the segment. Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not gross income and expenses. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2013 or 2012.

Profit or loss for the year ended 31 December 2013	**Wholesale banking KShs'000**	**Retail banking KShs'000**	**Un-allocated KShs'000**	**Total KShs'000**
Net interest income	5,602,795	10,100,568	284,334	**15,987,697**
Non-funded income	4,531,599	7,103,649	266,858	**11,902,106**
Operating income	10,134,394	17,204,216	551,192	**27,889,803**
Depreciation	(29,124)	(1,022,748)	(477,089)	**(1,528,961)**
Amortisation	(41)	(15,324)	(163,447)	**(178,812)**
Other operating expenses	(1,222,550)	(9,823,130)	(4,629,273)	**(15,674,953)**
Share of profit in associate	-	-	-	**365,368**
Profit before tax	**8,882,679**	**6,343,014**	**(4,718,617)**	**10,872,445**

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

Notes to the Consolidated Financial Statements

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Statement of financial position as at 31 December 2013	Wholesale banking KShs'000	Retail banking KShs'000	Un-allocated KShs'000	Total KShs'000
Assets:				
Segment assets	131,011,275	79,025,696	-	210,036,971
Unallocated assets	-	-	21,178,387	21,178,387
Total assets	**131,011,275**	**79,025,696**	**21,178,387**	**231,215,358**
Liabilities and equity:				
Segment liabilities	103,613,151	71,163,075	-	174,776,225
Unallocated liabilities	-	-	56,439,132	56,439,132
Inter-segment lending	27,398,125	7,862,621	(35,260,746)	-
Total liabilities and equity	**131,011,275**	**79,025,696**	**21,178,386**	**231,215,358**

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

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For the Year ended 31 December 2013

Geographical information

The Group's operations are within the two geographical segments of Kenya and South Sudan (operations commenced in 2013). The table below contains segmental information provided to the Board of Management for the year ended 31 December 2013.

Profit or loss for the year ended 31 December 2013	**Kenya**	**South Sudan**	**Total**
	KShs'000	**KShs'000**	**KShs'000**
Net interest income	19,132,811	802	19,133,613
Non-funded income	8,720,051	36,139	8,756,190
Operating income	27,852,862	36,941	27,889,803
Depreciation	(1,518,050)	(10,911)	(1,528,961)
Amortisation	(176,438)	(2,373)	(178,811)
Other operating expenses	(15,383,923)	(291,031)	(15,674,954)
Operating profit	10,774,451	(267,374)	10,507,077
Share of profit in associate	-	-	365,368
Profit before tax	**11,041,825**	**(267,374)**	**10,872,445**

Statement of financial position as at 31 December 2013	**Kenya**	**South Sudan**	**Total**
	KShs'000	**KShs'000**	**KShs'000**
Segment assets	228,874,484	2,340,874	**231,215,358**
Segment liabilities	193,776,705	854,662	**194,631,367**
Equity	35,097,778	1,486,213	**36,583,991**

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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 Securities 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).

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

As at 31 December 2013	**Level 1 KShs'000**	**Level 2 KShs'000**	**Level 3 KShs'000**	**Total KShs'000**
Assets measured at fair value:				
Free hold land and building	-	1,335,597	-	**1,335,597**
Held-for-trading investments:				
Treasury bonds	557	-	-	**557**
Available-for-sale investment				
Treasury bonds	19,560,640	-	-	**19,560,640**
Corporate bonds	5,746,273	-	-	**5,746,273**
Derivatives financial assets	294,266	-	-	**294,266**
Loans and advances				
Directors and staff loans	-	2,482,008	-	**2,482,008**
Assets for which fair values are disclosed (note 6b)				
Held-to-maturity				
Treasury bonds	10,906,986	-	-	**10,906,986**
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	**-**	**2,220,913**	**-**	**2,220,913**
As at 31 December 2012				
Assets measured at fair value				
Free hold land and building	-	1,390,527	-	**1,390,527**
Held-for-trading investments:				
Treasury bonds	150,901	-	-	**150,901**
Corporate bonds	1,289	-	-	**1,289**
Available-for-sale investment	-	-	-	**-**
Treasury bonds	24,320,589	-	-	**24,320,589**
Corporate bonds	5,514,467	-	-	**5,514,467**
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	142,533	-	**142,533**

There were no transfers between levels 1, 2 and 3 in the year (2012: no transfer).

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, other than those with carrying amounts that are reasonable approximation of fair values.

	2013		2012	
Financial assets:	**Carrying amount KShs'000**	**Fair value KShs'000**	**Carrying amount KShs'000**	**Fair value KShs'000**
Held-to-maturity investments				
Treasury bonds	10,716,107	10,906,986	-	-
	10,716,107	**10,906,986**	**-**	**-**
Financial liabilities:				
Loans and borrowings				
Fixed-rates borrowings	4,140,198	2,220,913	238,121	142,533
	4,140,198	**2,220,913**	**238,121**	**142,533**

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. Loans and advances to customers are at variable rates.

(iii) Long term fixed rate financial instruments

These include government treasury bonds and loans and borrowings. The estimated fair value of held-to-maturity financial assets is derived from quoted market prices in active markets.

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.

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7. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

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, other than those with carrying amounts that are reasonable approximation of fair values.

	Group		Bank	
	2013 KShs'000	**2012 KShs'000**	**2013 KShs'000**	**2012 KShs'000**
Cash on hand	9,196,194	7,170,048	8,908,316	7,170,048
Central Bank of Kenya:				
Restricted balances (Cash Reserve Ratio)	9,185,074	8,263,097	9,185,074	8,263,097
Unrestricted balances available for use by the Group	1,203,098	6,780,921	1,203,098	6,780,921
Central Bank of South Sudan	1,128,803	-	-	-
	20,713,169	**22,214,066**	**19,296,488**	**22,214,066**

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 2013, the Cash Reserve Ratio requirement was 5.25% (2012 – 5.25%) of all deposits. These funds are not available for use by the Group in its day to day operations.

8. DEPOSITS AND BALANCES DUE FROM BANKS

	Group		Bank	
	2013 KShs'000	**2012 KShs'000**	**2013 KShs'000**	**2012 KShs'000**
Local banks	2,968,294	4,013,588	3,003,578	3,997,121
Foreign banks	7,072,621	4,872,579	7,053,215	4,872,579
	10,040,915	**8,886,167**	**10,056,793**	**8,869,700**

9. HELD-FOR-TRADING INVESTMENTS

	Group		Bank	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
a) Treasury bonds				
Maturing within 91 days of reporting date	-	50,686	-	50,686
Maturing after 91 days of reporting date	557	100,216	501	100,139
	557	150,902	501	150,825
b) Corporate bonds				
Maturing after 91 days of reporting date	-	1,288	-	-
c) Equity Investments				
Consolidated Bank of Kenya Ltd:-				
135,000 ordinary shares of KShs 20 each	2,700	2,700	2,700	2,700
580,000 4% non-cumulative preference shares of KShs 20 each	11,600	11,600	11,600	11,600
Kenya National Federation of Co-operatives Ltd:-				
82 shares of KShs100 each	8	8	8	8
Kenya National Housing Co-operative Union Ltd:-				
1 share of KShs 1,000	1	1	1	1
Menno Plaza Limited:-				
9,340 ordinary shares (12.39% ownership)	30,000	30,000	30,000	30,000
	44,309	44,309	44,309	44,309
Less: Provision for diminution in value of investment in Consolidated Bank of Kenya Ltd	(14,300)	(14,300)	(14,300)	(14,300)
	30,009	**30,009**	**30,009**	**30,009**
TOTAL HELD -FOR -TRADING INVESTMENTS	**30,566**	**182,199**	**30,510**	**180,834**
Movement in the year:				
At 1 January	**182,199**	**165,067**	**180,834**	**164,192**
Disposals and maturities	(151,281)	(3,335)	(149,972)	(3,335)
Provision for diminution in value	-	(1,020)	-	(1,020)
Change in fair value	(352)	21,487	(352)	20,997
At 31 December	**30,566**	**182,199**	**30,510**	**180,834**

The weighted average effective interest rate on government and other securities held-for-trading at 31 December 2013 was 12% (2012- 9.51%).

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

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2013

10. HELD-TO-MATURITY INVESTMENTS

	Group		Bank	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Government treasury bills:				
Maturing within 91 days of the reporting date	3,312,286	2,492,494	3,312,286	2,492,494
Maturing after 91 days of the reporting date	-	721,431	-	721,431
Treasury bonds:				
Maturing after 91 days of the reporting date	10,671,107	159,606	10,508,196	-
Corporate bonds				
Maturing after 91 days of reporting date	45,000	-	-	-
	14,028,393	**3,373,531**	**13,820,482**	**3,213,925**
Movement in the year:				
At 1 January	**3,373,531**	**193,447**	**3,213,925**	**3,850**
Additions	13,784,364	4,618,370	13,784,364	4,618,370
Amortisation of premiums and discounts	2,476,498	61,714	2,428,193	91,705
Maturities	(5,606,000)	(1,500,000)	(5,606,000)	(1,500,000)
At December 31				
	14,028,393	**3,373,531**	**13,820,482**	**3,213,925**

The weighted average effective interest rate on held-to-maturity investments as at 31 December 2013 was 88.2% (2012- 10.78%).

11. AVAILABLE- FOR -SALE INVESTMENTS

	Group		Bank	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Government treasury bills:				
Maturing within 91 days of the reporting date	1,475,952	-	1,475,952	4,312,139
Maturing after 91 days of the reporting date	18,084,688	20,007,847	18,084,688	20,007,817
Treasury bonds:				
Maturing within 91 days of the reporting date	-	4,312,741	-	-
Maturing after 91 days of the reporting date				-
Corporate bonds:				
Maturing after 91 days of the reporting date	5,746,273	5,514,468	5,746,273	5,514,467
	25,306,913	**29,835,056**	**25,306,913**	**29,834,423**
Movement in the year:				
At January 1	**29,835,056**	**21,878,907**	**29,834,423**	**21,878,102**
Additions	9,140,377	11,894,825	9,140,377	11,895,357
Disposals and maturities	(11,835,342)	(5,585,057)	(11,834,709)	(5,585,056)
Change in fair value	(178,221)	1,917,281	(178,221)	1,916,920
Amortisation of premiums and discounts	(1,654,957)	(270,900)	(1,654,957)	(270,900)
At December 31	**25,306,913**	**29,835,056**	**25,306,913**	**29,834,423**

The weighted average effective interest rate on available for sale investments as at 31 December 2013 was 1010.9% (2012- 12.01%).

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12. DERIVATIVE FINANCIAL INSTRUMENT

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk. These derivative financial instruments are measured at fair value through profit or loss.

	Group and Bank			
	2013		2012	
	KShs'000	KShs'000	KShs'000	KShs'000
	Notional value	Fair value of contracts: Asset/(Liability)	Notional value	Fair value of contracts: Asset (Liability)
Forward exchange contracts	1,075,210	30,344	1,714,966	61,976
Swaps	2,918,970	263,922	3,059,025	158,299
	3,994,180	**294,266**	**4,773,991**	**220,275**

13. LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
	2013	2012	2013	2012
a) Net loans and advances	KShs'000	KShs'000	KShs'000	KShs'000
Overdrafts	10,216,521	11,830,740	10,216,521	11,830,740
Commercial loans	114,731,135	95,857,993	114,695,446	95,857,993
Government/Donor funded loan schemes	3,958,198	2,650,982	3,958,198	2,650,982
Credit card balances	524,916	507,302	524,916	507,302
Micro enterprises & SME	16,230,778	12,976,536	16,230,777	12,976,536
Gross loans and advances	**145,661,548**	**123,823,553**	**145,625,858**	**123,823,553**
Staff loans marked-to-market	(4,053,334)	-	(4,053,334)	-
Impairment losses on loans and advances (note 13 c)	(4,520,987)	(4,735,805)	(4,520,987)	(4,735,805)
	137,087,227	**119,087,748**	**137,051,537**	**119,087,748**

	Group and Bank	
b) The weighted average effective interest rate at 31 December was:	**2013**	**2012**
	%	%
Overdrafts	6.4	16.9
Commercial loans	14.5	14.3
Government/Donor funded loan schemes	5.3	6.2
Credit card balances	20.4	0.2
Micro enterprises	20.0	21.8

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c) Impairment losses on loans and advances:

Group and Bank	KShs'000 Specific impairment losses KShs'000	KShs'000 Collective impairment losses KShs'000	KShs'000 Total KShs'000
Balance at 1 January 2013	**3,307,634**	**1,428,171**	**4,735,805**
Impairment losses during the year through profit or loss	650,687	122,604	773,291
Interest on impaired loans not recognised as income	43,668	-	43,668
Impaired losses written off during the year	(524,074)	-	(524,074)
Amounts released to income	(507,703)	-	(507,703)
Balance at 31 December 2013	**2,970,212**	**1,550,775**	**4,520,987**
Balance at 1 January 2012	**3,522,463**	**1,169,902**	**4,692,365**
Impairment losses during the year through profit or loss	741,613	258,269	999,882
Interest on impaired loans not recognised as income	111,834	-	111,834
Impaired losses written off during the year	(675,400)	-	(675,400)
Amounts released to income	(392,876)	-	(392,876)
Balance at 31 December 2012	**3,307,634**	**1,428,171**	**4,735,805**

d) The Bank continues to carry classified impaired and delinquent accounts on its books even after making allowances for impairment in accordance with IAS 39. Interest is accrued on these accounts for contractual/ litigation purposes only and accordingly not taken to income. The carrying amount of such loans at year end was KShs 6.1 billion (2012 – KShs 6.0 billion).

Notes to the Consolidated Financial Statements

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14. INVESTMENT IN SUBSIDIARIES

The following subsidiaries are owned by the Bank:-

Bank	Ownership	Principal activity	2013 KShs'000	2012 KShs'000
Co-op Consultancy & Insurance Agency Limited	100%	Consultancy & insurance agency	70,000	70,000
Co-optrust Investment Services Limited	100%	Fund management	20,000	20,000
Kingdom Securities Limited	60%	Brokerage services	150,000	150,000
Co-operative Bank of South Sudan	51%	Banking	1,508,494	-
			1,748,494	**240,000**

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

Co-op Consultancy & Insurance Agency Limited was established as Co-op Consultancy Services in 2002 to offer consultancy and advisory services. In 2011, the company began offering insurance agency services and was there fore renamed. The audited financial statements for the year ended 31 December 2013 show that the company made a profit after tax of KShs. 11,119,915 (2012- 17,261,826).

Co-op Trust Investment Services was established in 1998 to offer fund management and investment services. The audited financial statements for the year ended 31 December 2013 show that the company made a profit after tax of KShs. 57,211,958 (2012- 43,001,510).

Kingdom Securities Limited - KSL (previously named Bob Mathews Stockbrokers Limited) was acquired by Co-operative Bank Limited through purchase of 60% shareholding. KSL offers brokerage services and is a registered broker with the Nairobi Securities Exchange. The audited financial statements for the year ended 31 December 2013 show that the company made a profit after tax of KShs.14,799,584 (2012 -12,685,258).

Co-operative Bank of South Sudan was registered in 2012 with the partnership of Government of South Sudan which holds 49% of the ordinary shares. The Subsidiary is based in South Sudan and commenced operation in September 2013. The audited financial statements for the year ended 31 December 2013 show that the company made a loss of KShs 267,377,737.

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15. INVESTMENT IN ASSOCIATE

The Bank has 35.71% interest in Co-operative Insurance Society Limited which is the majority shareholder of CIC Insurance Group Limited. CIC Insurance Group Limited is a listed company at Nairobi Securities Exchange (NSE) and is incorporated in Kenya. The principal activity of the Company is insurance business and fund management.

The Group's Interest in Co-operative Insurance Society Limited is accounted for using the equity method in the consolidated financial statements.

	Group		Bank	
	2013 KShs'000	**2012 KShs'000**	**2013 KShs'000**	**2012 KShs'000**
At 1 January	**1,354,935**	**1,028,159**	**755,118**	**755,118**
Share of profit	365,368	373,632	-	-
Other comprehensive income	20,713	5,279	-	-
Dividends received	(52,128)	(52,135)	-	-
As at 31 December	**1,688,888**	**1,354,935**	**755,118**	**755,118**

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

Share of the associate's statement of financial position:	**2013 KShs'000**	**2012 KShs'000**
Total assets	6,098,185	5,018,301
Total liabilities	(3,698,690)	(3,070,557)
Equity	2,399,495	1,947,744
Share of the associate's revenue and profit:		
Revenue	3,885,093	3,178,902
Profit after tax	365,368	373,632

16. OTHER ASSETS

	Group		Bank	
	2013 KShs'000	**2012 KShs'000**	**2013 KShs'000**	**2012 KShs'000**
Interest receivable	1,450,079	2,125,947	1,450,079	2,125,948
Items in the course of collection from other banks	509,030	770,485	449,770	770,485
Deposits with default financial Institutions	43,052	43,052	43,052	43,052
Prepaid expenses	475,085	328,181	475,085	328,181
Sundry debtors and prepayments	2,271,425	1,066,475	2,155,291	948,038
Deferred expenses- Mark-to-market of staff loans	4,053,334	-	4,053,334	-
	8,802,005	**4,334,140**	**8,626,611**	**4,215,704**
Impairment losses on deposits with default financial institutions	(43,052)	(43,052)	(43,052)	(43,052)
	8,758,953	**4,291,088**	**8,583,559**	**4,172,652**

17. INTANGIBLE ASSETS

(a) Group

	Computer software KShs'000	Joint venture development KShs'000	Other intangible assets KShs'000	Work-in-progress KShs'000	Total KShs'000
Cost at 1 January 2013	**884,243**	**-**	**251,000**	**1,528,332**	**2,663,575**
Additions	89,950	124,940		449,138	664,028
Transfers from Work in Progress	863,738			(863,738)	-
Reclassification to property and equipment	-			(871,477)	(871,477)
Reclassification from property and equipment	-	-	-	75,501	75,501
Cost at 31 December 2013	**1,837,931**	**124,940**	**251,000**	**317,756**	**2,531,627**
Accumulated amortisation at 1 January 2013	**518,574**	**-**	**-**	**-**	**518,574**
Amortisation for the year	179,231	-	-	-	179,231
Accumulated amortisation at 31 December 2013	**697,805**	**-**	**-**	**-**	**697,805**
Net carrying amount at 31 December 2013	**1,140,127**	**124,940**	**251,000**	**317,756**	**1,833,823**
Cost at 1 January 2012	**752,930**	**-**	**251,000**	**-**	**1,003,930**
Additions	52,252	-	-	1,610,162	1,662,414
Transfers from Work in Progress	81,830	-	-	(81,830)	-
Write down of value	(2,769)	-	-	-	(2,769)
Cost at 31 December 2012	**884,243**	**-**	**251,000**	**1,528,332**	**2,663,575**
Accumulated amortisation at 1 January 2012	390,888	-	-	-	390,888
Write back of amortisation	-		-	-	-
Amortisation for the year	127,686	-	-	-	127,686
Accumulated amortisation at 31 December 2012	**518,574**	**-**	**-**	**-**	**518,574**
Net carrying amount at 31 December 2012	**365,669**	**-**	**251,000**	**1,528,332**	**2,145,001**

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

The Joint Venture development assets relates to the costs incurred in negotiating the Joint Venture arrangement with the Government of South Sudan. Under the Joint Venture agreement, the Bank acquired certain rights that are identifiable e.g., business relationships with the government and co-operative movements.

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(a) Bank	Software KShs'000	Work –in progress KShs'000	Total KShs'000
Cost at 1 January 2013	**860,804**	**1,528,332**	**2,389,136**
Additions	42,432	348,452	390,884
Transfers from Work in Progress	863,738	(863,738)	-
Reclassification to Property & Equipment	-	(871,477)	(871,477)
Reclassification from Property & Equipment	-	75,501	75,501
Cost at 31 December 2013	**1,766,974**	**217,070**	**1,984,044**
Accumulated amortisation at 1 January 2013	**496,895**	**-**	**496,895**
Write back of amortisation	-	-	-
Amortisation for the year	175,583	-	175,583
Accumulated amortisation at 31 December 2013	**672,478**	**-**	**672,478**
Net carrying amount at 31 December 2013	**1,094,496**	**217,070**	**1,311,566**
Cost at 1 January 2012	**728,337**	**-**	**728,337**
Additions	52,252	1,610,162	1,662,414
Transfers from Work in Progress	81,830	(81,830)	-
Write down of value	(1,684)	-	(1,684)
Cost at 31 December 2012	**860,735**	**1,528,332**	**2,389,067**
Accumulated amortisation at 1 January 2012	**369,140**	**-**	**369,140**
Write back of amortisation	-	-	-
Amortisation for the year	127,686	-	127,686
Accumulated amortisation at 31 December 2012	**496,826**	**-**	**496,826**
Net carrying amount at 31 December	**363,909**	**1,528,332**	**1,892,241**

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 311,548,592.35 (2012- KShs 180,868,069), 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. 63,309,718 (2012 -KShs. 36,143,351).

18 PREPAID LEASE RENTALS

	Group and Bank	
	2013 KShs'000	**2012 KShs'000**
Cost at 1 January	**54,568**	**54,568**
Write off	(155)	-
Cost at 31 December	**54,413**	**54,568**
Amortisation:		
At 1 January	**15,705**	**15,090**
Charge for the year	611	615
Write off	(83)	-
At 31 December	**16,233**	**15,705**
Net carrying amount at 31 December	**38,180**	**38,863**

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

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19. (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 2013	**1,390,527**	**2,089,900**	**5,665,779**	**1,162,119**	**141,394**	**3,557,761**	**14,007,480**
Additions	-	1,917,103	66,758	322,675	78,552	633,086	**3,018,174**
Disposals	-	-	-	(4,454)	(31,366)	(7,089)	**(42,909)**
Transfer from WIP	-	(2,441,762)	1,368,189	-	-	1,073,573	**-**
Reclassification from intangible assets	-	871,477	-	-	-	-	**871,477**
Reclassification to intangible assets	-	(75,501)	-	-	-	-	**(75,501)**
Write-off	(3,430)	-	-	-	-	(1,454)	**(4,884)**
At 31 December 2013	**1,387,097**	**2,361,217**	**7,100,726**	**1,480,340**	**188,580**	**5,255,877**	**17,773,837**
DEPRECIATION							
At 1 January 2013	**-**	**-**	**1,950,230**	**735,148**	**97,511**	**2,275,062**	**5,057,951**
Charge for the year	51,500	-	736,034	177,695	23,554	539,569	**1,528,352**
Disposals	-	-	-	(3,896)	(30,717)	(6,778)	**(41,391)**
Write back	-	-	-	-	-	(1,454)	**(1,454)**
At 31 December 2013	**51,500**	**-**	**2,686,264**	**908,947**	**90,348**	**2,806,399**	**6,543,458**
NET CARRYING AMOUNT							
At 31 December 2013	**1,335,597**	**2,361,217**	**4,414,462**	**571,393**	**98,232**	**2,449,478**	**11,230,379**

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

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

iii. Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs 35,496,497.55 (2012- KShs. 38,926,467) against which no depreciation has been charged, as these are pieces of land.

iv. No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 2,267,428,588 (2012- KShs 1,883,619,419), 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. 428,832,128 (2012- KShs. 343,156,027).

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

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19. (a) PROPERTY AND EQUIPMENT-GROUP

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

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

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

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

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

iv. No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 1,883,619,419 (2011- KShs 1,334,843,289), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs. 343,156,027 (2011- KShs.265,239,734).

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

19. (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 2013	**1,390,527**	**2,089,900**	**5,665,583**	**1,153,024**	**141,394**	**3,545,153**	**13,985,581**
Additions	-	1,367,645	66,317	220,931	38,472	511,584	**2,204,949**
Disposals	-	-	-	(4,454)	(31,366)	(7,089)	**(42,909)**
Transfer from WIP	-	(2,441,762)	1,368,189	-	-	1,073,573	**-**
Reclassification from intangible assets	-	871,477	-	-	-	-	**871,477**
Reclassification to intangible	-	(75,501)	-	-	-	-	**(75,501)**
Write off	(3,430)	-	-	-	-	-	**(3,430)**
At 31 December 2013	**1,387,097**	**1,811,759**	**7,100,089**	**1,369,501**	**148,500**	**5,123,221**	**16,940,167**
DEPRECIATION							
At 1 January 2013	**-**	**-**	**1,949,656**	**728,743**	**97,512**	**2,266,559**	**5,042,470**
Charge for the year	51,500	-	735,634	172,347	22,051	532,712	**1,514,244**
Disposals	-	-	-	(3,886)	(30,717)	(6,778)	**(41,381)**
At 31 December 2013	**51,500**	**-**	**2,685,290**	**897,204**	**88,846**	**2,792,493**	**6,515,333**
NET CARRYING AMOUNT							
At 31 December 2013	**1,335,597**	**1,811,759**	**4,414,799**	**472,297**	**59,654**	**2,330,728**	**10,424,834**

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

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

iii. Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs 35,496,497.55 (2012- KShs. 38,926,467) against which no depreciation has been charged, as these are pieces of land.

iv. No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 2,267,428,588 (2012- KShs 1,883,619,419), 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. 428,832,128 (2012- KShs. 343,156,027).

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

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2013

19. (b) PROPERTY AND EQUIPMENT-BANK

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

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

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

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

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

iv. No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 1,883,619,419 (2011- KShs 1,334,843,289), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs. 343,156,027 (2011- KShs.265,239,734).

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

20. DEFERRED TAX

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

GROUP	2013 Deferred tax assets KShs'000	Deferred tax liabilities KShs'000	Profit or loss KShs'000	OCI* KShs'000	2012 Deferred tax assets KShs'000	Deferred tax liabilities KShs'000
Collective allowance for impairment disallowed for tax purposes	(473,862)	-	(180,030)	-	(293,831)	-
Revaluation of assets	94,782	-	29,780	-	-	65,003
Excess of tax wear and tear allowance over depreciation	(97,937)	-	(230,097)	-	(900)	133,061
Unrealised exchange gains	433,095	-	178,632	-	-	254,462
Other temporary differences	(22,736)	-	(9,886)	-	(12,851)	-
Revaluation surplus	-	-	(21,413)	-	-	21,413
Tax loss available for future tax relief	-	-	559	-	542	-
	(66,658)	**-**	**(232,455)**	**-**	**(308,124)**	**473,939**

BANK	2013 KShs'000	Profit or loss	OCI*	2012 KShs'000
Collective allowance for impairment disallowed for tax purposes	(465,233)	179,598	-	(285,634)
Revaluation asset	94,782	(29,780)	-	65,003
Excess of tax wear and tear allowance over depreciation	(96,905)	229,965	-	133,060
Unrealised exchange gains	433,095	(178,632)	-	254,462
Other temporary differences	(21,852)	9,262	-	(12,591)
Revaluation surplus	-	21,413	-	21,413
Change in fair value on available for sale	-	-	-	-
	(56,113)	**231,826**	**-**	**175,713**

21. DEPOSITS AND BALANCES DUE TO BANKS

The weighted average effective interest rate on deposits from other banks at 31 December 2013 was 4.58% (2012- 13.8%).

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2013

22. CUSTOMER DEPOSITS

	Group		Bank	
	2013 KShs'000	**2012 KShs'000**	**2013 KShs'000**	**2012 KShs'000**
a) Deposit category				
Call deposits	12,709,664	6,818,705	12,709,664	6,818,705
Fixed deposits	40,837,722	50,251,012	40,818,828	50,251,012
Transaction accounts	53,303,476	47,306,241	53,303,476	47,306,241
Savings accounts	4,774,276	3,812,150	4,694,319	3,812,150
Current accounts	50,592,483	44,876,141	50,042,438	44,876,141
Foreign currency deposits	13,207,500	9,019,331	13,207,500	9,202,978
	175,425,121	**162,083,580**	**174,776,225**	**162,267,227**
b) From government and parastatals:-				
Payable on demand	12,158,294	9,992,196	12,158,294	9,992,196
Payable within 30 days	7,828,550	1,235,420	7,828,550	1,235,420
Payable after 30 days but within 1 year	14,417,666	15,740,081	14,417,666	15,740,081
	34,404,510	**26,967,697**	**34,404,510**	**26,967,697**
c) From private sector and individuals:-				
Payable on demand	108,304,538	96,990,534	107,655,642	97,174,181
Payable within 30 days	12,869,887	8,349,470	12,869,887	8,349,470
Payable after 30 days but within 1 year	19,846,186	29,775,879	19,846,186	29,775,879
	141,020,611	**135,115,883**	**140,371,715**	**135,299,530**
	175,425,121	**162,083,580**	**174,776,225**	**162,267,227**

Included in customers' deposits is an amount of KShs. 6,345 Million (2012- KShs 3,001 Million) that has been pledged to the Bank by customers as security for loans and advances. The weighted average effective interest rate on interest-bearing customer deposits as at 31 December 2.53% (2012 - 3.46%).

23. LOANS AND BORROWINGS

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

	Group and Bank	
Balances at 31 December	**2013 KShs'000**	**2012 KShs'000**
IFAD	125,729	35,792
International Finance Corporation (IFC)	2,598,087	-
European Investment Bank – Long term debt	4,780,875	4,313,811
AFD Microfinance	2,377,314	100,021
Soros Economic Development Fund	270,139	20,073
Women Enterprise Fund	100,250	102,308
	10,252,392	**4,572,005**
Movement in the year:		
At 1 January	4,572,005	233,940
Additional loan disbursement	5,787,690	4,320,173
Accrued interest	104,776	131,214
Loan repayment	(212,079)	(113,322)
At 31 December	**10,252,392**	**4,572,005**

International Fund for Agricultural Development (IFAD)

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

European Investment Bank

Two loan agreements for Euros 20 million and Euros 50 million were entered into in April 2013 between the European Investment Bank and The Co-operative Bank of Kenya Limited; the loans are to be disbursed upon request. The final beneficiaries of the loans are Micro and small enterprises including self employed entrepreneurs and sole proprietorship in income generating activities and productive sectors such as trade, retail, agro industries, fishing, food processing, manufacturing, construction transport, tourism. The interest on the first loan of Euros 20 million is equal to 1.56% plus a currency risk premium of 6.00% and the second loan of Euros 50 million is equal to 2.43% plus a currency risk premium determined over a period of time. As at end of 2013, Euros 45.4 million had been disbursed to the bank. The loans are to be repaid in duration of 10 years.

Soros Economic Development Fund

The loan agreement was entered into in June 2013 between Soros Economic Development Fund (SEDF), Millennium Promise Alliance (MPA) and The Co-operative Bank of Kenya Limited. MPA agreed to assist in financing the Millennium villages project which supports integrated social and business development services for more than 500,000 people in rural communities across 10 countries in sub-Saharan Africa; MPA agreed to issue the bank a guarantee of USD 50,000 in its favour. SEDF agreed to assist in financing the same program by issuing a guarantee of USD 700,000 in favour of the bank. SEDF shall be fund the project in three tranches of USD 233,333 each at an interest rate of 3% per annum.

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2013

French Development Agency (AFD)

(a) Microfinance facility

The loan agreement was entered into on 14 February 2008 between the Government of Kenya and The Co-operative Bank of Kenya Limited for a limit of Kshs 249,682,294, to promote financial deepening by on lending to Micro Finance Institutions and Saccos at 6% p.a. The closing day for funds disbursement was 31 December 2012. The loan is advanced based on customer demand and is to be repaid within a period of 4 years.

(b) Line of credit facility

Another loan agreement was entered into on 31 October 2011 for USD 13 Million at6% and a line of credit to be utilised for investments in renewable energy and energy efficient projects. As at the end of year 2013, the amount disbursed to the bank was USD 27,431,752.

Women Enterprise Fund

The loan agreement was entered into on 11 December 2008 between the Government of Kenya through the 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.

International Finance Corporation

The loan agreement was entered into on 5 December 2012 between International Finance Corporation and the Co-operative bank of Kenya for a total of USD 60 Million. The purpose of the loan is to support the bank's asset growth and in particular, financing the small and medium enterprises as well as the agribusiness sector.

The loan has an element of fixed and variable interest rate which is pegged to the LIBOR rate. Repayment shall be in eleven (11) equal semi-annual instalments starting December 2014. By 31st December 2013 the bank had drawn USD 30 Million from this facility.

DEG - Deutsche Investitions- Und Entwicklungsgesellschaft Mbh

The Co-operative Bank of Kenya Limited signed a financing agreement with DEG - Deutsche Investitions- Und Entwicklungsgesellschaft Mbh of the Federal Republic of Germany in December 2013. The loan facility of USD. 52,500,000 had not been disbursed at reporting date. The facility is for onward lending to small and medium-sized enterprises. The loan will be repaid in ten (10) instalments ending on 15th November 2020. The agreement has an arrangement for interest computation on floating rate basis (pegged on LIBOR) or a fixed rate option based on mutual agreement.

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24. TAXATION

	Group		Bank	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
a) Income Statement:-				
Current tax at 20% 2012 - 20%) on the taxable profit for the year	2,005,782	1,917,401	1,966,950	1,891,419
(Over)/Under -provision in previous year	(9,068)	121,855	(8,858)	122,961
Deferred tax charge / (credit)	(232,455)	220,658	(231,826)	230,118
	1,764,259	**2,259,914**	**1,726,266**	**2,244,498**
b) Statement of financial position:-				
Balance brought forward	585,429	63,702	581,349	65,054
(Over)/under-provision in previous year	(9,062)	(3,883)	(8,849)	(445)
Charge for the year	2,005,782	1,917,401	1,966,950	1,891,419
Paid during the year	(2,679,178)	(1,391,791)	(2,639,081)	(1,374,679)
Tax (recoverable) / payable	**(97,029)**	**585,429**	**(99,631)**	**581,349**
c) Reconciliation of tax expense to tax based on accounting profit:-				
Accounting profit	10,872,445	9,983,772	10,705,457	9,573,931
Tax applicable rate (Bank 20%, Subsidiaries 30%)	2,177,444	1,937,742	2,141,091	1,914,786
(Over)/Under-provision in previous year	(9,068)	121,855	(8,858)	122,961
Tax effect of items not eligible for tax	(404,117)	200,317	(405,967)	206,751
Tax in the statement of comprehensive income	**1,764,259**	**2,259,914**	**1,726,266**	**2,244,498**

The corporation tax rate applicable to the Bank was changed from 30% in 2008 to 20% in 2009 following its listing at the Nairobi Securities Exchange. The rate of 20% was in effect for a period of 5 years ending on 31 December 2013. The income tax rate applicable to the Groups' subsidiaries and associates remained at 30%.

25. PROVISIONS

	Group		Bank	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Leave liability	74,866	62,953	72,841	62,953
Balance at 1 January	**62,953**	**48,146**	**62,953**	**48,146**
Provisions arising during the year	11,913	14,807	9,888	14,807
Provisions utilised during the year	-	-	-	-
Balance at 31 December	**74,866**	**62,953**	**72,841**	**62,953**

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2013

26. OTHER LIABILITIES

	Group		Bank	
	2013	2012	2013	2012
	KShs'000	KShs'000	KShs'000	KShs'000
Bills payable	144,445	105,198	144,445	105,198
Sundry creditors and accruals	2,717,936	1,996,123	2,514,197	1,866,263
	2,862,381	2,101,321	2,658,642	1,971,461
Provisions utilised during the year	-	-	-	-

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

27. GOVERNMENT GRANTS

	Group and Bank	
	2013	2012
Grant net of amortisation:	KShs'000	KShs'000
At 1 January	**574,717**	**595,164**
Amortisation for the year	(20,447)	(20,447)
At 31 December	**554,270**	**574,717**

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

28. SHARE CAPITAL

	Group and Bank	
	2013	2012
	KShs'000	KShs'000
Authorised :-		
5,000,000,000 (2012: 5,000,000,000) ordinary shares of KShs 1 each.	5,000,000	5,000,000
Issued and fully paid:-		
4,190,843,900 (2012: 4,190,843,900) ordinary shares of KShs 1 each.	4,190,844	4,190,844

29. SHARE PREMIUM

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

	Group and Bank	
	2013	2012
	KShs'000	KShs'000
At 1 January	**3,588,262**	**4,286,736**
Issue of bonus shares	-	(698,474)
At 31 December	**3,588,262**	**3,588,262**

During the Annual General Meeting held in 2012, the shareholders approved issue of bonus shares to existing shareholders in the proportion of 1 new ordinary share of KShs 1 each for every 5 ordinary shares held. This resulted in creation of 698,474,000 ordinary shares by capitalisation of KShs 698,474,000 out of share premium.

30. RESERVES

a) 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.

b) Retained earnings

This reserve includes accumulated profits over the year. The retained earnings are distributable to the shareholders.

c) Available for sale reserve

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

d) 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.

e) Foreign currency translation reserve

The reserves represent exchange differences arising from translation of the net assets of the Group's foreign operations in the Co-operative Bank of South Sudan from their functional currency (South Sudan pounds), to the Group's presentation currency (Kenya shillings). These differences are recognised directly through other comprehensive income and accumulated in the foreign currency translation reserve in equity. The reserve is not available for distribution to the shareholders.

31. PROPOSED DIVIDENDS AND DIVIDENDS PER SHARE

	Group and Bank	
	2013 KShs'000	2012 KShs'000
Proposed dividends	2,095,422	2,095,422

(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 2013 financial statements, a first and final dividend in respect of year 2013 of KShs 0.50 (2012 - KShs 0.50) 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.

32. NON-CONTROLLING INTERESTS

a) Kingdom Securities Limited

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

b) Co-operative Bank of South Sudan

Co-operative Bank of South Sudan was registered in partnership with the Government of South Sudan which holds 49% of the ordinary shares. The bank holds 51% of the ordinary shares. The Subsidiary is based in South Sudan and commenced operation in September 2013. The movement in the year is shown in the consolidated statement of changes in equity.

Notes to the Consolidated Financial Statements

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33. INTEREST INCOME

	Group		Bank	
	2013 KShs'000	**2012 KShs'000**	**2013 KShs'000**	**2012 KShs'000**
Loans and advances to customers	19,903,863	21,231,015	20,044,538	21,231,015
Held-to-maturity investments	1,010,943	199,583	992,377	173,289
Deposits and balances due from other banks	362,548	436,613	358,888	431,984
Interest on previously impaired loans	507,703	393,876	507,703	393,876
	21,785,057	**22,261,087**	**21,903,506**	**22,230,164**

34. INTEREST EXPENSE

	Group and Bank	
	2013 KShs'000	**2012 KShs'000**
Call deposits	534,664	896,537
Fixed deposits	3,471,353	5,755,183
Savings accounts	385,211	282,019
Current accounts	711,826	1,079,849
Deposits and balances due to banks	146,220	297,818
Loans	666,535	368,602
	5,915,809	**8,680,008**

35. FEES AND COMMISSIONS

	Group		Bank	
	2013 KShs'000	**2012 KShs'000**	**2013 KShs'000**	**2012 KShs'000**
Fees and commissions income:				
Fees and commissions on loans and advances	1,935,527	1,455,578	1,935,527	1,455,578
Ledger fees & service charges	973,480	594,530	973,480	594,530
Other fees and commissions	4,251,972	4,014,875	3,921,159	3,737,529
	7,160,979	**6,064,983**	**6,830,166**	**5,787,637**
Fees and commissions expense:				
Inter-bank transaction charges	165,760	60,812	165,760	60,812
Brokerage fees	4,727	3,732	4,727	3,732
	170,487	**64,544**	**170,487**	**64,544**
Net fees and commissions income	**6,990,492**	**6,000,439**	**6,659,679**	**5,723,093**

Notes to the Consolidated Financial Statements

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36. NET TRADING INCOME

	Group		Bank	
	2013 KShs'000	**2012 KShs'000**	**2013 KShs'000**	**2012 KShs'000**
Foreign exchange gain	1,443,649	1,292,225	1,443,649	1,292,225
Interest income on investment securities:				
-Available for sale	2,914,444	2,744,420	2,914,444	2,744,420
-Held-for-trading	2,070	15,395	2,070	15,395
Changes in fair value of financial assets held-for-trading	(352)	23,573	(352)	20,997
Amortisation of financial instruments	29,564	(270,900)	26,259	(270,900)
	4,389,375	**3,804,713**	**4,386,070**	**3,802,137**

37. OTHER OPERATING INCOME

	Group		Bank	
	2013 KShs'000	**2012 KShs'000**	**2013 KShs'000**	**2012 KShs'000**
Gain on disposal of property and equipment	10,632	7,154	10,632	7,154
Dividend income	1,423	2,937	53,551	55,072
Rental income	75,816	72,371	75,816	72,371
Loan recoveries	33,096	13,870	33,096	13,870
Gain on sale of financial assets available-for-sale	69,061	190,183	68,915	190,183
Miscellaneous	430,213	87,599	252,190	106,803
	620,241	**374,114**	**494,200**	**445,453**

38. EMPLOYEE COSTS

	Group		Bank	
	2013 KShs'000	**2012 KShs'000**	**2013 KShs'000**	**2012 KShs'000**
Basic salaries	6,587,747	4,900,483	6,533,043	4,900,483
Allowances	415,986	260,368	408,664	260,368
Pension scheme contribution	455,586	435,187	439,475	435,187
Medical expenses	132,142	110,400	128,310	110,400
Education and training	95,251	71,337	95,047	71,978
Others	327,068	317,318	220,813	253,050
	8,013,780	**6,096,093**	**7,825,352**	**6,031,466**

	Group		Bank	
	2013	**2012**	**2013**	**2012**
Management	414	350	404	350
Supervisory and unionisable	3,760	2,806	3,673	2,806
Others	45	211	45	211
	4,219	**3,367**	**4,122**	**3,367**

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39. OTHER OPERATING EXPENSES

	Group		Bank	
	2013 KShs'000	**2012 KShs'000**	**2013 KShs'000**	**2012 KShs'000**
Rent and maintenance costs for branch premises	1,123,891	902,808	1,062,895	894,142
Motor vehicle running & other equipment maintenance	972,580	695,520	946,986	695,520
Stationery and printing	531,646	495,668	527,061	495,668
Travelling and insurance	603,333	373,374	602,186	373,374
Telephone, postage, electricity and water	599,294	494,935	583,915	494,935
Contribution to Deposit Protection Fund	228,874	200,324	228,874	200,324
Directors' emoluments	131,734	83,552	110,274	64,516
Auditors' remuneration	11,485	10,900	9,135	8,700
Other operating and administrative expenses	2,680,180	2,378,664	2,482,242	2,273,503
	6,883,017	**5,635,745**	**6,553,568**	**5,500,682**

40. 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.

The Bank is proposing to existing shareholders a bonus share in the proportion of one new ordinary share of KShs 1 each for every 6 ordinary shares then held. This will result in capitalisation of KShs 698,473,983 out of share premium of the Bank, to create 698,473,983 bonus shares to be distributed among the ordinary shareholders. The bonus issue will be subject to the Bank receiving all requisite approvals including approvals from the Capital Markets Authority and the shareholders of the Bank.

	Group		Bank	
	2013	**2012**	**2013**	**2012**
Profit for the year attributable to shareholders (KShs'000)	9,233,281	7,718,784	8,979,191	7,329,433
Weighted average number of ordinary shares for basic earnings per share (Thousands)	4,190,844	4,190,844	4,190,844	4,190,844
Weighted average number of ordinary shares for diluted earnings per share (Thousands)	4,889,318	4,889,318	4,889,318	4,889,318
Basic earnings per share (KShs)	2.20	1.84	2.14	1.75
Diluted earnings per share (KShs)	1.89	1.58	1.84	1.50

41. COMPONENTS OF OTHER COMPREHENSIVE INCOME

	Group		Bank	
	2013	2012	2013	2012
i) Available for sale investments	KShs'000	KShs'000	KShs'000	KShs'000
Gains/(losses) arising during the year	178,221	1,917,281	178,221	1,916,920
Amortisation to profit or loss	1,654,957	270,900	1,654,957	270,900
Reclassification during the year to profit or loss	(2,011,556)	(190,183)	(2,011,399)	(190,183)
	(178,378)	**1,997,998**	**(178,221)**	**1,997,637**
ii) Revaluation of land and buildings surplus				
Revaluation of land and buildings	-	107,065	-	107,065
Income tax effect	-	(21,413)	-	(21,413)
	-	**85,652**	**-**	**85,652**

42. CASH AND CASH EQUIVALENTS

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

	Group		Bank	
	2013	2012	2013	2012
	KShs'000	KShs'000	KShs'000	KShs'000
Cash on hand	9,196,192	7,170,048	8,908,315	7,170,048
Cash with Central Bank of Kenya	11,516,975	15,044,018	10,388,172	15,044,018
Deposits and balances due from banking institutions	10,040,915	8,886,167	10,056,793	8,869,700
Items in the course of collection from other Banks	449,770	770,485	449,770	770,485
	31,203,852	**31,870,718**	**29,803,050**	**31,854,251**
Less: CBK Cash reserve ratio	(9,185,074)	(8,263,097)	(9,185,074)	(8,263,097)
Cash and cash equivalents	**22,018,778**	**23,607,621**	**20,617,976**	**23,591,154**

43. RELATED PARTY TRANSACTIONS

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

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

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

	2013	2012
	KShs'000	KShs'000
Directors	156,256	159,003
Employees	6,379,086	5,645,248
	6,535,342	5,804,251
Interest income earned	411,235	371,488
Weighted average interest rate	12.7%	4.6%

The loans are secured by property mortgage and are repayable in a period less than 30 years. No impairment losses have been recorded against balances outstanding during the period and no specific allowance has been made for impairment losses on balances at period end (2012-Nil).

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2013

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

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

	2013 KShs'000	2012 KShs'000
Directors and Employees	440,382	239,077
Subsidiaries and Associate companies	404,884	185,036
Interest expensed	12,479	3,706
Weighted average interest rate	2.68%	1.55%

(c) Inter-company balances and transactions:-

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

	Relationship	Bank 2013 KShs'000	2012 KShs'000
Due from:-			
Co-optrust Investment Services Limited	Subsidiary	**1,198**	**1,309**
Co-op Consultancy & Insurance Agency Ltd	Subsidiary	3,379	1,959
Co-opholdings Co-operative Society Limited	Parent	**40,850**	**35,483**
Co-operative Bank of South Sudan	Subsidiary	101,379	-
		146,806	**38,751**
Due to:-			
Kingdom Securities Limited	Subsidiary	-	246
Co-op Consultancy & Insurance Agency Ltd	Subsidiary	-	14,585
		-	14,831
Insurance premium:-			
Co-operative Insurance Company Limited	Associate	**313,312**	**236,314**

(d) Compensation of key management personnel

	Group		Bank	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Directors' emoluments:				
-Fees	100,871	65,454	91,980	53,871
-Others	30,863	19,343	18,294	10,644
	131,734	**84,797**	**110,274**	**64,515**
Senior managers	**615,852**	**589,552**	**584,700**	**573,908**

(e) Co-operative Bank Foundation

The Foundation is a registered trust established to assist bright needy students from the Coco-operative movement in paying school fees. In 2013, KShs 92 million (2012- KShs 84 million) was disbursed to the Foundation. At 31 December 2013, the Foundation held deposits of KShs 2,402,865 (2012- KShs 1,613,597) with the Bank.

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

This is a defined contribution scheme and provides, under the rules of the scheme, retirement benefits for the staff of Co-operative Bank of Kenya Limited and its subsidiaries. The Group contributed KShs 429,380,000 (2012- KShs 426,274,905) as at 31 December 2012. Under the terms of their appointment, Co-optrust Investment Services Limited, a subsidiary of the Bank is responsible for the investment of funds.

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

	2013 KShs'000	**2012 KShs'000**
Rent paid to the scheme on leased property	4,516	3,863
Dividends paid on the Bank's ordinary shares	16,513	9,515

44. OPERATING LEASE COMMITMENTS

As lessor:

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

	Group and Bank	
	2013 KShs'000	**2012 KShs'000**
Within One year	109,002	75,591
Between 2 and 5 years	239,855	161,726
	348,857	**237,317**

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

As lessee:

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

	Group and Bank	
	2013 KShs'000	**2012 KShs'000**
Within one year	831,963	402,419
Between 2 and 5 years	2,039,989	594,137
Over 5 years	478,707	187,081
	3,350,659	**1,183,637**

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.

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2013

45. COMMITMENTS

	Group and Bank	
	2013 KShs'000	2012 KShs'000
i) Capital: Authorised and contracted for	441,778	45,037
ii) Capital: Authorised and not contracted for	3,661,564	4,322,717
iii) Loans committed but not disbursed at year end	10,324,872	6,777,203

46. CONTINGENT LIABILITIES

	Group and Bank	
a) Not recognised in statement of financial position	2013 KShs'000	2012 KShs'000
Letters of credit, guarantees, acceptances, and other engagements entered into on behalf of customers	16,971,431	14,434,139

Guarantees are documents written by the Bank to support performance by a customer to third parties. The bank will only be required to meet these obligations in case of the customer's default.
Letters of credit commit the Bank to make payment to third parties, on production of documents, which are subsequently reimbursed by customers.

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

b) Pending legal suits

i) Raki Investments Limited

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

ii) Kenya Continental Holdings

This is an injunction application seeking to stop the Bank from selling the company's security alleging fraud and misrepresentation on the part of the Bank with a claim for special damages for alleged loss of opportunities amounting to KShs 404,785,225. The Bank has a counterclaim amounting to KShs 521,318,439 against the debtor. The matter is slated for hearing on 24th July 2014 and no contingent liability is expected to arise.

iii) Boaz Mathews Ouma Awiti & three others

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

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

This is an appeal against the RBA ruling dated 26 May 2011 confirming that member benefits were duly paid in accordance with the applicable Trust Deed and Rules. The ruling is in regard to the initial claim filed with the Retirement Benefits Authority (RBA) under section 46 of the RBA Act alleging that the scheme had not computed and paid the ex-staff the correct amounts. They claimed that the estimated amount allegedly due to them is approximately KShs 2 billion. The ex-staff being dissatisfied with the ruling appealed against the same citing various grounds of appeal. The matter is pending for determination before the Tribunal. Based on advice received from the Scheme Administrators and the Actuaries, no liability is expected to arise in future in respect of this claim.

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

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

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

47. FIDUCIARY ACTIVITIES

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

The Group at Custodial Services department holds asset security documents on behalf of customers with a value of KShs. 25,775 million (2012 – KShs. 23,380 million). The Group, through Co-op Trust Investment Services manages securities with a value of KShs. 41,824 million (2012- KShs. 36,911 million) on behalf of customers.

48. ASSETS PLEDGED AS SECURITY

As at 31 December 2013, there were no assets pledged by the Group to secure liabilities.

49. HOLDING ENTITY

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

50. INCORPORATION

The Bank is incorporated in Kenya under the Companies Act.

51. CURRENCY

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

52. EVENTS AFTER REPORTING DATE

After year end, the directors approved and recommended a bonus share, one (1) for every six (6) ordinary share held. The bonus issue subject to Capital Markets Authority approval will be credited to the shareholders on the register as at close of business on 13th June 2014.

Jennifer Kosgey
Co-op M-Banking user

Transforming Kenya through Mobile and Agency Banking

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Kenya Police Athletics Championships Sponsorship

Co-operative Bank's Director of Retail Banking, Sam Birech (left) presents a Kshs. 1 million cheque to the Inspector General of Police, David Kimaiyo (right) in support of the Kenya Police Annual Athletics Championships 2013. Co-op Bank was the lead sponsor of the Athletics Kenya Annual Police Service Athletics Championship.

Thika Road Mall tour

Bharat Doshi (center), Thika Road Mall (TRM) Director explains the various outlets to Chris Chege (left), Co-op Bank Head of Mortgage Finance during a construction-site tour of the Thika Road Mall, which has since opened. The TRM is currently the largest mall in East Africa. Co-op Bank financed the building of the mall, which is the first major development on the Thika Super Highway. Looking on is Nipool Shah (right), TRM Director.

GDC Half Marathon sponsorship

Co-operative Bank's Director Corporate & Institutional Banking, Mrs. Catherine Munyiri (left) presents a half million cheque to Pauline Sheghu (right), GDC Senior Officer Corporate Communications and Marketing in support of the Menengai Geothermal Half Marathon 2013 scheduled for 13th October. Co-op Bank is one of the key sponsors of the marathon whose proceeds go towards community health and water projects.

Co-operative Bank at JOYWO Launch in Eldoret

Dr. Gideon Muriuki, GMD & CEO Co-operative Bank highlight the different industries the Bank is involved in to His Excellency the President of the Republic of Kenya Hon. Uhuru Kenyatta, His Excellency the Deputy President Hon. William Ruto and Her Excellency the First Lady Mrs. Margaret Kenyatta as they visited the Bank's stand at the JOYWO (Joyful Women Organisation) launch in Eldoret last year.

Shimo-la-Tewa Prison Sponsorship

The Co-op Bank Mombasa team present mattresses to Mombasa County Nominated Senator, Hon. Emma Mbura (left)in response to a request from the Senator's office to support needy women and children at Shimo la Tewa prison. The team was led by Douglas Gatimu (centre), Co-op Bank Regional Manager Coast and Celestine Otwoma (centre), Co-op Bank Nyali Mall Branch Manager. Looking on is Gideon Ngeke (second left), Nominated Senator Joy Adhiambo Gwendo, some of the beneficiaries from the prison and Nairobi County Senator Gideon 'Sonko' Mbuvi (right).

Stretchers Donation at Kenyatta National Hospital

Co-op Bank Marketing and PR - Head, Ngumo Kahiga (right) and Mrs. Philomena Maina (left), Deputy Director Nursing Services at Kenyatta National Hospital examine the stretchers donated by the Bank in response to a drive by the nurses to address the current shortfall of stretchers at the Hospital. The Ksh. 500,000/- donation was part of the Bank's service to community. Looking on is Dr. Hassan Ibrahim (center), Assistant Director Accident & Emergency Department.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the sixth Annual General Meeting of THE CO-OPERATIVE BANK OF KENYA LIMITED will be held at the Bomas of Kenya Nairobi on Friday, 30th May 2014 at 11.00 a.m. for the transaction of the following business:-

AGENDA

1. To read the notice convening the meeting and determine if a quorum is present.
2. To receive and consider, and, if approved adopt the Audited Financial Statements of the Company for the financial year ended 31st December 2013 together with the Directors' and Auditors' report thereon.
3. To approve and declare a first and final dividend of Kshs. 0.50 per share in respect of the year ended 31st December 2013, to be paid to the shareholders on the register at the close of business on 29th May 2014.
4. To elect Directors:
   i) Mr. Stanley C. Muchiri, Mr. Julius Riungu and Mr. Wilfred Ongoro being directors appointed under Article 104A of the Company's Articles under which the majority and strategic shareholder of the Company, - Co-opholdings Co-operative Society Limited nominates to the Board of the Company seven (7) directors, are retiring by rotation and being eligible offer themselves for re-election in accordance with Article 100 of the Company's Articles of Association.

   Co-opholdings Co-operative Society Limited has already nominated them for re-election.

   ii) Mr. Benedict Simiyu, being a director appointed under Article 104A of the Company's Articles, to replace Major (Rtd.) Gabriel Wakasyaka who did not offer himself for re-election as a Director of Co-opholdings Co-operative Society Limited.
5. To authorize the Board to fix the Directors' remuneration.
6. To re-appoint Ernst and Young, Auditors of the Company, having expressed their willingness to continue in office and to authorize the directors to fix their remuneration.

SPECIAL BUSINESS

7. To consider a bonus share issue of one (1) for every six (6) shares held and if approved then pass the following Ordinary Resolution:-

   "That subject to the approval of the Capital Markets Authority and the Nairobi Securities Exchange the sum of Kshs. 698,473,000 being part of the money now standing to the credit of the share premium reserves of the Company be capitalized and that the same be applied in making payment in full at par for 698,473,000 ordinary shares of Kshs. 1/- each in the capital of the Company. Such shares to be distributed as fully paid among the persons who are registered as holders of the ordinary shares in the capital of the Company at the close of business on 13th June 2014 at the rate of one (1) new fully paid ordinary share for every six (6) ordinary shares held by such holders respectively and that such shares shall rank pari passu for all purposes and in all respects with the existing shares in the share capital of the Company and the Board of Directors be and are hereby also authorized generally to do and effect all acts and things required to give effect to this Resolution".

ANY OTHER BUSINESS

8. To transact any other business, which may be properly transacted at an Annual General Meeting.

Dated at Nairobi this 30th day of April 2014

By order of the Board,

ROSEMARY MAJALA GITHAIGA (Mrs)

COMPANY SECRETARY

NB: In accordance with section 136 (2) of the Companies Act (Cap 486, Laws of Kenya) every member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his behalf and the proxy need not be a member of the Company.

In accordance with Article 56A and 133 of the Company's Articles of Association the Annual report and Financial statements of the Company are available on our website www.co-opbank.co.ke and an abridged version of the financial statements has been published in the daily newspapers.

CO-OPERATIVE BANK

We are you