The Co-op Bank IPO

Let's make great things happen. Together.

INFORMATION MEMORANDUM

CO-OPERATIVE BANK OF KENYA

We are you

THE CO-OPERATIVE BANK OF KENYA LIMITED

(Incorporated in Kenya under the Companies Act (CAP.486))

Registration Number C.23/2008

INFORMATION MEMORANDUM

In respect of

An Initial Public Offering of 701,300,000 ordinary shares at an offer price of Kshs.9.50 per share with a par value of Kshs.1.00 each in the share capital of The Co-operative Bank of Kenya Limited (the "Offer Shares") comprising a public offer of 19.3% of the issued ordinary shares

And

The listing on the Nairobi Stock Exchange of 3,636,427,600 ordinary shares with a par value of Kshs. 1.00 each of The Co-operative Bank of Kenya Limited;

And

Incorporating share application forms

Proposed listing date 22nd December 2008

LEAD TRANSACTION ADVISOR

DYER & BLAIR INVESTMENT BANK LIMITED

In consortium with

PKF CONSULTING LIMITED

LEAD SPONSORING STOCKBROKER

STANDARD INVESTMENT BANK LIMITED

In consortium with

FAIDA INVESTMENT BANK LIMITED

LEGAL ADVISORS

MBOYA & WANGONG'U ADVOCATES

This Information Memorandum is issued in compliance with the Companies Act (Cap 486), the Capital Markets Act (Cap 485A) and the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002.

Vision:

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

Core Values:

We are proud to be the Co-operative Bank;

We value our customers;

We employ best practice;

We grow our People;

We execute at speed;

We value our Bank's reputation.

IMPORTANT NOTICE

This document is important and requires your careful attention

A copy of this Information Memorandum together with the documents required by Section 43 of the Companies Act to be attached hereto, have been delivered to the Registrar of Companies in Nairobi for registration and to the Capital Markets Authority ("CMA") for approval. Prospective investors should carefully consider the matters set forth in this document. Investors should read this Information Memorandum before making an investment decision.

This document is an Information Memorandum inviting applications for 701,300,000 ordinary shares (the "Offer Shares") in the capital of the Bank which if fully subscribed will constitute 19.3% of the issued ordinary shares of The Co-operative Bank of Kenya Limited under terms outlined herein. The shares are being offered for sale by the bank. The Offer consists of 3 pools: Retail, Qualified Institutional Investor and Employees. If you are in doubt as to the meaning of the contents of this Information Memorandum or as to what action to take, please consult your investment bank, financial advisor, stockbroker or other professional advisor authorised under the Capital Markets Act who specialises in advising on the acquisition of shares and other securities, immediately.

If you wish to apply for shares in terms of the offer then you must complete the procedures for application and payment set out in the applicable part of the section entitled "Features of the Offer".

The CMA has granted permission for the public offering and listing of the ordinary shares of The Co-operative Bank of Kenya Limited at the Nairobi Stock Exchange ("NSE"). As a matter of policy, the CMA assumes no responsibility for the correctness of any statements or opinions made or reports contained in this Information Memorandum. Approval of the Offer and/or Listing is not to be taken as an indication of the merits of the Company or of the Offer Shares.

Approval has been obtained from NSE for the admission of the ordinary shares of The Co-operative Bank of Kenya Limited to the Main Investment Market Segment ("MIMS"). Subject to compliance with the NSE Listing Rules, the NSE will admit to listing the ordinary shares of The Co-operative Bank of Kenya Limited under the security code "COOP".

The Offer Shares will carry the right to participate in all future dividends to be declared and paid on the ordinary share capital of the Bank. The Offer Shares rank pari passu with the other ordinary shares of The Co-operative Bank of Kenya Limited and each ordinary share carries one vote in a poll at a general meeting of the Bank.

After the closing of the Offer, the ordinary share capital of The Co-operative Bank of Kenya Limited will comprise 3,700,000,000 authorised ordinary shares and 3,636,427,600 issued ordinary shares with a par value of KShs.1.00 each. The issued shares will be freely transferable and will not be subject to any restrictions on marketability or any pre-emptive rights. The Board of Directors of The Co-operative Bank of Kenya Limited has approved the Offer.

This Information Memorandum contains information that is provided in compliance with the requirements of the Companies Act and the Capital Markets Act as well as the rules and regulations made thereunder.

The directors of The Co-operative Bank of Kenya Limited, whose names appear on page 8 of this Information Memorandum, accept responsibility for the information contained in this Information Memorandum. To the best of the knowledge and belief of the directors (who have taken all reasonable care to ensure that such is the case) the information contained in this Information Memorandum is in accordance with facts and does not omit anything likely to affect the import of such information.

The Offer does not constitute an offer to issue or sell, or the solicitation of an offer to subscribe for or buy, securities in any jurisdiction in which such an offer or solicitation would be unlawful. The Offer consists of an offering outside the United States of America (the "United States") of shares pursuant to Regulation S ("Regulation S") under the US Securities Act 1933, as amended (the "Securities Act").

IMPORTANT NOTICE (CONTINUED)

The shares have not been, and will not be, registered under the Securities Act or any state securities laws and may not be offered, sold, pledged or otherwise transferred in the United States or to, or for the account or benefit of, U.S. persons absent registration or an exemption from registration under the Securities Act.

The Offer does not constitute an offer or solicitation of an offer to the public in the United Kingdom or Germany. The Offer Shares have not been, nor will they be, registered under the applicable securities laws of Australia, Canada and Japan. Subject to certain exceptions, the Offer Shares may not be offered or sold, directly or indirectly, in or into Australia, Canada or Japan or to or for the account or benefit of any national, resident or citizen of Australia, Canada or Japan.

A description of these and certain other restrictions to which the Offer and sale of the Offer Shares are subject are set out in full in the section of this Information Memorandum entitled "Features of the Offer—Part I-General—Selling Restrictions".

This Information Memorandum contains statements from Ernst & Young, the Reporting Accountants, which constitute a statement made by an expert in terms of Section 42(1) of the Companies Act. The Reporting Accountants, Ernst & Young, have given and not withdrawn their consent to the issue of the said statements in the form and context in which they are included in this Information Memorandum – Appendices 1 and 2 (Reporting Accountant's Report). Mboya & Wangong'u Advocates, the Legal Advisors, have given and not withdrawn their written consent to the inclusion in this Information Memorandum of their letter in the Appendix 3 – Legal Opinion, and the references to their names, in the form and context in which they appear, and have authorised the contents of the said letter.

Forward-looking statements

This Information Memorandum contains "forward-looking statements" relating to the Company's business. These forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "is expected to", "will", "will continue", "should", "would be", "seeks" or "anticipates" or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. These statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the Company to be materially different from the future results, performance or achievements that may be expressed or implied by such forward-looking statements. Some of these factors are discussed in more detail under "Risk Factors" and "Business Overview". Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Information Memorandum as anticipated, believed, estimated or expected. The Company does not intend, and does not assume any obligation, to update any industry information or forward-looking statements set out in this Information Memorandum.

Dated: October 27, 2008

LETTER FROM THE CHAIRMAN

I cannot fail to recall the words of the former Minister for Agriculture, Honourable Bruce Mackenzie, when he was told of the idea of the formation of a Co-operative Bank in Kenya: he scoffed at the suggestion of "a bank for peasants", in his words. As one of the founder directors has commented, he wished that Bruce Mackenzie was alive to see the dream that he scoffed at become a reality. Unfortunately, he is not alive to see that the dream that he thought was an impossibility did unfold and become the reality that is now the Co-operative Bank, the fourth largest bank in Kenya, serving the over 7 million member co-operative movement, managed by Kenyans and 100% owned by over 50,000 ordinary Kenyans and Co-operative societies.

It is, significantly, exactly **40 years** since the Bank was licensed, in 1968.

This year also significantly marks the end of a seven years circle wherein the bank has registered a full circle turn-around from a massive loss of Kshs.2.3 billion in year 2001 to a profit before tax of Kshs.2.3 billion for the year ended December 2007. The seven year circle is marked with several key milestones. To name a few: the bank centralized its ICT platform network in the year 2002 becoming the 2nd bank in Kenya to do so; in the year 2004 the bank for the first time after a seven years dry spell paid a dividend to its shareholders having returned to profitability; in the year 2005 the bank raised additional equity of Kshs.1.1 billion from its co-operative societies-based shareholding in about 3 months; in the year 2006 the Government approved and granted a coffee debt relief by writing off non-performing debts owed to the bank by co-operative farmers in the sum of Kshs.5.2 billion; in the year 2006 the bank crossed the threshold of Kshs. 1 billion mark on profitability by posting a profit before tax of Kshs.1.3 billion, joining the league of the leading banks. The bank now has a deposit base of over Kshs.60 billion, a customer base of over 800,000 customers and a branch network of 53 branches.

The year 2008 therefore does signify and mark a new beginning for the Co-operative Bank: a new horizon and frontier, that is marked by the historical public offering of Co-operative Bank's shares and listing at the Nairobi Stock Exchange.

The public offering and listing has been preceded by a re-structuring of the bank into a public limited liability company in order to meet the legal requirements for listing in the Main Investment Market Segment, as set out under the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations. It is gratifying to note that this re-structuring has been undertaken whilst ensuring and guaranteeing that the unique identity of the Co-operative Bank, as a bank owned and controlled by the Co-operative movement, is safeguarded. This will ensure that the founding philosophy of the bank, which is to provide affordable financial services to co-operators, continues to undergird the business strategy of the bank, and the bank remains true to the dream that informed its establishment.

The objectives of the public offering and listing at the Nairobi Stock Exchange are two-fold: firstly, to raise additional capital of Kshs.6.7 billion to fund further growth of the bank's business, and secondly, to provide a transfer and price discovery mechanism, particularly for the over 50,000 shareholders who invested in the bank in the mid-1990s. The initial public offer will also provide Kenyans the opportunity to be part of and share in the success story of the Co-operative Bank.

I wish, on behalf of the Board of Directors of the Group, to express our sincere appreciation to our valued shareholders, who have been steadfast over the years in their belief in and commitment to the vision of the bank, to our customers for their patronage of the bank, to the Government of the Republic of Kenya particularly through the Ministry of Co-operatives Development and Marketing, and the Ministry of Finance that are represented on the Board, for their incredible support to the bank over the years. We have, as the Kingdom Bank, faith in God that this venture will indeed be successful and further propel the bank towards taking its position as the leading and dominant Kenyan bank, with a strong countrywide presence playing a central role in the co-operative movement and providing relevant and innovative financial services to our customers for optimum benefit of all our stakeholders.

As you will note in the Information Memorandum a large allocation pool of 66% of the Offer has been set aside for the retail market to ensure that the ordinary Kenyan people who have supported this bank over the years are the major beneficiaries of this IPO.

Again, we welcome you to share in the continuing great fortunes of the "Kingdom Bank", through which God has promised to continue blessing the people of Kenya.

STANLEY CHARLES MUCHIRI – EBS

CHAIRMAN

TABLE OF CONTENTS

1. ADVISORS TO THE TRANSACTION

LEAD TRANSACTION ADVISOR

Dyer & Blair Investment Bank Limited
Loita House, Loita Street,
P.O. Box 45396 – 00100 NAIROBI
TEL: +254 20 3240000

in Consortium with

PKF Consulting Limited
Kalamu House, Waiyaki Way,
P.O. Box 14077 – 00800 NAIROBI
TEL: +254 20 4446616-9

LEAD SPONSORING STOCKBROKERS

Standard Investment Bank Limited
ICEA Building, Kenyatta Avenue
P.O. Box 13714 – 00800 NAIROBI
TEL: +254 20 2220225/252772

in Consortium with

Faida Investment Bank Limited
Windsor House, University Way
P.O. Box 45236 – 00100 NAIROBI
TEL: +254 20 2243811/2/3

CO-SPONSORING STOCKBROKERS

Sterling Investment Bank Limited
Finance House, Loita Street
P.O. Box 45080 – 00100 NAIROBI
TEL: +254 20 2213914

CFC Financial Services Limited
CFC Centre, Chiromo Road
P.O. Box 47198 – 00100 NAIROBI
TEL: +254 20 3638900

African Alliance Kenya Securities Limited
Kenya Re Towers, off Ragati Road
P.O. Box 27639 – 00506 NAIROBI
TEL: +254 20 2718720/2712709/2710978

LEGAL ADVISORS

Mboya & Wangong'u Advocates
Lonrho House, Standard Street
P.O. Box 74041 – 00200 NAIROBI
TEL: +254 20 341457/8

REPORTING ACCOUNTANTS

Ernst & Young
Kenya Re Towers, Upper Hill off Ragati Road
P.O. Box 44286 – 00100 NAIROBI
TEL: +254 20 2715300

PUBLIC RELATIONS CONSULTANTS

Gina Din Corporate Communications
Gitanga Road
P.O. Box 42518 – 00100 NAIROBI
TEL: +254 20 3589000

MARKETING & ADVERTISING CONSULTANTS

Ayton Young & Rubicam Limited (AY&R)
Panesar's Centre, Mombasa Road
P.O. Box 41036 – 00100 NAIROBI
TEL: +254 20 533702/60

RECEIVING BANKS

The Co-operative Bank of Kenya Limited
Co-operative Bank House, Haile Selassie Avenue
P.O. Box 48231 – 00100 NAIROBI
TEL: +254 20 3276000

National Bank of Kenya Limited
National Bank Building, Harambee Avenue
P.O. Box 72866 – 00200 NAIROBI
TEL: + 254 20 2828000

REGISTRAR

The Co-operative Bank of Kenya Limited
Co-operative Bank House, Haile Selassie Avenue
P.O. Box 48231 – 00100 NAIROBI
TEL: +254 20 3276000

2. SUMMARY & CORPORATE INFORMATION

For further information regarding the company's Board of Directors and Senior Management, refer to section 16 entitled "Board of Directors, Senior Management and Corporate Governance".

Directors:

NAME	OCCUPATION	ADDRESS	NATIONALITY
Mr. Stanley C. Muchiri, EBS (Chairman)	Businessman	P. O. Box 48231 – 00100 Nairobi	Kenyan
Mr. Julius Riungu (V/Chairman)	Educationist/businessman	P. O. Box 48231 – 00100 Nairobi	Kenyan
Mr. Gideon Muriuki*, OGW (Managing Director)	Banker	P. O. Box 48231 – 00100 Nairobi	Kenyan
Mr. Julius Sitienei	Educationist	P. O. Box 4959 Eldoret	Kenyan
Major (Rtd) Gabriel J. S. Wakasyaka	Business man; retired Major from the Kenya Army	P. O. Box 124 Chwele	Kenyan
Mr. Macloud Malonza	Civil Servant	P. O. Box 5391 – 0200 Nairobi	Kenyan
Mr. Richard L. Kimanthi	Businessman	P. O. Box 93832 Mombasa	Kenyan
Mr. John K. Murugu (Representing Permanent Secretary, Treasury)	Civil Servant	P. O. Box 59066 – 0200 Nairobi	Kenyan
Mr. Wilfred Ongoro	Educationist	P. O. Box 157 Bondo	Kenyan
Mr. Fredrick F. Odhiambo	Civil servant – Commissioner for Co-operatives Development	P.0. Box 319 -00517 Nairobi	Kenyan
Mr. Donald K. Kibera	Consultant	P.O. Box 74910 – 00200 Nairobi	Kenyan

* Executive Director; all other directors are non-executive

Directors of active Subsidiaries – Co-opTrust Investment Services Limited, Co-operative Consultancy Services Kenya Limited

NAME	OCCUPATION	ADDRESS	NATIONALITY
Mr. Stanley C. Muchiri, EBS (Chairman)	Businessman	P. O. Box 48231 – 00100 Nairobi	Kenyan
Mr. Gideon Muriuki, OGW (Managing Director)	Banker	P. O. Box 48231 – 00100 Nairobi	Kenyan
Dr. James Kahunyo	Lecturer/ Veterinary Surgeon	P. O. Box 29053 -06500 Nairobi	Kenyan
Mr. Cyrus Njine Kabira	Businessman	P. O. Box 326 Kirinyaga	Kenyan
Mr. Godfrey Mburia	Accountant	P. O. Box 2879 Meru	Kenyan
Mrs. Scholastica Atieno Odhiambo	Tax Official	P. O. Box 11710 -00100 Nairobi	Kenyan
Mr. Patrick Githendu	Businessman	P. O. Box 577 Ruiru	Kenyan
Mr. Elijah Kathuri Mbogo	Businessman	P. O. Box 830 Embu	Kenyan

2. SUMMARY & CORPORATE INFORMATION (CONTINUED)

Senior Management:

NAME	POSITION	ADDRESS	NATIONALITY
Mr. Gideon Muriuki, OGW	**Managing Director**	P.O. Box 48231 – 00100 NAIROBI	Kenyan
Mr. Lawrence Karissa	**Director** Finance & Administration Division	P.O. Box 48231 – 00100 NAIROBI	Kenyan
Mr. Samuel Mutungi	**Director** Operations Division	P.O. Box 48231 – 00100 NAIROBI	Kenyan
Mr. Zachary Chianda	**Director** Co-operatives Banking Division	P.O. Box 48231 – 00100 NAIROBI	Kenyan
Mr. Samuel Birech	**Director** Retail Banking Division	P.O. Box 48231 – 00100 NAIROBI	Kenyan
Mr. Geoffrey Ndambuki	**Director** Corporate & Institutional Banking Division	P.O. Box 48231 – 00100 NAIROBI	Kenyan
Mr. Anthony Mburu	**Director** Credit Management Division	P.O. Box 48231 – 00100 NAIROBI	Kenyan
Mrs. Weda Welton	**Director** Human Resources Division	P.O. Box 48231 – 00100 NAIROBI	Kenyan
Mrs. Rosemary Githaiga	**Company Secretary**	P.O. Box 48231 – 00100 NAIROBI	Kenyan
Ms. Caroline Mugadi	**Treasurer**	P.O. Box 48231 – 00100 NAIROBI	Kenyan
Mr. Geoffrey O Odundo	**Chief Manager** Merchant & Investment Banking	P.O. Box 48231 – 00100 NAIROBI	Kenyan
Mrs. Beatrice Kariuki	**Chief Manager** Internal Audit	P.O. Box 48231 – 00100 NAIROBI	Kenyan
Mr. James Mwangi	**Head** Risk Management	P.O. Box 48231 – 00100 NAIROBI	Kenyan

2. SUMMARY & CORPORATE INFORMATION (CONTINUED)

Registered Office	L.R. No. 209/4290 (IR No. 27596) **Co-operative Bank House, Haile Selassie Avenue,** P.O. Box 48231 – 00100 NAIROBI
Head Office	L.R. No. **209/4290** (IR No. 27596) **Co-operative Bank House, Haile Selassie Avenue,** P.O. Box 48231 – 00100 NAIROBI
Subsidiaries	**Co-opTrust Investment Services Limited** Co-operative Bank House, Haile Selassie Avenue, P.O. Box 48231 – 00100 NAIROBI **Co-operative Consultancy Services Kenya Limited** Co-operative Bank House, Haile Selassie Avenue, P.O. Box 48231 – 00100 NAIROBI **Co-operative House Limited** Co-operative Bank House, Haile Selassie Avenue, P.O. Box 48231 – 00100 NAIROBI **Co-operative Merchant Limited** Co-operative Bank House, Haile Selassie Avenue, P.O. Box 48231 – 00100 NAIROBI
Company Secretary	**Rosemary Majala Githaiga** Co-operative Bank House, Haile Selassie Avenue, P.O. Box 48231 – 00100 NAIROBI
Auditors	**Ernst & Young, Certified Public Accountants** Kenya Re Towers, Upper Hill off Ragati Road, P.O. Box 44286 – 00100 NAIROBI
Shares Registrar	**The Co-operative Bank of Kenya Limited** Co-operative Bank House, Haile Selassie Avenue, P.O. Box 48231 – 00100 NAIROBI
Advocates	**Mboya & Wangong'u Advocates** Lonrho House, Standard Street P.O. Box 74041 – 00200 NAIROBI **Ochieng' Onyango Kibet & Ohaga Advocates** ACK Garden House, Bishops Road P.O. Box 43170 – 00100 NAIROBI **Mamicha & Co. Advocates** Panafrica Building, Kenyatta Avenue P.O. Box 59304 – 00200 NAIROBI (List of other Advocates is available for inspection at the Company)

3. IMPORTANT DATES AND TIMES

ACTIVITY	DATE
Opening of the Offer	9:00 a.m. on 30th October 2008
Closing of the Offer	3:00 p.m. on 13th November 2008
Announcement of Allocation Results	Monday, 15th December 2008
Date of Receipt of monies on Guarantees	Tuesday, 16th December 2008
Commencement of Dispatch of Share Certificates	Tuesday, 16th December 2008
Electronic crediting of CDS Accounts	From Tuesday, 16th December 2008 to Friday, 19th December 2008
Payment of refunds by EFT and delivery of refund cheques to Authorised Selling Agents	From Thursday, 18th December 2008 to Friday, 19th December 2008
Commencement of collection of refund cheques and share certificates by applicants from Authorised Selling Agents	Monday, 22nd December 2008
Listing and Commencement of Trading on the Nairobi Stock Exchange	Monday, 22nd December 2008

4. GLOSSARY OF DEFINITIONS AND ABBREVIATIONS

Unless otherwise stated, the following expressions shall have the following meanings:

"Applicant"

A person who submits an application for the Offer Shares;

"Assets"

The aggregate at such time of any assets of the Issuer which would, in accordance with International Financial Reporting Standards (IFRS) applied on a consistent basis, be classified as assets;

"Accountant's Report"

The report of the reporting accountant contained in this Information Memorandum;

"Audited Accounts"

The audited accounts of the Issuer referred to in the Accountant's Report;

"Authorised Central Depository Agents"

The licensed authorized depositories listed in Appendix 5 of this Information Memorandum and appointed by CDSC as central depository agents, in addition to the authorised selling agents listed in Appendix 4;

"Authorised Selling Agents"

The stockbrokers and investment banks listed in Appendix 4 of this Information Memorandum and The Co-operative Bank of Kenya Limited;

"Application form"

The application form in respect of the Offer, accompanying this Information Memorandum and available from the Authorized Selling Agents;

"CBK"

The Central Bank of Kenya, a statutory body incorporated under the Central Bank of Kenya Act, Chapter 491 of the Laws of Kenya and includes any body replacing it or authorized to perform any of its functions;

"CDS"

The Central Depository System operated by CDSC;

"CDSC"

Central Depository and Settlement Corporation Limited;

"Closing Date"

13th November 2008;

"CMA"

The Capital Markets Authority, a statutory body incorporated under section 5 of the Capital Markets Act, Chapter 485A of the Laws of Kenya, and includes any body replacing it or any of its functions;

"Companies Act"

The Companies Act, Cap 486 of the Laws of Kenya;

"Co-op Bank", "the Company" or " the Bank"

The Co-operative Bank of Kenya Limited, a public limited liability company having its registered office at Co-operative Bank House, P.O Box 48231, 00100 Nairobi;

"Co-sponsoring Stockbrokers"

CFC Financial Services Limited, Sterling Investment Bank and African Alliance Kenya Securities Limited;

"Co-opholdings"

The co-operative society which up to 7th August 2008 was called the Co-operative Bank of Kenya Limited registered under the Co-operative Societies Act with registration number 1530 of 1965;

4. GLOSSARY OF DEFINITIONS AND ABBREVIATIONS (CONTINUED)

“Co-operative Societies Act”

The Co-operative Societies Act No.12 of 1997 as amended in 2004;

“Directors”

The directors of the Issuer whose names appear on page 8 of this Information Memorandum;

“EAC” or “East African Community”

Regional intergovernmental organization of the Republic of Kenya, Republic of Uganda, the United Republic of Tanzania, Republic of Burundi and Republic of Rwanda with its headquarters in Arusha, Tanzania;

“EUR”

Denotes the lawful currency of the European Community;

“GBP”

Denotes the lawful currency of Great Britain;

“IFRS”

International Financial Reporting Standards;

“Issuer”

Co-op Bank;

“Kshs.” Or “KES”

Denotes the lawful currency of the Republic of Kenya;

“Lead Transaction Advisors”

Dyer and Blair Investment Bank in consortium with PKF Kenya Limited;

“Lead Sponsoring Stockbrokers”

Standard Investment Bank Limited in consortium with Faida Investment Bank Limited;

“Legal Advisors”

Mboya & Wangong’u Advocates, of 7th Floor, Lonrho House, Standard Street, P.O. Box 74041 – 00200 NAIROBI

“Listing”

The listing of the shares of the Issuer at the Nairobi Stock Exchange as envisaged in this Information Memorandum;

“MIMS”

The Main Investment Market Segment of the NSE;

“NSE”

The Nairobi Stock Exchange Limited;

“Offer” or “Initial Public Offer”

The Initial Public Offering of 701,300,000 ordinary shares of par value Kshs.1 each, as per this Information Memorandum;

“Offer Price”

Kshs.9.50 per Offer Share;

“Offer Shares”

The 701,300,000 ordinary shares in the authorized capital of the Issuer now offered to the Public.

“Qualified Institutional Investor”

Collective investment schemes licensed by the CMA under the Capital Markets Act, Investment Banks and Fund Managers licensed by the CMA under the Capital Markets Act, schemes licensed by the Retirement Benefits Authority under the Retirement Benefits Act (No 3 of 1997) and Life insurance companies licensed by the Insurance Regulatory Authority under the Insurance Act (Cap 487 of the Laws of Kenya); Collective Investment Schemes and Pension funds registered under the capital markets and retirement benefit laws of any East African Community Partner State; Institute Nationale De Securite’ Social (INSS) of Burundi, National Social Security Fund (NSSF) of Rwanda, National Social Security Fund (NSSF) of Uganda, National Social Security Fund (NSSF) of Tanzania and Parastatals Pension Fund (PPF) of Tanzania;

4. GLOSSARY OF DEFINITIONS AND ABBREVIATIONS (CONTINUED)

"Receiving Bank"

The Co-operative Bank of Kenya Limited and/or National Bank of Kenya Limited;

"Register"

The share register which the Registrar maintains for the Issuer at the designated office;

"Registrar"

The Co-operative Bank of Kenya Limited;

"Reporting Accountants"

Ernst & Young, Certified Public Accountants (Kenya) having registered offices at Kenya Re Towers, Upper Hill off Ragati Road, P.O. Box 44286 – 00100 Nairobi;

"The Banking Act"

The Banking Act, Chapter 488 of the Laws of Kenya and includes any Act replacing it;

"The Capital Markets Act"

The Capital Markets Act, Chapter 485A of the Laws of Kenya and includes any Act replacing it;

"Transfer Agreement"

The Agreement for Transfer and Acquisition of Business Assets and Liabilities dated 11th July 2008 between Co-opholdings Co-operative Society Limited (previously The Co-operative Bank of Kenya Limited registered as a co-operative society) and The Co-operative Bank of Kenya Limited (incorporated as a limited liability company)

"USD"

Denotes the lawful currency of the United States of America.

5. FEATURES OF THE OFFER

5.1. Basis for setting offer price

The Offer Price has been determined by the Company in consultation with the Transaction Advisor and the Lead Sponsoring Stockbrokers, on the basis of an assessment of the market demand for the Offer Shares. The Offer Price was developed using the anticipated valuation parameters set out in the Key Offer Statistics Section (Section 5.2) of the Information Memorandum.

The Offer Price also took into account the following factors:

- The market price of existing shares on the NSE
- The country macro-economic outlook
- The earning potential of the Company
- The observed earnings multiples at which the shares of comparable companies in Kenya and other developing countries were trading at, shortly prior to launching the Offer
- Observed capital markets performance indicators

5.2. Key Offer Statistics

Offer Price per Offer Share	Kshs.	9.50
Par value of each Offer Share	Kshs.	1.00
Authorised share capital of the Company	Kshs.	3,700,000,000
Total number of issued shares		2,935,127,600
Total number of Offer Shares		701,300,000
Gross proceeds of the Offer	Kshs.	6,662,350,000
Net profits for the twelve (12) month period ended 31.12.2007	Kshs.	1,549,606,000.00
Dividend paid for the twelve (12) month period ended 31.12.2007	Kshs.	228,516,000.00
DPS for the twelve (12) month period ended 31.12.2007	Kshs. / share	0.08
EPS for the twelve (12) month period ended 31.12.2007	Kshs. / share	0.54
Implied dividend yield based on the DPS for the twelve (12) month period ended 31.12.2007		0.84%
Implied PE (historical) based on the EPS for the twelve (12) month period ended 31.12.2007		17.59
Forecast full year net profits as at 31.12.2008	Kshs.	2,417,485,000.00
Forecast EPS as at 31.12.2008 based on existing issued ordinary shares	Kshs. / share	0.82
Implied Forecast EPS as at 31.12.2008 based on existing and new issued ordinary shares	Kshs. / share	0.66
Forecast DPS as at 31.12.2008	Kshs. / share	0.10
Implied PE as at 31.12.2008 based on the Forecast EPS		11.54
Implied Dividend Yield as at 31.12.2008 based on the Forecast EPS		1.0%

5.3. Eligibility

The offer consists of 3 pools:

Retail:
Individuals or corporate investors, other than Employees or Qualified Institutional Investors.

Qualified Institutional Investor:
Any person falling within the definition of Qualified Institutional Investor as defined on page 13 herein.

Employee:
Any person who is an employee of The Co-operative Bank Of Kenya Limited during the Offer period other than persons employed under a contract with a duration of less than one year.

5.4. Minimum Aggregate Applications

The minimum subscription for the issue is Kshs.1,998,705,000 representing 210,390,000 Offer Shares (being 30% of the Offer). However, in the event that this minimum amount is not attained, approval may be sought from the Authority to proceed with the listing of the existing shares and any Offer Shares that are subscribed under the Offer.

5.5. Maximum and Minimum Application Size

There is no maximum application size. The minimum application size for each retail or employee applicant is 1,000 shares, while for Qualified Institutional Investors it is 100,000 shares.

5.6. Status of Applicant

Every applicant is required to complete the declaration on the Application Form declaring, as the case may be, the Applicant's status as a foreign investor, local investor, or local institutional investor, with supporting documentation evidencing such status.

The Capital Markets (Foreign Investors) Regulations, 2002 as amended ("the Foreign Investors Regulations") defines the following:

- "Local investor" in relation to an individual, means a natural person who is a citizen of an East African Partner State; and in relation to a body corporate, means a company incorporated under the Companies Act of Kenya or such similar statute of an East African Partner State in which citizens of an East African Partner State or the Government of an East African Partner State have beneficial interest in one hundred per centum of its ordinary shares for the time being or any other body corporate established or incorporated in an East African Partner State under the provisions of any written law.
- "Foreign investor" means any person who is not a local investor.
- "Institutional investor" means a body corporate including a financial institution, collective investment scheme, fund manager, dealer or other body corporate whose ordinary business includes the management or investment of funds whether as principal or on behalf of clients.

The East African Community Partner States include such states as may be deemed to be the members from time to time of the East African Community, currently Kenya, Uganda, Tanzania, Rwanda and Burundi. Citizens of those States and corporate persons incorporated or registered in those States, in which citizens of those States hold 100% of the beneficial interest should therefore declare their status as local investors and provide supporting evidence.

Whereas the Regulations as stated above include citizens of East African Community States as local investors, this Information Memorandum and the Application Form may not be used for, or in connection with, any offer, or solicitation by, anyone in the East African Community Partner States where such offer or solicitation is not authorised or is otherwise unlawful in the said jurisdictions.

The offer of shares of The Co-operative Bank of Kenya Limited to foreign investors may be affected by laws and regulatory requirements of the relevant jurisdictions. Any foreign investors wishing to apply for the Offer Shares must satisfy themselves as to the full observance of the laws of the relevant territory and governmental and other consents to ensure that all requisite formalities are adhered to and pay any issue, transfer or other taxes due in such territory. Foreign investors are advised to consult their own professional advisors as to whether they require any governmental or other consents or need to observe any applicable legal or regulatory requirements to enable them to apply for and purchase the Offer Shares.

Regulation 6(9A) and 6(9B) of the Capital Markets (Securities) (Public Offers, Listing and Disclosure) Regulations, 2002 provides that:

"In developing an allocation policy, every issuer or offeror shall ensure that such policy reserves at least 40% of the ordinary shares that are the subject of an initial public offering and subsequent listing for investment by local investors.

5. FEATURES OF THE OFFER (CONTINUED)

Provided always that where the per centum reserved for local investors is not subscribed for in full by local investors, the issuer or offeror may, with prior written approval of the Authority, allocate the shares so remaining to foreign investors."

Accordingly, at least 40% of the Offer Shares will be reserved for allocation to local investors in accordance with the Capital Markets (Securities) (Public Offers, Listing and Disclosure) Regulations, 2002. No special allocation is reserved for Foreign Investors.

If at least 40% of the Offer shares is not subscribed for in full by local investors, the issuer may with the prior written approval of the CMA, allot the remaining shares to foreign investors.

Regulation 4(1) of the Foreign Investors Regulations imposes a duty on a listed company to maintain a register of shareholders at all times with an indication of whether they are foreign investors, individual local investors or institutional local investors.

Where applicable, Certificates for shares owned by foreign investors must be deposited with an authorized depository in Kenya in accordance with the Regulations. Any foreign investor who wishes to apply for shares should obtain guidance from an Authorized Selling Agent before completing and lodging an Application Form.

In light of the above, the Bank reserves the right to treat as invalid any application or purported application to purchase the Offer Shares which appears to Co-operative Bank or its agents to have been executed, effected, or dispatched in a manner which may involve a breach of any applicable legal or regulatory requirement of any jurisdiction outside Kenya. The fact of rejection will be notified to such Applicant.

5.7. Issue of Shares

All shares offered in terms of this Information Memorandum will be issued to successful applicants at the expense of the Bank. So long as the Offer Shares are listed on the Nairobi Stock Exchange, no stamp, registration or similar duties or taxes are payable in Kenya in connection with the issue and transfer of the Offer Shares under current legislation. Other costs of subsequent transactions will be borne by the relevant shareholders.

All shares issued in terms of this Information Memorandum will be allotted and issued subject to the provisions of the Memorandum and Articles of Association of the Co-operative Bank of Kenya Limited, and will rank pari passu in all respects, with the existing issued shares of the Bank.

Allocated Offer Shares will be credited to the CDS accounts of successful applicants starting on 16th December 2008, and in any event by 19th December 2008.

Please refer to the sections on application process, refund policy and CDS accounts below for further details.

Applicants who choose to be issued with share certificates may, where they choose to have the said certificates delivered to their respective Authorised Selling Agents, collect such certificates as well as any applicable refund cheques from their respective agents as chosen on their Application Forms, from December 22nd 2008. Where applicants indicate postage as the preferred method of dispatching the share certificates, the share certificates will be sent by registered mail to the Applicant as requested in the Application Form, at the Applicant's risk of loss or damage of the certificate, starting on December 16th, 2008.

The Share Registrar and the Issuer accept no liability for any certificates that may be lost in the post. No request for the issue of replacement certificates will be considered before March 31st, 2009.

Thereafter, only requests made in writing and accompanied by an indemnity form available from the Share Registrar will be considered, subject to the provisions of the Articles of Association of the Company.

5.8. Consents and Approvals

A copy of this Information Memorandum, together with the documents required by Section 43 of the Companies Act to be attached hereto, has been delivered to the Registrar of Companies at Nairobi for registration.

This Information Memorandum contains information that is provided in compliance with the requirements of the Companies Act and the Capital Markets Act as well as the rules and regulations made thereunder. The CMA has approved the Information Memorandum for purposes of the Offer and Listing in the Republic of Kenya.

No approval for the distribution of this Information Memorandum in any other jurisdiction where such approval may be required has been obtained. This Information Memorandum does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.

5.9. Governing Law

This Information Memorandum and any contract resulting from the acceptance of an application to purchase the Offer Shares shall be governed by and construed in accordance with the Laws of Kenya and it shall be a term of each such contract that the parties thereto and all other interested parties submit to the exclusive jurisdiction of the Courts of Kenya.

5.10. Authorised selling agents

i. Co-op Bank has appointed Authorised Selling Agents to this Offer and these Authorised Selling Agents have signed Agency Agreements with the Bank. These Agreements set out various terms and conditions that each Authorised Selling Agent is required to comply with.

ii. The Authorised Selling Agents are members of the NSE as licensed by the CMA, the Co-operative Bank of Kenya Limited and National Bank of Kenya Limited. The list of the members of the NSE who have been appointed as Authorised Selling Agents can be found in Appendix 4 to this Information Memorandum. The Co-operative Bank of Kenya Limited and National Bank of Kenya Limited will sell the Offer Shares through their branches and such other outlets as the Bank may determine.

5.11. Allocation Policy

i. The allocation policy has been designed to comply with the requirements of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 and in particular the requirement that at least 40% of the Offer Shares are reserved for local investors.

ii. Co-op Bank wishes to achieve a balanced distribution of the Offer Shares between institutions, companies and individual members of the public in addition to ensuring that employees of Co-op Bank participate in the Offer. In this regard, Co-op Bank has determined that the Offer Shares shall be allocated in accordance with the following allocation policy:

Category of Application	Number of Offer Shares	% of Offer Shares
Retail	462,858,000	66%
Qualified Institutional Investors	210,390,000	30%
Employees	28,052,000	4%
TOTAL	**701,300,000**	**100%**

iii. In the event that the total number of Offer Shares applied for by Applicants in any of the categories equates to the respective total number of Offer Shares reserved for that category, all valid applications will be allocated in full as per the number of Offer Shares applied for by such Applicants.

iv. In the event that the total number of Offer Shares applied for by Applicants in a particular category is below the total number of Offer Shares reserved for that category, the following will apply:

(a) All valid applications received from Applicants will be allocated in full as per the number of Offer Shares applied for taking into account the minimum number of shares that may be applied for by any Applicant in each category.

(b) The balance of Offer Shares will be available for allocation to Applicants in the other categories which are over-subscribed, and such excess Offer Shares will be aggregated and the pool of excess Offer Shares available will be allocated pro-rata to the excess shares applied for in the other categories.

v. Applicants in any over-subscribed category may receive fewer Offer Shares than the number applied for. Applicants in the Employee pool will be allocated the number of shares applied for upto 12,000 Offer Shares in the first instance and thereafter in multiples of 100 Offer Shares on a pro rata basis, rounded down to the nearest 100 shares, until all shares in the category, plus remaining unallocated balances from the other categories, if any, are fully exhausted. Applicants in other pools will be allocated 1,000 Offer Shares in the first instance and thereafter in multiples of 100 Offer Shares on a pro rata basis, rounded down to the nearest 100 shares, until all shares in the category, plus remaining unallocated balances from the other categories, if any, are fully exhausted. The Issuer shall not increase the amount of shares to be offered.

vi. In the event that the results of the subscription make the above policy impractical then an amendment to the allocation policy shall be made with the approval of the CMA and such amendment will be announced through a notice in at least two daily newspapers with national circulation in Kenya within twenty four hours of the grant of such approval.

vii. In the event of any doubt whatsoever as to the eligibility of an Applicant in a particular category, the decision of the Bank will be final.

viii. The Bank will announce the manner in which the Offer

5. FEATURES OF THE OFFER (CONTINUED)

Shares have been allocated to applicants in the above three categories ('the Allocation Results') on the date set out in the section on "Important Dates and Times" for Announcement of Allocation Results. The announcement will be carried in at least two newspapers with national circulation in Kenya.

5.12. Application Procedure

1. Persons wishing to apply for shares in Co-op Bank must complete the appropriate Application Form and, where applicable, CDS Securities Account Opening Form (Form CDS 1). The Application Form must be completed in accordance with the provisions contained in this Information Memorandum and the instructions set out on the Application Form and physically returned to one of the Authorised Selling Agents listed in Appendix 4 of this Information Memorandum or to any branch of the Receiving Bank. In the event of a rejection, for any of the reasons set out in the "Rejections Policy" below, any such Application Forms and accompanying cheques shall be returned to the Authorised Selling Agent to which the Application Form was submitted for collection by the relevant Applicant.

2. Copies of this Information Memorandum, with the accompanying Application Form, may be obtained from the Receiving Bank and the Authorised Selling Agents referred to in Appendix 4 of this Information Memorandum. In the case of employees, the Application Form may be obtained from the office of the Company Secretary.

3. Save in the case of negligence or wilful default on the part of the Bank, its Advisors or any of the Authorised Selling Agents, neither the Bank, nor any of the Advisors nor any of the Authorised Selling Agents shall be under any liability whatsoever should an Application Form not be received by the Closing Date.

4. The minimum application size for each category and any application for additional Offer Shares above the indicated minimum shall be as provided in the table below:

Category of Applicant	Minimum Application Size	Thereafter in multiples of
Retail	1,000	100
Qualified Institutional Investors	100,000	10,000
Employees	1,000	100

5. An Applicant shall qualify to apply for Offer Shares in one category only.

6. Joint applications may only be made by individuals (not corporations) and in all cases the joint applicants submitting an application must fall within the same pool. Individuals will only be allowed to apply jointly once and joint applications must not be used to defeat the allocation policy. For purposes of the minimum initial allocation under the allocation policy, the Issuer reserves the right to treat each joint application as an application by each joint applicant alone.

7. Presentation of cheques for payment or receipt of funds transferred shall not amount to the acceptance of any application.

8. All alterations on the Application Form, other than the deletion of alternatives, must be authenticated by the full signature of the Applicant.

9.The Receiving Bank through its branches, a list of which is set out in appendix 5, will be receiving applications and payments.

10. Applications sent by facsimile or by any means other than the methods stipulated in this Information Memorandum will not be accepted.

11.Applications once given are irrevocable and may not be withdrawn once submitted.

12. By signing an Application Form, each Applicant:

i. agrees that having had the opportunity to read this Information Memorandum, it shall be deemed to have had notice of all information and representations concerning the Bank contained herein;

ii. confirms that in making such application it is not relying on any information or representation in relation to the Bank other than those contained in this Information Memorandum and it accordingly agrees that no person responsible solely or jointly for this Information Memorandum or any part thereof shall have any liability for such other information or representation;

iii. accepts to receive any communication from the Company including notices for meetings, through electronic means including but not limited to email or placement of such notices on the Company's web-site, as well as notification through the mass media;

iv. represents and warrants that, except in cases where the applicant is licensed to apply for and hold shares for other persons, he applies for the shares on his own account, will be the beneficial owner of the shares, has not represented himself as a different person in any other application nor applied for shares under a different name, and is not applying for the Offer Shares on the instructions of or on behalf of any other person and has not instructed any other person to apply for shares as his nominee.

v. being an applicant who is authorised to apply for shares on behalf of other persons, represents and warrants that it is not making multiple applications for itself or any other person, is not applying as nominee of any person whom it knows to have applied under any other name or through any other nominee or person; or for any beneficial owner more than once.

vi. Acknowledges that the Bank and/or the Lead Transaction Advisor reserves the right to reject any application found to be in contravention of sub-paragraphs (iv) and (v) above.

13. A prospective investor (other than Qualified Institutional Investors) wishing to apply for the Offer Shares must duly complete and sign the accompanying Application Form and return the same in its entirety accompanied by payment by way of a bankers or Authorised Selling Agents cheque (an "Authorised Cheque") (as may be applicable) so that it is received by an Authorized Selling Agent or the Bank by the Closing Date. All such Application Forms must be accompanied by an Authorised Cheque (being bankers cheques or cheques of Authorized Selling Agents) for the full amount due for the applicable Offer Shares and if the Applicant is applying through a CDS Account, an additional Kshs. 30.00 should be added, the amount being the cost of postage of a CDS Account Statement (see paragraph 29-37 under "CDS Accounts"). All Authorised Cheques must be in Kenya Shillings and should be drawn on a bank licensed by the Central Bank of Kenya, a member of the Kenya Bankers Association Clearing House and should be made payable to "Co-op Bank IPO", A/C No 01240000026505, and be crossed "A/C payee only".

    In the case of applicants making payment by way of banker's cheques directly to "Co-op Bank IPO", the face of the cheque should bear the name and identification number of the applicant(s). At the back side of the cheque, the following details should be written:

    - Name and Identification Number
    - Application form Serial Number
    - Mobile phone number
    - Applicant's signature

14. For Qualified Institutional Investors applying for Offer Shares who wish to make payment after the allotment of shares, payment must be secured by an irrevocable on demand bank guarantee from a licensed commercial bank, in the format required by the Bank (Appendix 6 for the required format), and valid until 31st December 2008. Payment for the shares allotted will be made as per the section titled "Important Dates and Times" following Co-op Bank notifying the Applicant of its proposed allocation of Offer Shares. If such payment is not made, then Co-op Bank shall call in the bank guarantee. Allocation of Offer Shares to Applicants shall only be made after payment in full for the Offer Shares has been received by Co-op Bank.

15. The Authorised Selling Agent receiving an application form will check that the Applicant has filled in the Application Form appropriately, tear off from the Application Form the Acknowledgment Section, sign and stamp the same and return it to the Applicant.

16. Cash or personal cheques made directly payable to the Receiving Bank will not be accepted. However, cash will be accepted from applicants applying for the shares through Co-op Bank.

17. The Authorised Selling Agents and the Receiving Bank are entitled to ask for sufficient identification to verify that the person(s) making the application has authority or capacity to duly complete and sign the Application Form. The Authorised Selling Agents are therefore expected to undertake all "Know your Client" procedures and activities on nominee accounts as required by law. The Lead Transaction Advisors and Co-op Bank have the right to demand and be provided with the details of the nominee accounts held by the Authorised Selling Agents to ascertain the eligibility of any application by nominees. In default, Co-op Bank may at its sole discretion treat such applications as invalid.

18. Co-op Bank reserves the right to present all cheques for payment on receipt, to reject any application not in all respects duly completed, and to accept or reject or scale down any other application in whole or in part. Scaling down will apply only if there is an over-subscription.

19. Every Applicant is required to tick the appropriate box on the Application Form as regards his/her residency and or citizenship status, where applicable.

20. In the case of employees, the Application Forms together with the accompanying payment must be delivered to the Company Secretary for clearance by the closing of the Offer prescribed in the Timetable. The forms will subsequently be forwarded to the Receiving Bank.

5. FEATURES OF THE OFFER (CONTINUED)

21. Applicants may elect to receive allocated Offer Shares in material form (share certificates) or in immobilized form by way of crediting their CDS Accounts with the allocated number of Offer Shares. In this regard, Applicants are advised to indicate the preferred method of receiving allocated Offer Shares by completing the appropriate box on the enclosed Application Form.

22. Applicants who elect to receive share certificates in respect of the applicable number of allocated Offer Shares must indicate in the appropriate box in the Application Form whether the share certificates will be posted by mail to their own address, or submitted to the Authorised Selling Agent through whom the Application Form was submitted, for collection.

23. Where Applicants elect to receive share certificates in respect of allocated Offer Shares by way of mail to the postal addresses set out in the Application Form, the Share Registrar will dispatch the share certificates to such Applicant's postal address, at the Applicant's risk on the date indicated for this purpose on Page 11 (Important Dates and Times) in accordance with the instructions set out in the Application Form.

24. By signing an Application Form, an Applicant agrees to the allotment and issue of such number of Offer Shares (not exceeding the number applied for) as shall be allotted and issued to the Applicant upon the terms and conditions of the Information Memorandum and subject to Co-op Bank's Memorandum and Articles of Association, and agrees that Co-op Bank may enter the Applicant's name in the register of members of the Bank as holder of such Offer Shares.

25. No interest will be paid on monies received in respect of applications for Offer Shares, nor will interest be paid on any amounts refunded or deposited at the time of application.

26. Commission at the specified rate of 1.5% of the Offer price of the Offer Shares allocated per application (subject to a minimum of Kshs.100 per successful application) will be paid to Authorised Selling Agents that are members of the NSE on all allocations made in respect of Application Forms received for the Offer Shares and which bear the stamp of the Authorised Selling Agent. No commission will be paid on Application Forms which bear more than one or no Authorized Agent's stamp or which are rejected. Commission of 1.0% of the Offer Price of shares allocated will be paid to any Authorised Selling Agent which is not a member of the NSE.

27. All transactions relating to the Initial Public Offer shall be transacted in Kenya Shillings.

CDS Accounts

28. Applicants are strongly advised to receive allocated Offer Shares in electronic (i.e. immobilized) form by way of crediting their CDS Accounts with the allocated number of Offer Shares, though they may opt to receive them in material form (share certificates).

29. A CDS Account is mandatory for purposes of trading on the NSE.

30. To open a CDS Account, Applicants will be required to complete a CDS Securities Account Opening Form (Form CDS 1) available from any Authorised Selling Agent listed on Appendix 4 (licensed investment banks and licensed stockbrokers only) and other Authorised Central Depository Agents listed on Appendix 5 of this Information Memorandum.

31. For Applicants who elect to receive allocated Offer Shares in electronic form by way of crediting their CDS Accounts with the allocated number of Offer Shares, Co-op Bank will authorise the CDSC to credit the CDS Accounts of such Applicants with the applicable number of allocated Offer Shares on the dates for this purpose set out in the "Important Dates and Times" section and in accordance with the instructions set out in the Application Form.

32. In the case of joint applications, the joint Applicants should have a CDS account in the name of the joint Applicants, in default of which a share certificate shall be issued in the name of the joint Applicants.

33. Applicants who elect to receive share certificates, which is discouraged, in respect of the applicable number of allocated Offer Shares shall be unable to trade on the NSE until such time as a CDS Account has been opened in the name of the Applicant and the immobilisation of the such shares has been completed, pursuant to which the shares shall be credited to the CDS Account.

34. On acceptance of any application, the directors will, as soon as possible after the fulfillment of the conditions relating to applications and completion of Application Forms, register the allocated shares in the name of the Applicant concerned.

35. Co-op Bank will issue block certificates in the name of CDSC Nominees Limited, the nominee holder for CDSC, for the shares allotted and issued in terms of the Offer where the Applicants have elected to receive their allocated shares through their CDS accounts.

36. In accordance with the Central Depository (Regulation of Central Depositories) Regulations, 2004, the cost of

postage of the first CDS statement issued on each CDS account following crediting of the Offer Shares will be borne by the respective Applicant at the rate of KShs 30.00 per statement. This cost should be included in the banker's cheque or Authorised Selling Agent's cheque by which payment for the Offer Shares is made.

37. Existing shareholders may, through the Registrar, opt to have their share certificates immobilized. Existing shareholders will be required to furnish the Registrar with details of their CDS Account, if they have one, or open a CDS Account in the manner described hereinabove and furnish the details of the CDS Account to the Registrar.

Loan Facilities

38. The decision on whether to take a loan or other form of financing offered by any commercial bank or third party financier in order to make payment for the Offer Shares applied for is the decision of each Applicant and Co-op Bank will not be in any way liable for the consequences of such a decision for the Applicant or the financier. Pursuant to the Banking Act, Co-op Bank does not, and shall not for purposes of the Offer, take its shares as security for any credit facilities.

39. Where Applicants with CDS Accounts have received financing from lenders who wish to place a lien on the Offer Shares, the following procedure must be followed:

a. The Applicant and/or financing bank must complete a CDS Securities Pledge Form (Form 5) and record the pledge details on the Application Form. The Securities Pledge Form shall be submitted to the Authorised Selling Agent who will in turn submit it to CDSC. The Application Form together with payment for the Offer Shares will then be forwarded to the Receiving Bank by the Authorised Selling Agent.

b. Upon completion of any additional documentation prescribed by CDSC, all pledges will be effected through entries in the CDS. The pledging of such shares will at all times be subject to Rule 63 of the Central Depository Rules, 2004. Co-op Bank shall not be responsible for such pledging.

Rejections Policy

40. The Authorised Selling Agents will present through the Receiving Bank all Authorised Cheques for payment on receipt on behalf of Co-op Bank. Delivery of an Application Form accompanied with payment by way of an Authorised Cheque will constitute a warranty that the cheque will be honoured on first presentation. If any Authorised Cheque accompanying an application is not paid on first presentation and the application has already been accepted in whole or part, such acceptance may at the option of Co-op Bank be rescinded and the Offer Shares comprised therein may be transferred to another person upon such terms and conditions as Co-op Bank deems fit. The entire proceeds of such transfer shall be retained for the account of Co-op Bank, as the case may be, and the original Applicant shall be responsible for any losses and all costs incurred.

41. Co-op Bank shall not be under any liability whatsoever should any Application Form fail to be received by the Receiving Bank or by any Authorised Selling Agent by the Closing Date. In this regard, such Application Forms and accompanying cheques shall be returned to the Authorised Selling Agent where the Application Form was submitted, for collection by the applicable Applicants.

42. Applications shall be rejected if full value is not received. Applications shall not be considered until the cheque presented with the application has cleared. It is not sufficient to merely present a cheque for the full amount payable.

43. Applications may also be rejected for the following reasons:

i. Incorrect CDS Account No;

ii. Missing or illegible name of primary or joint applicant in any Application Form;

iii. Missing or illegible identification number, including corporation registration number, or in the case of Kenyan residents (other than citizens), missing or illegible alien registration number;

iv. Missing or illegible address (either postal or street address);

v. Missing residence and citizenship indicators for primary Applicant in the case of an individual or missing residency for tax purposes for corporate investors;

vi. Missing or incomplete CDS Form no. 5 in the case of financed applications where the Offer Shares are to be taken as collateral;

vii. Insufficient documentation forwarded, including missing tax exemption certificate copies for applicants that claim to be tax exempt;

viii. In the case of nominee applications, incomplete information, failure to satisfy the Issuer of nominee

5. FEATURES OF THE OFFER (CONTINUED)

status or lack of declaration from the agent submitting the application;

ix. Missing or inappropriately signed Application Form including:

a. Primary signature missing from Signature Box 1;

b. Joint signature missing from Signature Box 2 (if applicable);

c. Two directors or a director and company secretary having not signed or seal having not been affixed in the case of a corporate application;

x. Number of Offer Shares does not comply with the rules as set out in the Information Memorandum i.e.:

a. Fewer than 1,000 Offer Shares are applied for in the case of retail investors or employees; or

b. Offer Shares not in multiples of 100, in the case of retail investors or employees;

c. Fewer than 100,000 Offer Shares applied for in the case of Qualified Institutional Investors; or

d. Offer Shares not in multiples of 10,000 in the case of Qualified Institutional Investors

xi. Amount as payment for number of Offer Shares Applied for is less than the correct calculated amount;

xii. Authorised Cheque has unauthenticated alterations;

xiii. Cheque is not signed, or dated or if amount in figures and words do not tally; and

xiv. In the case of individuals or entities, as the case may be, meeting the requirements described under "Retail" or "Employees" Pools who are resident or physically located outside Kenya, where such individuals or entities are not eligible to participate in the Offer or receive the Information Memorandum under the laws of their residency or location and the offer to such individuals or entities does not comply with the selling restrictions set out in the Information Memorandum.

The application monies in respect of any rejected application shall be returned at the time set out for refunds.

Multiple applications

44. Every applicant shall submit an application for the Offer Shares under only one set of names and using one identification number. An applicant who applies in his/her name shall not be entitled to have shares applied for him/her by a nominee entity or by other persons on his request or otherwise, or to create joint accounts/applicants for the purpose of multiple applications. A nominee entity must ensure that persons on whose behalf it applies for Offer Shares exist, have not applied for the Offer Shares directly, are beneficiaries of only one such application by nominee and that such persons are not using nominee applications for purposes of perpetrating more than one application. In the event that an applicant is found to have submitted multiple applications, Co-op Bank reserves the right to reject any or all of the applications.

Refunds Policy

45. Applicants have a choice on how refunds are to be returned:

a. Applicants may opt for a direct credit to their bank account through an Electronic Funds Transfer ("EFT"). EFTs will only be credited to accounts held at commercial banks. Applicants who opt for this method are urged to verify that their bank account details are correctly stated on the application form.

b. A cheque in the name of the Applicant, which will be delivered through the Authorised Selling Agent through whom the application was lodged.

c. A cheque delivered to the financier of an application the shares in respect of which were to be pledged.

Applicants must indicate the preferred method of receiving their refund by ticking the appropriate box on the Application Form.

In the case of refund cheques being issued under paragraphs (a) and (b) above, the refund cheques will bear the identification numbers of the applicants.

46. Applicants who elect to receive their refund directly are required to provide full bank account details to ensure payment of refunds is effected via EFT only.

47. In the case of applicants whose shares are pledged, refund cheques in the name of the applicants will be delivered to the financier indicated on the application form.

Announcement of allocation results

48. The results of the allocation shall be announced by way of advertisement in at least two daily newspapers of national circulation and on the Issuer's website www.co-opbank.co.ke Such announcement will be made after 48 hours from time CMA has been notified of the allocation and acknowledged the same.

6. CORPORATE INFORMATION

The Co-operative Bank of Kenya Limited is incorporated under The Companies Act as a public company limited by shares and is licensed as a bank under the Banking Act. The company was incorporated on 3rd July 2008 under Registration Number C.23/2008. Prior to this incorporation as a public limited company, the Bank existed as a co-operative society registered under the Co-operative Societies Act under Registration Number 1530 of 1965 and duly licensed to carry on banking business under the Banking Act. The entire business, assets and liabilities of the co-operative society was transferred to the limited liability company to facilitate the proposed listing on the NSE. The transfer and conversion became effective on 8th August 2008 pursuant to the Transfer Agreement.

History of the Movement

With its history in Kenya dating back to 1908, the co-operative sector has played a major role in the country since independence. In the 1960s and 1970s, co-operatives were at the forefront in setting the investment environment in the country in line with the policy set out in the Session Paper No. 10 of 1965. Then, as it is today, the co-operative movement played a pivotal role in poverty alleviation through new and improved marketing of farmers produce.

It is notable that the Co-operative Movement in Kenya has over the years transformed into a leading sector and now comprises of over 10,000 co-operative societies with over 10.9 million registered members and commands an annual turnover of Kshs.436 billion equivalent to 45% of the national GDP. The movement has a deposit base in excess of Kshs.150 billion representing 31% of our Gross National Savings. Co-operative societies have made significant contribution towards direct and indirect employment in Kenya. A key development has also been the rapid growth of Savings and Credit Co-operative Societies (SACCOs) which have played a key role in deepening the provision of financial services to the Kenyan populace with over 4.5 million account holders which compares favourably with the total number of accounts held in the formal banking sector. Through this, over 80% of Kenyans have continued to derive their livelihoods directly or indirectly from co-operative ventures which are indeed the backbone of our economy.

History of the Bank

In line with the developments in the co-operative movement the Government of Kenya in the early 1960's identified this sector as a means to bring Kenyans together in order to achieve a critical mass of savings and investments. Unfortunately the banking sector was dominated by multinationals that were reluctant to lend to indigenous institutions. The Government considered the idea of setting up a co-operative bank to serve the Co-operative movement.

The Co-operative Bank of Kenya Limited was registered as a co-operative society on the 19th June 1965. It did not however commence operations as it was not licensed to carry on business under the Banking Act. In this status, it could not fulfill the main objective for its establishment, which was to mobilize financial resources and provide banking services to the co-operative movement. The Bank applied for a banking license to operate under the Banking Act, which was subsequently granted in 1968. Significantly, the year 2008 marks the bank's 40th year since commencement of banking business.

The bank was formed at the time with a modest capital base of Kshs.255,000/-, which was supplemented by an interest free government loan of Kshs.214,000/- repayable over 10 years. The initial board comprised a 50/50 representation of the co-operative movement and Government respectively. The loan was fully repaid and the Bank is now a private bank. The Bank was unique through its adoption of a democratic means of governance. Its Board of Directors were elected by the members of the co-operative movement. The focus of the Bank was to empower the co-operative movement to transform the lives of Kenyans. The growth of Kenya through the decades of 1960s to the 1980s was attributable to the success of the Bank in supporting the co-operative movement in its phenomenal growth.

In line with industry developments and the need to continue being relevant to the Kenyan people, the bank in 1994 converted to become a fully-fledged commercial bank offering a complete range of financial services beyond the captive Co-operative sector to include personal, corporate and institutional customers.

The Bank has remained committed to its founding objective, which is to serve the Co-operative Movement and has undertaken a number of financial deepening initiatives in this sector key among them being supporting the over 5000 SACCOs to establish financial units at the primary level. The financial units also known as Front Office Service Activities (FOSAs) have been a key development in the Co-operative Movement transforming their financial capacities as key mediums of financial access especially to the rural financing sector.

There are over 200 FOSAs currently operating countrywide. The FOSAs have been key to deepening the financial sector in the rural areas and currently have a client base of 3.0

6. CORPORATE INFORMATION (CONTINUED)

million (out of a potential 7.0 million) members and deposits in the region of Kshs.150 billion. The Co-operative Bank of Kenya Limited in recognition of the importance of these financial units has embarked on an expansion program aimed at increasing the number of FOSAs in the country. The Bank has established the FOSA Project Unit which aims at establishing an additional 100 FOSAs by the close of this year. The implementation of this project is being undertaken by a dedicated team of consultants under the Bank's financial advisory subsidiary, Co-operative Consultancy Services Kenya Limited, through which it has offered a subsidized consultancy package to encourage their development. Once established this will be the largest financial network in the country with a potential outreach of over 7 million members of the Co-operative Movement.

The synergy of this initiative between the Bank and the SACCOs, will enhance the product out-reach to the unbanked segment of our country through a well integrated financial platform, provide an additional revenue stream for the SACCOs in the wake of competition especially from the commercial banks expanding to the rural financing sector, and strengthen the loyalty of the existing customers as availability of a wide product offering will lead to a higher level of client retention.

It is worth noting that this sustained growth path has not gone unchecked as was witnessed in August 7, 1998, when Kenya suffered a calamity and the bank suffered a major setback from a terrorist bombing that completely gutted the Bank's Head office, Co-operative House. The Bank lost important personnel and records in the bomb blast. The evil act forced a full re-location of the Bank to alternative premises. Despite the setback, the Bank managed to realise a remarkable recovery and retain the confidence of its customers and other stakeholders, demonstrating the resilience of the Kenyan People.

Key Milestones

1968

In its first year of business, the Bank posts a profit of Kshs.172,000 from a capital base of Kshs.469,000, deposits of Kshs.5.3 million and total assets of Kshs.5.7 million.

1972

The Bank puts up the ultra modern Co-operative Building as the icon of the Co-operative Movement

1993

The Bank opens the doors of its finance company – the Co-operative Finance Limited – to conduct the business of a financial institution for long-term financial requirements.

1994

The Bank converts to become a fully fledged commercial bank offering the complete range of financial services to all sectors of the economy. Prior to this, the Bank's chosen customer segment was co-operative societies only.

1994

The bank is appointed by the Government as a partner in the disbursement of donor funds in various sectors of the economy

1996

The Bank increases its branch network to over 20 branches.

1998

Destruction of Co-operative Bank House by a terrorism-related bomb blast.

2000

The Bank makes key ICT investment in interconnecting all branches countrywide and becomes the second bank in Kenya to offer fully centralized banking -one-branch bank.

2001

The Bank registers a massive Kshs.2.3 billion loss that triggers a critical business and operation restructuring.

2002

The Bank re-occupies Co-operative Bank House after renovations occasioned by the 1998 bombing are completed.

6. CORPORATE INFORMATION (CONTINUED)

2003

The Bank sustains its recovery and growth path to report an improved profit of Kshs.183 million, an impressive 78% improvement on Kshs.103 million reported in 2002. It makes a dividend payment of Kshs.3.00 per share; the first in 7 years.

2004

The Bank develops and launches its 5 year strategic corporate plan, founded on 12 key corporate objectives.

2004

The Bank led the market by pioneering mobile banking in Kenya - by launching M-Banking, a banking service delivered via mobile phones. M-Banking enables customers to access their bank accounts and carry out various transactions that include getting bank balances, registering for salary alerts and loading airtime on cell phones, among others.

2004

The Bank successfully recapitalizes the balance sheet in the year with a major additional share capital injection of Kshs.1.1 Billion from the co-operative movement-based shareholders of the Bank. The shares drive nearly doubled the bank's capital base from Kshs.1.2 billion to Kshs.2.3 billion.

2006

The Bank successfully concludes the Kshs. 5.2 billion Coffee Debt write off by the Government

2006

The Bank launches Sacco Link, a robust IT system that integrates the banking systems of Saccos with those of the Bank, to enable the members of Saccos get access to banking services from the service outlets of the Bank.

2007

The Bank realizes complete turnaround by recording a Kshs.2.3 billion profit before tax for year 2007, compared to the Kshs.2.3 billion loss for year 2001. The Bank also declares a dividend of 8% which translates to Kshs.8.00 per share*, the highest payout in many years. (*par value of Kshs.100 per share)

2008

The Bank transforms into a public company limited by shares with Co-opholdings as its strategic shareholder.

Source: The Co-operative Bank of Kenya Limited

Subsidiaries and Associated Companies

The Company has 4 subsidiaries:

- Co-opTrust Investment Services Limited; wholly-owned subsidiary
- Co-operative Consultancy Services Kenya Limited; wholly-owned subsidiary
- Co-operative Merchant Limited; wholly-owned subsidiary (Dormant)
- Co-operative House Limited; wholly-owned subsidiary (Dormant)

6.1. Shares & shareholders

Co-operative Bank has an authorized share capital of 3,700,000,000 ordinary shares with a par value of Kshs.1 each. The share capital structure of the Bank as at the date of the prospectus is as follows:

Description	Number of Shares	Nominal value of Shares (Kshs.)
Authorised Capital	3,700,000,000 ordinary shares of par value Kshs.1 each	3,700,000,000
Issued Capital	2,935,127,600 ordinary shares of par value Kshs.1 each	2,935,127,600
Unissued Capital	764,872,400 ordinary shares of par value Kshs.1 each	764,872,400

6. CORPORATE INFORMATION (CONTINUED)

6.2. Alterations to share capital

The Bank commenced operations with a paid-up capital of Kshs.469,000 in the year 1968. Since then the issued and paid-up capital has continued to grow to the current Kshs.2,935,127,600 and an authorized share capital of Kshs.3,700,000,000. The recent changes to the paid-up capital are as follows:

Year ended December 31:	Issued Capital (Kshs.'Mn)
2000	1,210
2001	1,210
2002	1,211
2003	1,212
2004	2,285
2005	2,619
2006	2,660
2007	2,856
2008 (Jun 30)	2,933
2008 (Aug 8)	2,935

The Co-operative Bank of Kenya Limited as a co-operative society has over the past 40 years been issuing shares to co-operative societies, individual members of co-operative societies and management at the nominal value of Kshs.100 per share (prior to split in year 2008 of every 1 share to 100 shares) in accordance with the Co-operative Societies Act. In the proposed public offering, all Offer Shares will be issued at the same price to co-operative societies, individual members of co-operative societies, management and the public.

According to the Co-operative Societies Act and the by-laws of co-operative societies, the share capital of co-operative societies is unlimited and continues to grow as members increase their contributions to capital.

At a Special General Meeting of the bank held on 27th June 2008 the shareholders approved the restructuring of the Bank into a public limited liability company to meet the requirements for listing under the Capital Markets Authority Regulations, under a structure wherein the co-operative-based class A membership of the bank would be held as a block under Co-opholdings Co-operative Society Limited who would be the majority strategic investor in the new Company with a block controlling shareholding .

In order to comply with the eligibility criteria for listing in the main market segment under the Capital Markets (Securities) (Public Offers, Listings and Disclosures) Regulations 2002 the following was done:

- A public limited liability company was incorporated under the name "The Co-operative Bank of Kenya Limited";
- The company was licensed as a bank under the Banking Act;

At the same meeting, the shareholders of the bank approved a Transfer Agreement whereby the entire business, assets and liabilities of the bank would be transferred to the company. Highlights of the Transfer Agreement are set out under "Material Contracts" in Section 18 hereto.

At a special general meeting of the Company held on 11th July 2008, the shareholders of the Company approved the Transfer Agreement aforesaid subject to all regulatory approvals being obtained.

The re-structuring, based on the above approvals, has been carried out (under section 9 of the Banking Act) and consequently, pursuant to Gazette Notice number 7089 dated and published on 8th August 2008 the business assets and liabilities of 'The Co-operative Bank of Kenya Limited' registered as a co-operative society have been transferred to 'The Co-operative Bank of Kenya Limited' incorporated as a limited liability company. The consideration for the transfer of business, assets and liabilities was the allotment and issue by the Company of shares as set out below.

Following the allotment of shares as aforesaid, the shareholding of the bank is now as follows:-

Description	Number of Shares	% shareholding
Co-opholdings Co-operative Society Limited *	2,254,592,500 ordinary shares of par value Kshs.1 each	76.8%
Individual Investors **	680,535,100 ordinary shares of par value Kshs.1 each	23.2%
Total	2,935,127,600 ordinary shares of par value Kshs.1 each	100%

In effect, the business that was formerly carried on by the co-operative society is now carried on by the public limited liability company. It is the shares of this company, a licensed bank, which are being listed and offered to the public. The structure of the Company is examined in more detail below.

6. CORPORATE INFORMATION (CONTINUED)

Co-opholdings Co-operative Society Limited with the above structure now holds the equivalent of the entire shareholding previously held by the 3,805 co-operative societies countrywide (formerly class 'A' shareholders), and is hence the strategic investor and majority shareholder in the Bank; The structure as approved ensures the bank will retain its strategic identity as a 'Co-operative Bank' serving the over 7 Million member co-operative movement in Kenya.

The top 10 largest shareholders of Co-opholdings Co-operative Society Limited are:

	Name	% holding
1	Harambee Co-operative Savings & Credit Society Limited	3.70
2	Teleposta Co-operative Savings & Credit Society Limited	2.97
3	Afya Co-operative Savings & Credit Society Limited	2.94
4	Masaku Teachers Coop Savings & Credit Society Limited	2.90
5	Kipsigis Teachers Coop Savings & Credit Society Limited	2.46
6	Kenya Police SACCO Society Limited	2.33
7	Kiambu Unity Finance Co-operative Union Limited	2.27
8	Nandi Teachers Coop Savings & Credit Society Limited	1.78
9	Aembu FCS Limited	1.77
10	Mungania Tea Growers Coop Savings & Credit Society Limited	1.57
Total		**24.69**

** Individual Investors category comprises shares held by 50,934 individual shareholders including employees of the Bank, who held Class B shares in Co-operative Bank of Kenya when it was registered as a Co-operative Society and who now have been allotted and issued with an equal number of shares in the Co-operative Bank of Kenya Limited (now a limited liability company) in consideration of relinquishing their shares in Co-opholdings which is now a co-operative society all of whose membership comprises of co-operative societies.

Among the 50,934 individual shareholders, the shareholding held by the directors in the bank comprises an aggregate of 4.4%, with no single director holding a significant shareholding of more than 3%. There has been no change in this position since the date of the last audited financial statements as at 30th June 2008.

The top 10 individual shareholders are as follows:

	Name	% holding
1	Gideon Maina Muriuki	2.3209
2	Stanley Charles Muchiri	0.2657
3	Julius M Riungu	0.2623
4	Samuel Kiplagat Birech	0.1741
5	Lawrence Charo Karissa	0.1739
6	Rosemary Majala Githaiga	0.1734
7	Scholastica Atieno Odhiambo	0.1731
8	Samuel Gitonga Mutungi	0.1727
9	Anthony Muiyuro Mburu	0.1724
10	Patrick Kaguta Githendu	0.1713
Total		**4.0598**

Following approval of the listing by CMA and opening of the offer, existing shareholders may immobilize their existing shares to facilitate trading upon listing.

Co-opholdings has agreed and is bound not to dispose of any part of its shareholding in the Bank for a period of five years from the date of the Offer.

The directors (other than Donald Kibera who does not hold shares in the Bank) and senior employees of the Bank at Grade 8 and above as at the date hereof are bound not to dispose of any part of their shareholding in the Bank for a period of two years from the date of the Offer.

The above shares rank pari passu in all respects. The shareholders do not have different voting rights.

Consequently the shareholding structure of the Bank before the offer and the expected structure following the offer will be as shown in the table below:

	Pre Offer		Post Offer	
Shareholder	**Number**	**%**	**Number**	**%**
Co-opholdings Co-operative Society Limited	2,254,592,500	76.8%	2,254,592,500	62.0%
Existing Individual Shareholders	680,535,100	23.2%	680,535,100	18.7%
New Shareholders	0	0	701,300,000	19.3%
TOTAL	**2,935,127,600**	**100.0%**	**3,636,427,600**	**100.0%**

Save for changes arising out of the Offer of Shares, Co-op Bank and its Directors are not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of the Issuer.

7. USE OF PROCEEDS

The proceeds of the Offer will accrue 100% to the Co-operative Bank of Kenya Limited. The gross proceeds of the Offer amount to Kshs.6,662,350,000.

The Bank is seeking these proceeds for the sole purpose of sustaining its current growth momentum. The Bank's aim is to increase its shareholders value as well as increase the outreach and quality of its service offering to its clients. The entire net proceeds are therefore earmarked for business expansion initiatives and improvement of its service delivery platforms. In summary, some of the key investment areas under consideration include:-

Details	**Rationale**
ICT Systems	To invest in a new core banking system that will enhance service delivery at all service outlets.
Branch expansion	The bank is in a growth phase and we expect to open a total of 50 new branches by December 2009. The funds will target investments in these outlets some of which have already received CBK approval.
Mortgage Finance	We intend to utilize some of the funds for investment in new products such as medium to long term credit products e.g. mortgage finance.
Re-Capitalization of the Investment Adviser Business	With the current monumental growth being experienced in our investment advisory arm and given the inherent business potential in this sector the bank seeks to invest part of the IPO proceeds towards strengthening our business and development of new products
Sacco's connectivity	Part of proceeds is targeted towards strengthening our Co-operative Sector business model by continuous integration of the Saccos and making them partnering outlets of our products. The funds will be investment on improving the financial platform and system connectivity with the possible 5000 Saccos
Card Business	As the second acquirer of the VISA franchise we intend to improve on this credit product by acquiring business for the card centre
Regional expansion	The Bank also plans to expand into the other East African countries.

PRO-FORMA BALANCE SHEET PRE-OFFER AND POST-OFFER

(Based on Audited Accounts as at June 30, 2008)

	PRE-OFFER	POST-OFFER
Cash and short term funds (KSHS. Mn)	10,144	16,806
Government Securities (KSHS. Mn)	11,091	11,091
Loans and advances (KSHS. Mn)	43,404	43,404
Property and Equipment (KSHS. Mn)	3,412	3,412
Other assets (KSHS. Mn)	3,755	3,755
Total Assets (KSHS. Mn)	71,806	78,468
Customer Deposits (KSHS. Mn)	58,763	58,763
Other liabilities (KSHS. Mn)	5,502	5,502
Total Liabilities (KSHS. Mn)	64,265	64,265
Shareholders' Funds (KSHS. Mn)	7,541	14,203
Total Liabilities and Shareholders' Funds (KSHS. Mn)	71,806	78,468
NET ASSET VALUE PER SHARE (KSHS.)	**2.57**	**3.91**

Expenses of the offer

From the expected gross proceeds of the Offer, the following expenses are expected to be paid:

Description	Amount (Kshs.)*
Placement fees**	99,935,250
Advertising	68,018,417
CMA approval fees	19,987,050
Printing	17,500,000
Lead Sponsoring Stockbrokers fees	8,425,862
Public Relations	8,347,369
Reporting Accountants' Fees	6,200,000
Co-sponsoring Stockbrokers Fees	5,172,414
Lead Transaction Adviser Fees	5,000,000
Legal Fees	5,000,000
Receiving Bank fees	3,000,000
NSE listing fees	1,500,000
Valuation Fees	900,000
TOTAL	**248,986,362**

*Amounts are exclusive of VAT

** 1.5% of the value of shares allotted for each application or Kshs.100 for each application, whichever is higher

The total expenses of the offer represents 3.7% of the gross proceeds and Kshs.0.35 per share

8. DIVIDEND POLICY

The Co-operative Bank of Kenya Ltd has had a consistent policy of paying a dividend each year from the earnings made during the year. The Board of Directors determines the level of the dividend after taking account of statutory capital requirements, the outlook of earnings growth and capital expenditure projections. Subject to the foregoing, the Bank has in place a progressive distribution policy based on a sustainable level of dividend payouts. Whenever possible annual dividend payments will be maintained at least at the level declared the previous year. The Bank's commitment is demonstrated by the following historical dividend policy that has applied in the past:

Year	Dividend (%) based on par value
2003	3%
2004	4%
2005	5%
2006	5%
2007	8%

The Offer Shares will be entitled to any dividend declared for the financial year 2008 and for subsequent years.

9. COUNTRY & NSE OVERVIEW[1]

Kenyan Economic Overview

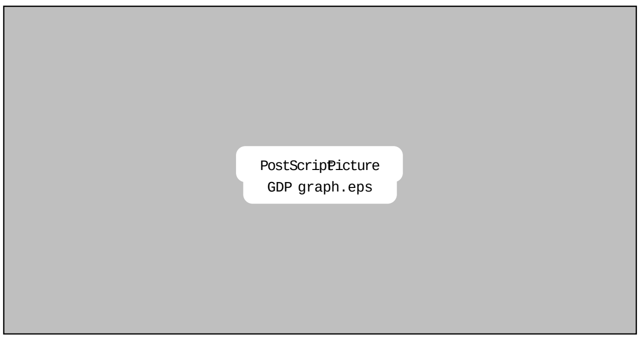
General

Kenya is situated in Eastern Africa, neighboring Tanzania, Uganda, Sudan, Ethiopia and Somalia. The country has a total area of about 582,650 sq kilometers. Of the country's total land mass, approximately 8.01% of this is utilized on arable farming, 1% on permanent crops. Much of the northern section of the country is dry and doesn't support much farming.

The country boasts natural resources of gemstones, limestone, zinc, soda ash and wildlife, which is a large contributor to the economy as a result of tourism into the country. Kenya's primary economic activities are based on tourism, agriculture, professional services and a burgeoning manufacturing and technological base.

The country is home to about 38 million people. Kenya has a relatively young demographic constitution, with approximately 42% of the population below the age of 15[2]. The country's median age is 18.8 years, with a life expectancy of 56.64 years.

Prior to the recent events related to the post-election violence, Kenya's economic turnaround since 2002 has been well documented. Against this backdrop, the country's economy has grown steadily over the last six years, as illustrated in the graph below. The economy grew by 7.0% in 2007 compared to 6.4% in 2006. The Ministry of Finance has forecasted economic growth to be around 4.5% in 2008, following the post-election unrest in the first quarter, compounded by the global increase in inflation rates fueled by the rising fuel and energy costs.



The largest contributing sector to the GDP in 2007 was the services sector making up 59.5% of the GDP. The agricultural and industrial sectors contributed 23.8% and 16.7% respectively.

Interestingly, 75% of the labor force is employed by the agricultural sector, while the remaining 25% is employed in the industrial and services sectors.

This growth was mainly supported by improved performance in agriculture, tourism, building & construction, manufacturing, financial services sectors, transport & communications and household consumption.

a. Inflation

The annual overall inflation rate has been volatile over the last three years. The rate was 10.4% in 2005, 14.5% in 2006 and stood at 9.8% in 2007. However, the month-on-month inflation has been increasing due to higher prices of fuel, power, transport and communication services. The month-on-month underlying inflation increased from 11.2% in June 2008 to 12.2% in July 2008. The overall inflation on the other hand, decreased slightly from 29.3% to 26.5% over the same time frame. Month-on-month overall inflation rate increased from 26.5 percent in July 2008 to 27.6 percent in August 2008. On the other hand, month-on-month underlying inflation rate which excludes food items from the CPI basket increased from 12.2 percent in July 2008 to 13.1 percent in August 2008.

b. Public Debt

Kenya's public and publicly guaranteed debt increased by 8.6% during the first three quarters of the fiscal year 2007/08 to Kshs. 869.8 billion in March 2008, from Kshs. 801.3 billion in June 2007. However, following a faster growth in GDP, total public debt decreased from 43.8% of GDP in June 2007 to 43.5% in March 2008. External debt, as a percentage of GDP, decreased from 21.7% to 21.2% while domestic debt increased from 22.1% to 22.2%.

c. Interest Rates

The benchmark 91-day Treasury bill declined marginally from 8.031 per cent recorded in July 2008 to 8.020 per cent in August 2008. The weighted average lending rate offered by Commercial banks for loans and advances also declined marginally from 13.91 per cent recorded in July 2008 to 13.66 per cent in August 2008. Savings rate increased marginally from 1.67 per cent to 1.68 per cent over the same period.

1. The information from this section, unless indicated otherwise, is sourced from the Central Bank of Kenya Monthly Economic Review June 2008 and the Central Bureau of Statistics Leading Economic Indicators August 2008

2. 2008 CIA World Factbook.

9. COUNTRY & NSE OVERVIEW (CONTINUED)

d. Foreign Exchange

The Kenya Shilling has been quite volatile over the last 24 months, against the USD, GBP and the EUR. Over the period, the shilling had steadily appreciated against the USD, from an approximate low of Kshs.73 per dollar to Kshs.62 in late 2007. However, with the disputed elections, the shilling depreciated against the dollar to a low of Kshs.72 per dollar in January 2008.

The shilling had a similar volatility against the GBP over the last 24 months. It had appreciated from an approximate low of Kshs.137 to Kshs.126 in 2007. In January, it depreciated to a new low of Kshs.144. Currently, the shilling has been appreciating and stands at Kshs.128. (August 22, 2008)

The Kenyan Shilling depreciated against the US dollar and Japanese Yen at the end of August 2008 while strengthening against the other major and regional currencies in the same period by various margins. The Kenyan Shilling appreciated against the Sterling Pound, the Euro and the South African Rand to exchange at an average of KSh 125.944, KSh 101.394 and KSh 8.937 at the end of August 2008, respectively. However, the Shilling depreciated against the US Dollar and the Japanese Yen to trade at an average of KSh 68.733 and KSh 63.064 in the same period compared to a trading of KSh 67.318 and KSh 62.248 at the end of July 2008, respectively. During the same period, the Shilling appreciated against Tanzanian and Ugandan Shillings to trade at KSh 16.928 and KSh 23.933, respectively.

Chart: USD vs Kshs

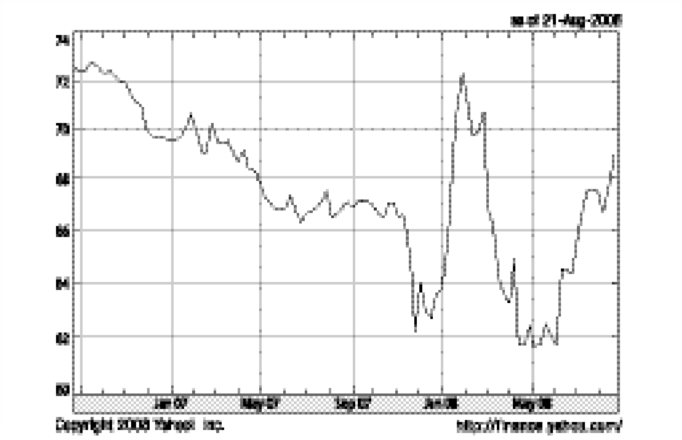
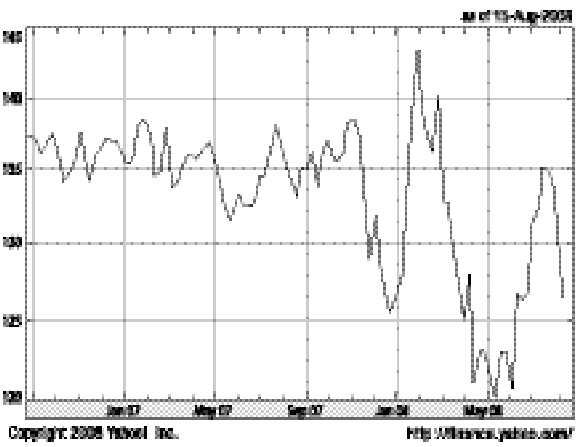
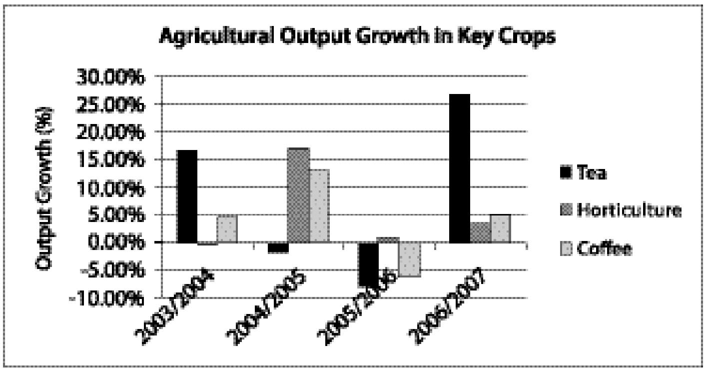


Chart: GBP vs Kshs



e. Agriculture

Agriculture is one of Kenya's leading sectors, employing over 75% of the country's active labour force. The performance of this industry is heavily reliant on weather conditions. As a result, the sector suffered declined growth in 2005 and 2006 as a result of drought within that period. Tea output increased by 26.8% in the period between June 2006 and June 2007. Coffee output also increase by 4.9% over the same time frame, as did the horticulture and dairy sectors that increased by 3.4% and 13.9% respectively.



Source: *Central Bank of Kenya 2007 Annual Report*

The output of the main crops fell in the first quarter of 2008 mostly due to the dry spell and the post-election violence that displaced farmers and farm workers during the early part of the year. However, data from the sector indicates that output in agricultural sector has been improving month by month as weather conditions gradually improved. This is an important sector for Coop Bank as many important Co-operatives are involved in agriculture.

f. Manufacturing

During the 2006-2007 financial year, the manufacturing sector grew by 6.9%. Due to increased economic activity and favorable conditions supporting agro-based industries, electricity and fuel utilization increased by 7.3% and 1.2% respectively. In efforts to boost this sector, the Government has introduced tax incentives and duty waivers on capital goods, plant and equipment, as well as eliminating numerous licenses and fees.

2008 has seen a steady increase in the cost of fuel and electricity which has consequently led to increasing inflation. Despite rising cost of oil and consequent pass through into higher cost of inputs and transport, manufacturing sector remained resilient in the face of these challenges to register growth in some sub-sectors. Among the sampled manufactured goods, those that picked up were cement, soda ash and cigarettes whose first four month cumulative production in 2008 grew by 8.3, 23 and 9.8 percent, respectively, over the levels recorded in similar period of 2007

g. Energy

The cumulative generation of electricity in the first four months of 2008 decreased by 5.1% from 2,009.32 million kilowatt hours (KWH) in 2007 to 1,906.08 million kilowatt hours (KWH), while the first four month cumulative consumption increased by 3.87% from 1,651.40 million kilowatt hours (KWH) in 2007 to 1,715.30 million kilowatt hours (KWH) in 2008.

h. Tourism

In fiscal 2006-2007, the tourism sector grew by 14.3%. The year saw remarkable increase in the number of arrivals. The highest increase in the arrivals was recorded at the Jomo Kenyatta International Airport. This increase was a result of the aggressive and strategic marketing by the Kenya Tourist Board, especially in non-traditional markets, improved markets and product diversification. Tourist arrivals decreased by 48.5 percent, from 340,902 visitors in the first four months of 2007 to 175,546 visitors in the first four months of 2008 due to post-election disturbances.

i. Transport

Kenya Ports Authority (KPA) first four months' cargo volume through-put increased by 5.9% from 5,063,340 metric tonnes in 2007 to 5,360,052 metric tonnes in of 2008. In fuel transport sector, Kenya Pipeline Company (KPC) throughput volume decreased by 5.2% from 1,326,387 metric tonnes in the first four months of 2007 to 1,257,565 metric tonnes in the first four months of 2008. This is attributed to the low consumption during the clash infested first quarter of 2008. In road transport sub-sector, the first four months cumulative number of registered motor vehicles grew by 29.8% from 23,417 in 2007 to 30,404 in 2008.

j. Telecommunications

Cumulative value excise on airtime received by the Kenya Revenue Authority went up by 16.68% from Kshs 1,879 million in the first four months of 2007 to Kshs 2,192.4 million in the first four months of 2008.

Nairobi Stock Exchange Overview

The NSE index has declined in the past months (June to August) in spite of improved financial performance of most listed companies. The Safaricom Limited Initial Public Offer combined with adverse effects of inflation and clashes on disposable income have impacted negatively on the market. Although turnover went up over the period, the overall market sentiments have been negative.

There was improved performance recorded in the equity market during the week ending September 25, 2008 as reflected by key market indicators. The number of shares traded increased from 145.9 million traded in the previous week to 157.3 million shares traded in the week under review. Equity turnover also rose by 19.7 percent as stocks worth Ksh 1.93 billion were traded compared with Ksh 1.62 billion traded in the previous week. Market capitalization, as a measure of total shareholders wealth increased by Ksh 45.18 billion from Ksh 953.2 billion in the previous week to Ksh 998.4 billion in the week under review. The NSE 20 Share index gained 211.2 points to settle at 4266.4 points on September 25, 2008 from 4055.2 points on September 18, 2008.

Source: *Nairobi Stock Exchange*

10. INDUSTRY OVERVIEW[3]

Background

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted.

The Central Bank of Kenya (CBK), which falls under the docket of the Minister for Finance, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The CBK publishes information on Kenya's commercial banks and non-banking financial institutions, interest rates and other publications and guidelines. The banks have come together under the Kenya Bankers Association (KBA) which serves as a lobby for the banks' interests and also addresses issues affecting member institutions.

The commercial banks and non-banking financial institutions offer corporate and retail banking services but a small number, mainly comprising the larger banks, offer other services including investment banking.

New Entry

Last year two full fledged Islamic Banks were licensed by the Central Bank of Kenya.

Structure of the Banking Sector

As at December 2007, financial institutions remained at 143 institutions, comprising 43 commercial banks, 2 mortgage finance companies, one non-bank financial institution, 2 mortgage finance companies and 97 foreign exchange bureaus. The number of branches rose by 44.5 per cent from 512 in 2003 to 740 at the end of 2007.

During the last three years, numerous branches for banks have been approved by Central Bank of Kenya (the regulator). The opening of new branches in rural areas is a manifestation that the banks are now moving downstream. This move coupled with the new products that the banks have been launching is expected to improve access to financial services.

Performance

Banks in Kenya are becoming stronger and reporting higher profits. In the first half of 2008, total assets in the Banking sector reached the one trillion mark. Total deposits and assets held by financial institutions grew by 18.9 per cent and 19.9 per cent respectively for the period to December 2007. Pre-tax profits also grew by an impressive 30 per cent.

The stability in the sector was attributed to the favorable macroeconomic environment and stringent supervisory oversight. The introduction of Risk Management Programmes improved standards of credit appraisal and administration of loans and advances. This contributed to the overall decline in the non-performing loans portfolio as at June 2008.

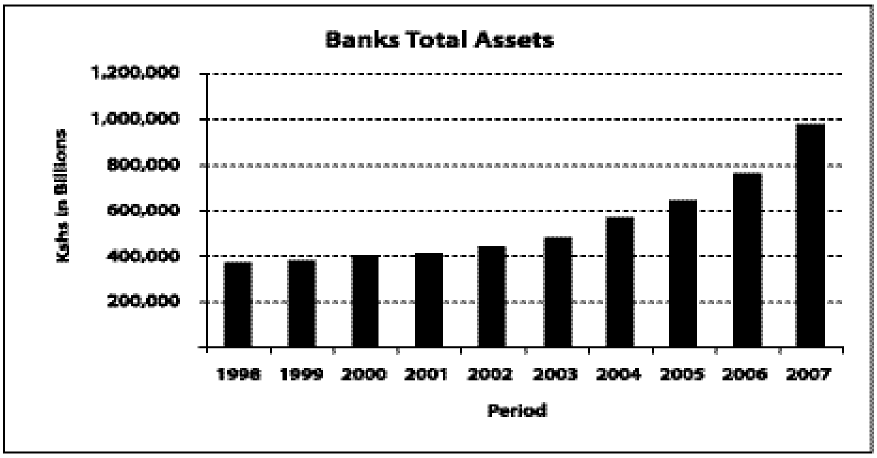
3. Banking Survey 2007

10. INDUSTRY OVERVIEW (CONTINUED)

Performance Trend

Total Assets

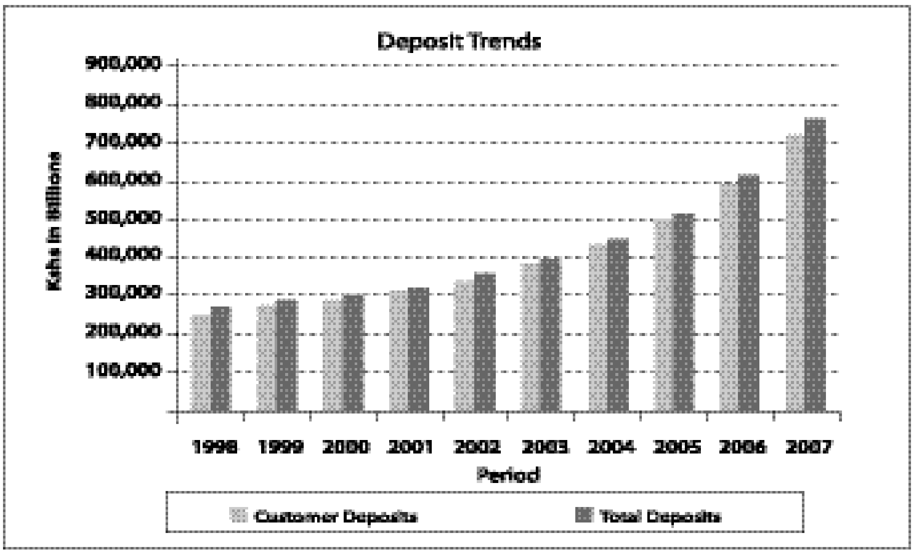
According the Banking Survey 2008, the total assets for the sector was Kshs 978 billion in 2007 an increase of 26% from Kshs 764 billion registered in 2006. The following chart represents the growth in total asset in the Banking industry since 1998.



Source: *Banking Survey 2008*

Deposits

The customer deposits attracted in the industry increased to Kshs.723 billion in 2007 from Kshs.595 in 2006 representing a growth rate of 23% while total deposits stood at Kshs.763 billion in 2007 compared to Kshs.617 billion reported in 2006. The chart below depicts the trend in customer deposits and total deposit in the sector.

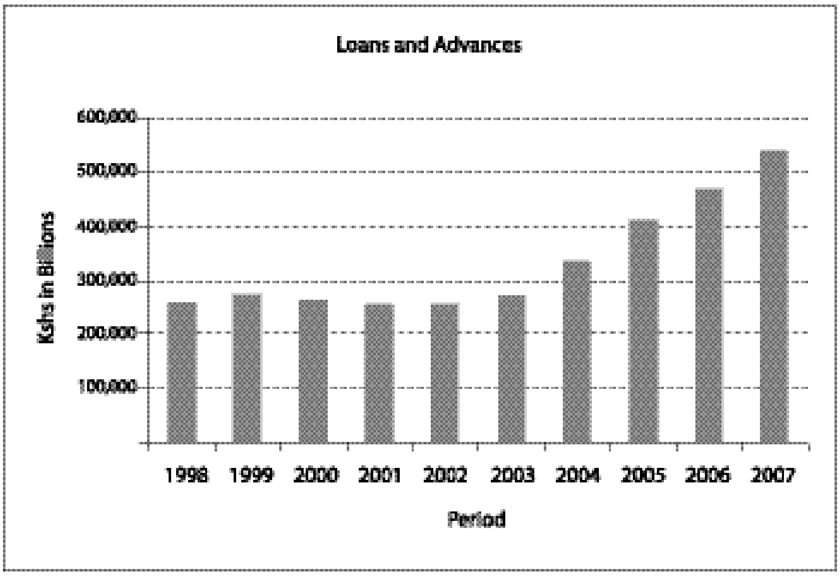


Source: *Banking Survey 2008*

10. INDUSTRY OVERVIEW (CONTINUED)

Loans and Advances

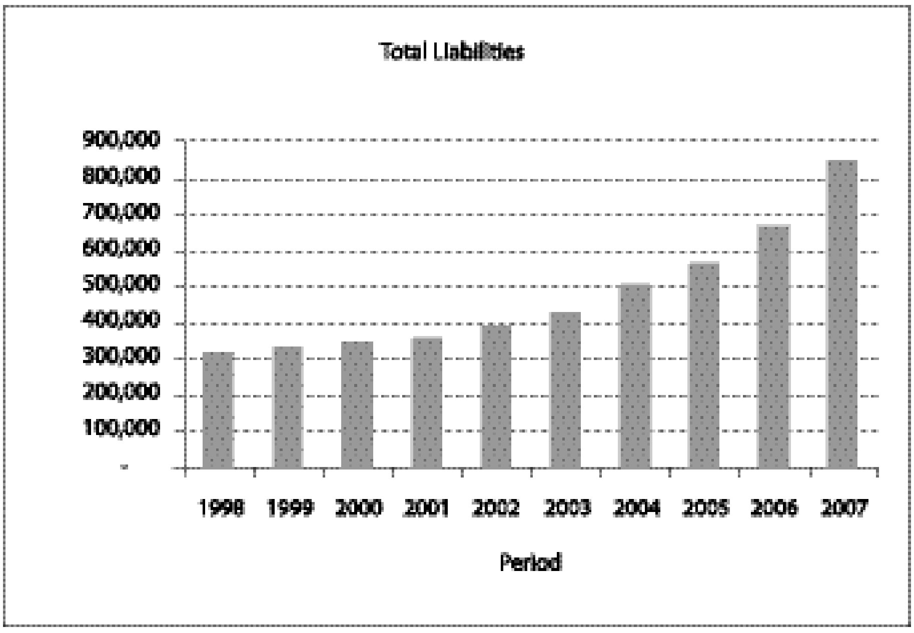
The total loans given out to customers by banks in 2007 stood at Kshs.542 billion an increase of 72 billion compared to Kshs.470 reported in 2006. The graph below depicts the trend in the Loans and Advances to customers by Banks, showing increased advances through consumer loan products:



Source: *Banking Survey 2008*

Liabilities

Total liabilities rose from Kshs.666 billion in 2006 to Kshs.845 billion in 2007 representing a 27% growth rate. The chart below indicates the trend in the total liabilities in the sector since 1998.



Source: *Banking Survey 2008*

Outlook of the Banking Sector

The banking industry is expected to sustain the strong performance throughout the year 2008, benefiting mainly from the high capitalization as at December 2008, an improved domestic economy, expanding business opportunities both locally and from the region and a robust monetary policy stance.

Institutions are expected to continue rolling out new products as they expand their branch and ATM network. Competition is likely to increase with entry of new Banks and as customers awareness increases and as the foray into rural Kenya continues which shall result in the ordinary Kenyan truly benefiting from high quality banking services. It is therefore expected the banking sector shall continue on its previous growth trajectory in 2008.

Survey on Access to Financial Services

In 2007, Central Bank of Kenya in collaboration with representatives from the financial sector, commissioned a national survey to measure the demand and access to financial services in Kenya. The survey's objective was to establish the basic aspects of financial behavior of Kenyan citizens across the financial spectrum - from rich to poor. A total of 4,420 interviews were targeted. Questions covered all providers of financial services including the major financial institutions, banks and finance companies, SACCOs, microfinance institutions, insurance companies, pension funds together with the more informal and less immediate obvious sources such as Rotating and Accumulating Savings and Credit Associations (ROSCAs and ASCAs), informal moneylenders, employers, NGOs, friends and family.

The findings of this survey revealed the following aspects ranging from product usage to challenges in gaining access to financial services:

- only 19 per cent of Kenyans are banked and thus have formal access to financial services through commercial banks, building societies and Post Bank;
- an additional 8 per cent are served by SACCOs and Micro-Finance Institutions and 35 per cent depend primarily on informal financial services such as ROSCAs (Rotating Savings and Credit Associations) and ASCAs (Accumulating Savings and Credit Associations). These constitute the financially included, who have access to formal and informal financial services;
- 38 per cent of Kenyans are financially excluded, i.e. they have no access to financial services and are classified as unbanked reporting no usage of either formal or informal products; and
- the study also revealed that access to financial services varies across the country and is highest in Nairobi.

11. BUSINESS OVERVIEW

Business Performance Review

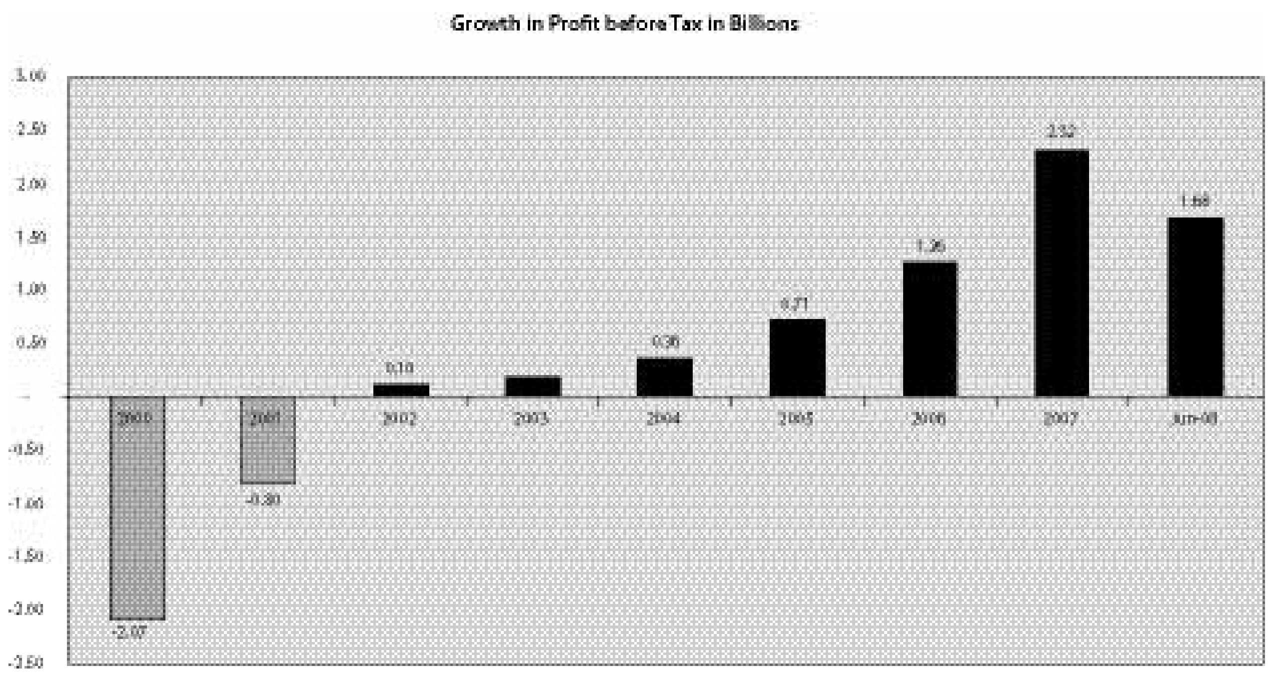
The Co-operative Bank of Kenya Limited is the fourth largest bank in Kenya in terms of the asset base[4] . Over the last seven years, the bank has undergone a successful strategic business and operational restructuring that has resulted in significant and continuously improving profitability. The Bomb blast of 1998 saw the bank make losses for 4 consecutive years culminating in a historic loss of Kshs.2.3billion in the year 2000. The bank has however re-invented itself and made a complete turnaround by making a profit of Kshs2.3 billion in the year 2007. In year 2001, the loss reduced to Kshs.814 million and thereafter, the bank has been on a profit path. The business has been growing tremendously including the number of outlets, staff numbers among all the other parameters.

Profitability

From the year 2000, Co-operative Bank has increased its profitability every year. The profitability growth has been averaging 80% and above every year. The commendable growth in the profitability has been attributed to significant growth in the customer numbers resulting in increased volume of business.

Following succession of Senior Management in the year 2001, that then drove a strategic re-positioning of the bank, the bank has realised remarkable recovery and retained the confidence of customers and other stakeholders as seen hereunder: -

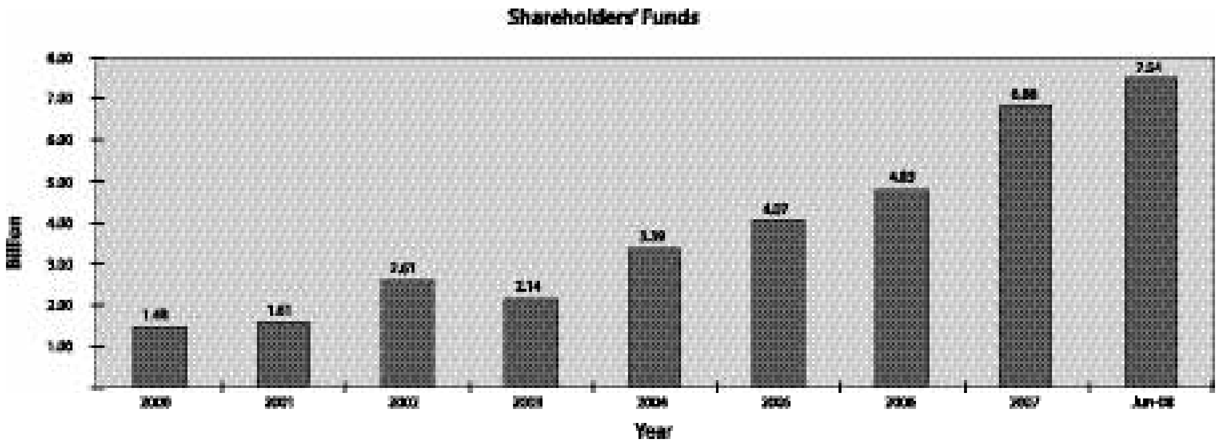
This profitability turnaround has been a work of sheer faith and determination, particularly following the massive loss of Kshs.2.32 billion in the year 2001 when the bank faced the risk of closure. The leadership provided by the Board of Directors, the dedication of the excellent team in place, and the commitment of the shareholders and customer base is recognised and honoured as the pillars, upon which this success is founded. The projected profit before tax for the year 2008 is Kshs.3.5 billion.



4. Banking Market Survey 2007

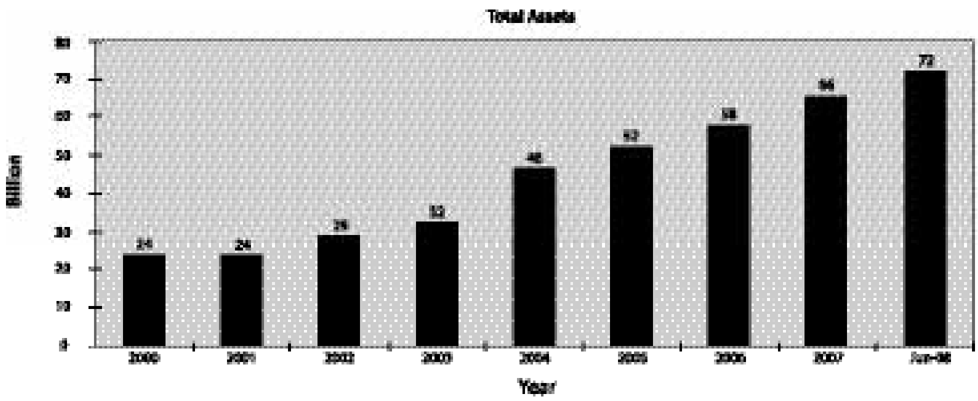
Shareholders' Funds

The bank's shareholders funds have been increasing steadily from Kshs.1.48 billion in 2000 to Kshs.6.86 billion in 2007. For the period to June 2008, our shareholders wealth has attained a historic record Kshs.7.5 billion. The growth in the shareholders value is largely attributed to improved profitability of the Bank as well as the retention policy adopted by the Bank to create a reserve base for future growth. Through the expected listing and IPO, this trend is expected to increase owing to the expected potential earnings from the impact of the proceeds. The sustained growth shareholders value for the period to June 2008 is as shown below:



Total Assets

In the last 5 years the bank has grown its asset book from Kshs.32.39 billion in 2003 to Kshs.71.80 billion in June 2008. This has been the cumulative effort of a strong business growth strategy in credit products which include personal, co-operative and corporate loan products and a strong risk management policy that has increased the quality of the book. This growth has positioned the bank as the fourth largest bank is asset base. Additionally the Banks deposit liability book has attained tremendous growth to stand at Kshs.62 billion at the close of June 2008. With this positioning this re-capitalization will enable the Bank grow its liability book to meet its projected asset growth objectives.



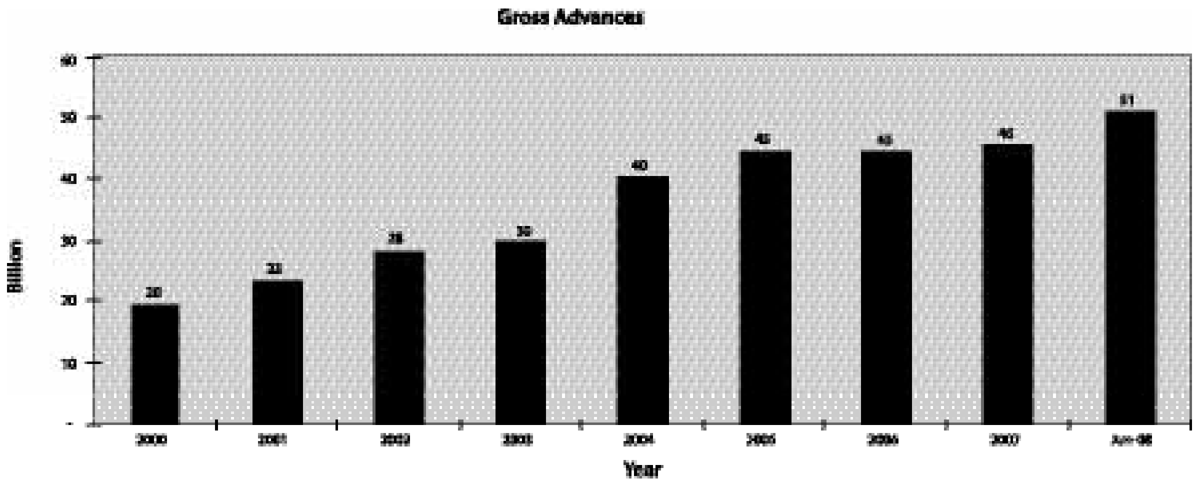
11. BUSINESS OVERVIEW (CONTINUED)

Customer deposits

Customer deposits grew on an annual basis to Kshs55 billion by the end of 2007. This is attributed to the exponential growth in the number of customers, growing the number of account holders from about 300,000 in 2003 to over 800,000 in 2008. The growth in the customer numbers was driven by the bank's customer focused approach in serving the needs of the co-operatives, micro-enterprises and the ordinary Kenyan.

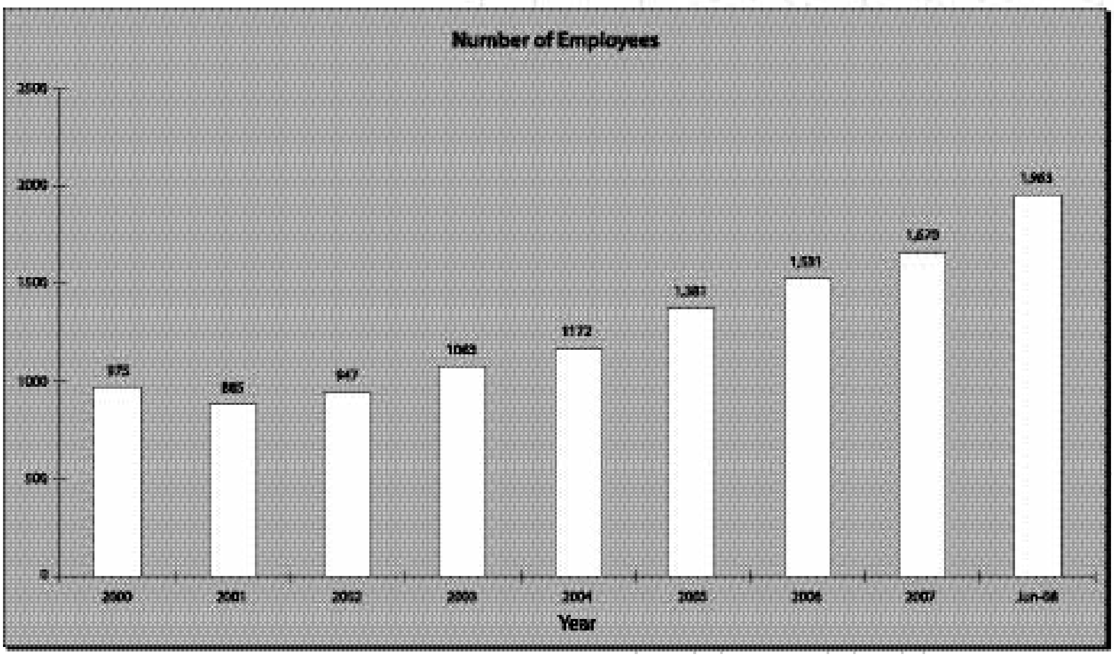
Gross Loans and advances

The bank's loans and advances grew steadily over the last seven years, from Kshs.20 billion to Kshs.46 billion. During the same period, the bank was a target to clean up its balance sheet. As a result an amount of Kshs10 billion was written down from the books and therefore the portfolio is now well performing and within the industry average.



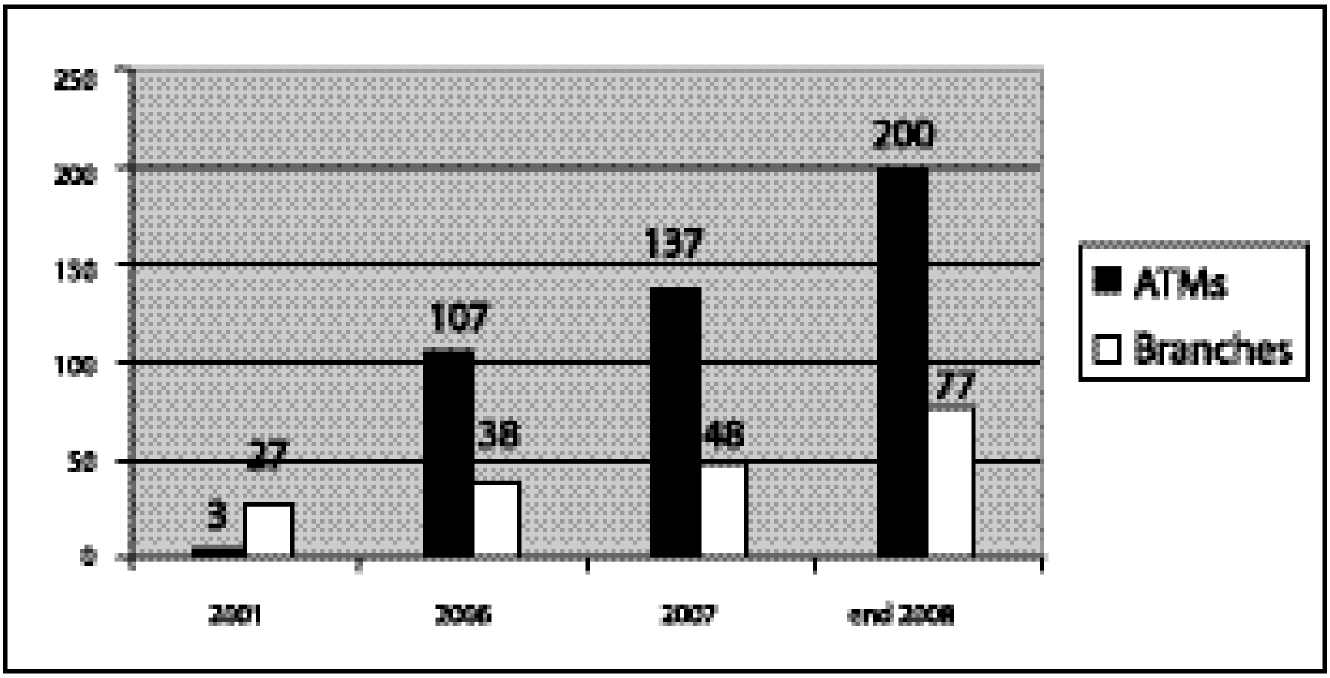
Number of employees

The number of staff has grown more than twice from 975 employees in year 2000 to 1,963 by June 2008 on permanent and pensionable terms to support the expansion and the increasing operations. The Bank also employs staff from time to time on fixed term contracts. The bank has opened many branches over the period and is continuing with the expansion program.



Number of branches and ATMs

The bank grew its outlets from 27 in 2001 to 53 currently and a projected 77 at the close of the year. The number of ATM's has also increased from 3 in 2001 to the current 152 and a projected 200 at the end of year 2008. The branches and ATM's are located all over Kenya representing the face of Co-operative Bank as a true Kenyan institution.



11. BUSINESS OVERVIEW (CONTINUED)

11.1 Business strategy

The Co-operative Bank of Kenya has a clear strategy of growth through diversification of its products thereby attracting a wide range of clients. The banks impressive performance is largely attributed to its business model which revolves around providing innovative financial solutions to our customers. In addressing our client objectives we have invested heavily in product development which has witnessed us launch innovative products. The Bank is now a diversified Universal Bank offering the full range of services including Co-operative Banking servicing key business segments of the Co-operative Movement; Retail banking offering consumer loan products and banking services to the retail client segment; Corporate and Institutional Banking covering the large borrowing clients; Treasury services providing forex revenue; and asset management and financial solutions.

In all the Co-operative Bank group now serves 800,000 and more importantly the bank touches the lives of over 7 million households.

The Banks service structure thus comprises of the following key strategic business units:-

11.1.1 Co-operatives

The bank continues to serve the co-operatives as our core customer base. With the emerging banking trends pointing in the direction of increased branch network by the banks, it is our firm belief that co-operatives will continue as the indispensable vehicles for sustainable delivery of banking services to the vast majority of Kenyans.

In this respect, it is most encouraging that Saccos have reacted positively to the changes and have initiated front office banking and put in place initiatives to strengthen the FOSA. We already are in a franchising partnership with the Saccos in this area providing wholesale banking while the individual FOSAs, provide retail banking to their members.

In support of this segment of the market, the Board of Directors in 2007 made a strategic decision to give the Co-operatives added focus with the creation of Co-operatives Banking Division .The Division is tasked among other things to reposition the Bank strategically in the Co-operatives sector through enhanced market presence and profile. The Divisions business objectives are aligned to our Corporate Strategic Object No.1 which is "To establish innovative, value added linkages with the Co-operative movement thus becoming the leading Kenyan Bank offering affordable financial services to the over 7 million members of the Co-operative movement particularly those currently unable to access financial services".

The Co-operative Bank believes that the future of banking will be strongly influenced by the advent of FOSAs and Rural Saccos, which will rapidly enhance popular access to banking services. The Co-operatives are being served under various business segments namely Sacco Banking, Agricultural Co-operatives and Co-operative Financial Services with key functions under the respective departments being:-

Sacco Banking Department

The department's core function is relationship management and business growth among the Urban Saccos, Rural Saccos, Housing and Transport market segments.

Agricultural Co-operatives Department

The department's core function is relationship management, business development, donor relations, project implementation and capacity building in the Coffee, Dairy, Horticulture, Agricultural Marketing Co-operatives, and Community Saccos. In addition it handles donor projects targeting the agri-business sector such as the IFAD, COFEP, and Stabex programs.

Co-operative Financial Services

In order to integrate the movement through a financial platform and provide accessibility for its members to transact through our ATMs the Bank in 2007 also established the Co-operatives Financial Services Unit whose core function is to integrate the financial systems in the Co-operative Movement with those of the Bank to enable their members transact from their Sacco accounts through our ATM network. The Bank in this regard invested a sum of Kshs 140 million (USD 2 million towards this initiative also known as the Co-op Switch Program. The program entails issuance of a Sacco Card known as the Sacco Link thus enabling members access cash and make withdrawal services at co-operative bank and any other Visa branded ATMs. In addition members can also purchase goods and services at all Visa points of sale. The sacco link card is visa based and Sacco members enjoy the convenience of using the card to buy goods and services at all shopping outlets that accept visa cards not just in Kenya but worldwide. The Sacco link service is a land mark achievement not only for the co-operative movement but also for the entire economy in that it has become one of the important tools for expanding access to financial services to majority of Kenyans who are currently out of the mainstream banking system

Shares Registrar Services

The Division also houses our Shares Registrar Services a department of the bank that provides a wide range of Registry services to public quoted companies and any such other companies intending to float Bonds and associated

Commercial Papers that has in the past not been fully exploited. The registry also handles the bank's register and will provide the registry services for the initial public offer. To date we have 6 equity registers and are bond registrars for 4 bond programs.

This renewed focus on the Co-operatives Movement through this Division has resulted in:-

- Increased contacts and visits to the customers (Saccos) through a dedicated relationship management concept where we have been able to meet the needs of our customers.
- Product Partnerships where we have stepped up cross selling of value added products to the Saccos that has enabled the bank compete in the market place. Some of our partnership products include Moneygram (a cash transfer mechanism), banker's cheques, the Sacco link and, Sacco personal loans products. The revenues from these products are co-shared between the Bank and the Saccos.
- Increased loan support to the Saccos to meet members' needs and beat competition. The credit products offered constitute Working Capital loans, Education Savings Scheme Loan Schemes and Member Development Loans disbursed to the Co-operative Movement. Other credit products that have witnessed increased growth include, Insurance Premium Financing and Asset Financing;
- Client retention as the Saccos have been able to provide a wide array of financial needs to their members.

11.1.2 Retail banking division

Driven by our countrywide presence and centralized banking, our position in personal financial services continues to post rapid growth. We are one of the largest issuers of Visa-backed debit cards in Kenya, and command a significant share of lending to Small and Medium Enterprises Sector (SMEs). We have keen interest in growing our retail deposits base to reduce cost of funds, and grow non-funded income from the card business. For the foreseeable future, we have committed significant resources to lay ground for even better service delivery to customers and also expand our branch network, ATM network and banking channels through internet, telephony and non-cash service outlets all over the country. The banks retail business is structured as follows:

Personal and Business Banking

Personal Banking customers are individual (joint) names who receive regular payment e.g. salary or pension. They could also be dependants who receive regular or frequent payments like stipends and allowances. They include employees, individual business owners, retirees, students, children and unregistered groups.

It is estimated that commercial banking services are accessed by just over 4 million Kenyans with the bulk of them being banked by the 5 largest banks in Kenya. With a population of over 33 million people there is clearly a vast number of Kenyans who have no access to banking services. Banks' perceived high service charges, interest rates and physical locations remain the largest impediments to those who have no access to Banking services. As a result and in a bid to attract the many Kenyans who are currently not banked, the bank is in the process of expanding its retail networks through branches as well as ATMs.

The bank has a good customer service record and we aim to continue building a strong customer service culture within the Bank and its staff it intends to remain the Bank of choice for all customers and particularly customers who directly influence the Bank's public image and reputation. The bank 's staff are continuously trained on customer's service and bank operations to equip them with the necessary and prerequisite skills to offer unparalleled levels of service to ensure that customers are attracted and retained.

The bank is a leader in product innovation and has championed a number of products for various market segments. Key among its pioneer product offering which has attained a high level of success include:-

- Mobile Banking – The Bank was the first institution to provide Mobile Banking Services through its M-Banking Product. This is SMS-based telephone banking service developed to allow our customers enquire their bank account balances, purchase air time, request for mini statements, make utility payments and receive automatic salary alerts when cash enters their accounts.
- Jumbo Junior (JJ) Savings Account – Jumbo Junior (JJ) remains the flagship product of the bank and is the most popular account for children in Kenya; and for good reason. Besides having been the first for children, JJ comes with much fun and also allows kids to learn a thing or two about money and savings.
- YEA! Account – A special account designed for young adults who are between 18 to 26 years. This account is trendy and is loaded with incentives to attract the young adults who wish to be differentiated from the "kids" and the "oldies".
- Money transfers (Moneygram) – This is a fast, safe and easy way to send or receive money in minutes around the world
- Electronic Banking - A wide range of customer friendly financial solutions which include sms alerts for balances, access for payment of utilities and access to mobile account enquiry. Our electronic banking solutions also enables customers make on-line transaction requests and account enquiries. Through these solutions we aim to be able to provide a GREEN (paper free) banking environment for all our customers.

Co-op Bank's existing and upcoming branches

BRANCH NETWORK

Existing Branches

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

Upcoming Branches

1	Nkubu	14	Siakago
2	Ongata Rongai	15	Kangemi
3	Tom Mboya St	16	Tala
4	Nakuru No.2	17	Siaya
5	River Road	18	Gilgil
6	Malindi	19	Voi
7	Industrial Area No.2	20	Kitui
8	Busia	21	Garissa
9	North Airport Road	22	Mariakani
10	Juja	23	Zimmerman
11	Kapsabet	24	Kajiado
12	Narok	25	Maua
13	Nanyuki	26	Isiolo

CO-OPERATIVE BANK OF KENYA
We are you

Branch expansion

The bank's branch has a network of over 53 branches spread out in the country. It has opened 8 branches since the beginning of the year in Nairobi (Moi Avenue, Wakulima, Kayole, Eastleigh), Naivasha, Ukunda and Mtwapa. It is expected to open another 20 branches before the end of the year in Buru Buru, Westlands, Ongata Rongai, Tom Mboya Street, Upper Hill, River Road, Embakasi, Zimmerman, Industrial Area, KUSSCO Building, Kangemi, Nkubu, Nakuru, Isiolo, Kapsabet, Voi, Nanyuki, Narok, Siakago, Malindi, Juja, Garissa, Mariakani, Busia, Gilgil, Kitui, Siaya and Tala.

The bank's ATM network has also expanded to 152 with more than 20 more ATMs expected before the end of the year. This massive branch and ATM network has ensured continued growth In the bank's retail customer base reaching many Kenyans previously unbanked.

Through the proposed IPO this will be a key area of investment as we undertake to increase out-reach in the country.

Small and Micro Enterprises

The current levels of unemployment in Kenya continue to force a great number of people to seek alternative forms of making a livelihood. With the high cost of formal financial services and the reduced physical presence of commercial bank branches, a large number of people are turning to informal financial arrangements to meet the cost of starting up and the working capital when setting up small-scale businesses. The co-operative bank has had more than five years experience in the area of micro finance with proven success and growing volumes. The Bank is now one of the leading commercial banks in this market and is committed to retaining this prestigious position.

Card Centre

All the bank cards are managed under one roof by card center. These are debit and credit cards. The card business has enjoyed significant growth in the last few years and the bank is keen on growing the card business. We are one of the largest issuers of Visa-backed debit cards in Kenya and are focused on retaining this position.

Marketing and Public Relations

As a Bank our visibility is critical if we are to understand and communicate the value of our products to our customers. In this regard the Bank invests heavily in product awareness campaigns and research. This is under taken under our Marketing and Public Relations Department whose role is to continuously research on the changing needs of our customers and how these can be met. In addition the Department provides product awareness to the public which in turn improves sales.

Customer Service Department

One of our core values is in the area of customer services. To ensure that we attain the desired level of satisfaction for our customers the Bank has put in place various initiatives to ensure that the Co-operative Bank Customer remains a Satisfied Customer and that we remain true to our slogan of "We are You". To achieve this bank has:-

- Sourced staff with expertise in customer management from various sectors of the economy such as the hospitality and telecommunication sector with relevant experience in client service.
- Invested in a Customer Management System, a program that tracks the profile of a customer query until full resolution;
- Established a Call Centre with dedicated free toll lines to facilitate enquiry of any case within the Banks network. These toll lines are in all our branches and we have a dedicated team of staff with experience in handling of client complaints;

These key initiatives in our retail division have provided a major contribution to our growth with the following success being recorded:-

- We have increased our client base to over 800,000 customers patronizing our products through out the network;
- We have achieved an aggressive asset growth campaign in the branch network, fueled and propelled through healthy competition, with inspiring rallying call/themes, such as "Race to the line", "Bumper harvest", Mission possible", "Final countdown". As a result of this we have witnessed immense growth on Personal loans now accounting for over 50% of the performing loan book, with the highest yield in interest income.

11. BUSINESS OVERVIEW (CONTINUED)

- We have enhanced some of features of our products to remain relevant and competitive. We introduced longer tenure periods for all products, re-engineered loan application and approval process and in turn reduced the turn around time, and enhanced marketing of the product.
- The bank has a direct sales team on commission basis initially and primarily for asset growth but also, moving forward, for sales of other bank products.
- The bank has re-launched of some of our key products such as the Salary account which is now easy to open and operates on a simple tariff structure and the Executive Banking Services for our high end customers.

11.1.3 Corporate and Institutional banking

Corporate & Trade Finance

We have a strong foothold in large corporate business, underpinned by our capacity and reputation to deliver banking solutions that are customized to the particular needs of customers. In particular, we intend to keep growing our practice in syndicated loans, e-business offerings for bulk processing home banking, and trade finance facilities.

Corporate and Trade finance department

Our Corporate Banking and Trade finance department remains the home for companies with large borrowing requirements. Through this department the bank ensures that our customers' requirements are met by understanding their business and being part of it through a relationship management approach. Its products in the segment are in form of loans and overdrafts which are denominated in various world currencies depending on the requirements and in cases of very large requirements it arranges syndicated club lendings with other partnering banks.

The banks trade finance solutions have ensured that its customers are able to finance their international and local trading activities seamlessly. Its products offering which include Letters of Credit, Guarantees, Invoice and Bill discounting are all structured to meet the client's unique requirements. In its continuous endeavor to meet and exceed our customer expectation, the bank has increased its product offering in this area to include Asset financing and Insurance Premium financing.

The Corporate and Institutional Banking Division also has the mandate of managing the Bank's liability book to finance our assets. The Division manages this liability book through two (2) dedicated departments, the Institutional and Government Banking Departments.

Institutional Banking

This a relationship management department with the core responsibility of managing the liability side of the balance sheet to ensure that Bank remains sufficiently liquid to meet its customers requirements. The department focuses on the acquisition, retention and management of key liability clients who provide the bank with cheap and stable deposit liabilities.

Its focus is on large liability in both the public and the private sector with no borrowing requirements. This group consists of (but is not entirely restricted to) Non governmental organisations (NGOs), Charitable organizations, Religious organizations, Education sector i.e. schools, colleges and university schools. Foreign missions, Clubs & societies, Government Parastatals, Government Departments among others. The department offers committed and personalized services to organizations in these sectors. Liability products that have contributed to tremendous growth in this department include Goodwill Partnership Accounts, Education Partnership Accounts, Project Accounts, Corporate Current Accounts, Fixed Deposits Accounts, Call Deposits Accounts and Collection Accounts.

Government & Public Sector Banking

The Department was established in July 2007 following a review of our client profile with the Government emerging as a key market segment for our liability products. Through this department we have been able to increase patronage of our liability products by various Government Ministries and departments and are now a leading banker for the Government.

The departments is mandated to ensure the growth of cheap and stable retail deposits from Government and public sector Institutions and grow Bank's share in the lucrative public sector. Some of the key product offering to the Government are establishment of Central Accounts for Government Ministries, Management and disbursements of the Free Primary and Free Secondary Education Programs Management of the Constituency Development Fund (CDF), Provision of Education Partnership Accounts and Management of National Collection Accounts.

The department as a key provider of liability products remains committed to delivering on its objectives through ring fencing existing business relationships from cut throat competition for maximum client retention, deepening existing relationships for wallet size control and management of the business downstream from the Government Central Accounts to the District Treasuries through the Value chain management approach.

Electronic payment systems

The Bank remains at the front line of product innovation and was the first bank in the country to launch the mobile banking service in Kenya through its M-Banking solution. Our efforts in IT product innovation has been recognized by Industry participants and in the year 2007 were recognized as the most innovative Bank by the Computer Society of Kenya and the annual bankers award gala of 2006.

With the proliferation of mobile phones in Kenya which now stands at over 12 million subscribers patronizing our two mobile phone networks and the expected entry of two other providers, this is now a key delivery channel for services. The Bank will continue to maximize the use of this channel for delivery of banking services to personal customers.

Through our M-Banking solution we have enabled customers to transact with the Bank using their mobile phones. Currently customers are able to access their bank statements, their account balances and top up pre-paid mobile phone with airtime while the Bank is able to send out alerts to customers on events concerning their accounts, un-paid cheques, payment receipts among others. The product has also allowed customers to make payments of their utility bills, credit cards, providing a convenient banking medium at the palm of their hands. The Bank is aggressively pursuing an internet banking solution to enable customers to have access to information and services wherever they may be in Kenya and the world.

Some of its other key e-commerce solutions offered include:-

- Jumbo link, an Electronic Funds Transfer (EFT) product that enables the customer to make bulk payments directly into the accounts of its staff members or those of its suppliers using secured electronic files, instead of using cheques and schedules. This product is suitable for entities that make large numbers of payments at a go and offers convenience as well as cost savings.
- M-Banking, a system that enables Co-operative Bank customers and Saccos customers (on CoopSwitch) to initiate and perform basic banking transactions through their mobile phones. Co-operative Bank was the first Bank in Kenya to offer actual banking transactions through mobiles phones in 2004.
- Direct Debits, a payments collection product that allows Bank customers to collect funds through Co-operative Bank, directly from the payer's bank account provided the payer has authorized for the collection via a debit to his/her account at regular intervals. This product seeks to address the problems faced with standing orders and cheque payment methods which give rise to reconciliation delays and difficulties. The target market for this product includes but not limited to; insurance companies, Sacco's and utility companies.
- Utility Payments; a service that enables customers to settle their utility bills with the various service providers through the Bank. Payments can be made through various channels including Over the counter, Mobile Phones, ATMs as well as through the Internet. The service is available to all customers.
- CoopNet, an on line banking channel which will enable Co-operative Bank account holders initiate specified banking transactions through personal computers or mobile phones with access to the web. Customers are able to view balances and statements of their accounts as well as transfer funds electronically from their accounts to any account held by a commercial bank.

Custodial services

The Bank is an Authorized Central Depository Agent and licensed as a Custodian by the Capital Markets Authority and Retirement Benefits Authority respectively. We carry out this mandate through the Custodial Services department where we also offer high quality scheme administration services to custodians, fund managers and brokers as well as individual clients. The business has grown over the years and the bank will continue to focus on its continued growth. To date it manages total assets is in excess of Kshs.7 billion and has over 80 schemes being administered by the department. The department is also a Central Depository Agent for over 50,000 customers trading at the Nairobi Stock Exchange.

Through the above structure Corporate and Institutional Banking Division the Bank is positioned to make firm inroads

11. BUSINESS OVERVIEW (CONTINUED)

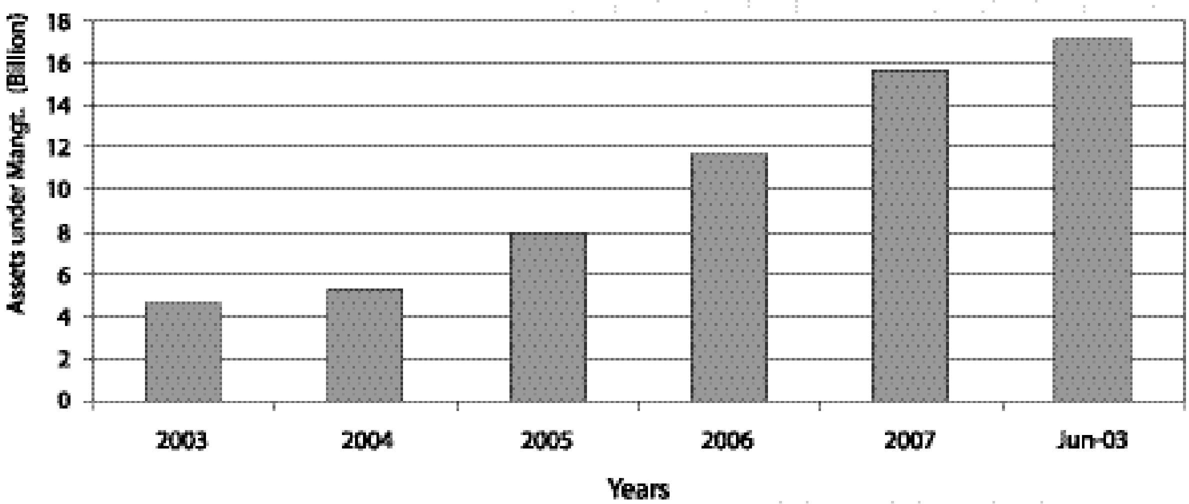
made into chosen market segment a positioning which we intend to reinforce and safe guard; remain the main banker for the Government and its programs and increase the synergy through cross selling and marketing of the Banks products to corporate clients;

11.1.4 Treasury

The bank has one of the most efficient treasury departments in the industry who undertake to manage all its monetary assets and liabilities as well as manage the financial risks. The department ensures that it maximize yields for all surplus funds through inter-bank trading , minimizes the overall costs of funds by ensuring that all deposit rates are competitively process. In addition the department makes a revenue contribution through forex trading and provision of other treasury solutions. Through this department the Bank has been able to manage its liquidity and have always operated way above the statutory.

11.1.5 Fund Management

The Bank offers fund management services through its wholly-owned subsidiary, Co-optrust Investment Services Limited. Co-optrust Investment Services is the leading locally owned fund management company with total assets under management valued at Kshs.17.012 billion at 30 June 2008 and a client base of over 120 corporate schemes and 600 retail clients. The company is the fund manager for a number of private, quasi-Government and institutional organization and also provides private wealth management to individual investors. The company continues to record monumental growth in its managed assets with an impressive track record for the last 5 years as shown below:-



11.1.6 Financial Consultancy

The bank offers financial consultancy services through its wholly-owned corporate finance and investment advisory subsidiary, Co-operative Consultancy Services Kenya Limited. The subsidiary offers universal financial and corporate finance advisory but has a special strategic focus on capacity building for the Co-operative movement. Our current client base comprises of over 150 Co-operative Societies patronizing our services in the areas of Strategic Planning, Management Evaluation, Information Technology Consulting, Business Organization Review and Human Resources Reviews. The company key role is capacity building in the co-operative movement an initiative we undertake with the support of other stakeholders in the sector.

The Company is also the project manager of the FOSA program that aims to implement over 100 FOSAs through out the country. Through a dedicated team of consultants this subsidiary aims to increase the network of the FOSA sector which to date has 200 licensed FOSAs.

11.2 Business Support Units

Our business Division Service Structure is supported with a strong support division to ensure prompt delivery of the promised level of service to our customers. Key support units in the Bank include:-

11.2.1 Operations Division

•Information Technology

This department has made major strides in supporting the business with its key achievements being the development of a 5 year ICT Strategy which has acted as a guide for the division to remain ahead of the business in form of providing solutions. Key achievements of this support division has been the implementation of a financial platform that has integrated the Sacco movement on to our core platform and are now able to offer electronic banking to their members through the Sacco link card.

The department has also successfully implemented a system enhancement capability that will enable the Bank increase its client base to 6.5 million customers. With the expected branch expansion we envisage that we will increase our customer base and are now positioned for growth in our client base and also implementing an internet banking solution to provide banking access more so for Kenyans in the diaspora. Other key initiatives being undertaken to improve operation efficiency include:-

- Automation for added efficiency which has been implemented for most revenue collection processes.

- Centralization of all back office processes under Business Processing Centre (BPC) and Financial Control Unit (in Finance & Planning) to enhance efficiencies, optimize resources, free sales staff to focus on sales.

- Training and re-skilling/multi - skilling staff, - through the various programmes at our training center. Other initiatives include Head Office On Site Training (HOST) and Branch Office On-Site Trainers (BOST), e-learning, library services, local/overseas exposures, Management and Leadership courses, to enhance staff output and productivity.

- Enhanced communication process for better and faster decision making through e-mail.

Through this department the bank will continue to modernize its Information Communication Technology (ICT) capacity with the aim of achieving a modern, anticipatory and integrated technology capable of facilitating its growth and service delivery.

Business Change Management

The bank has invested in a key Business Process re-engineering department under the Operations Division which undertakes a re-evaluation of processes to enhance efficiency and optimization of resources. The department has re-engineered processes such as account opening, teller services and card production and the loan process among others. In addition it has ensured automation of processes for added efficiency especially in the area of revenue collection.

The bank consistently evaluates its all its back office processes under a Business Processing Centre (BPC) and Financial Control Unit (in Finance & Planning) to enhance efficiencies, optimize resources as well free sales staff to focus on sales

11.2.2 Credit Management Division

The success of the bank is also attributable to its ability to manage the quality of its loan book. The Credit Management Division is mandated to ensure that in whatever direction the Bank decides to go, she is conscious of any credit risks inherent in the decision and has found the risks acceptable to the bank, having measured the risks, assessed them and mitigated and set out how to monitor them so little or no loss arises from taking the risks. Through these efforts the Division has contributed to the performance of the bank through establishment of a risk assessment monitoring & control system in line with industry standards and attainment of an annual reduction of the Non-Performing Loan (NPL) total to be in line with industry standards. The Bank has also strengthened the Credit Management division through

11. BUSINESS OVERVIEW (CONTINUED)

providing good professional leadership and enhanced its scope to facilitate good analysis and appraisal of loans as well as managing the loan delinquency.

11.2.3 Finance & Administration Division

This is a key Division of the Bank charged with the key responsibility of managing the Groups financials. As part of its core responsibility the Division prepares the annual financial estimates in liaison with the respective departments and monitors their performance against the budgeted estimates. Through this approach they provide a center of convergence for all financial activities taking place in the network. At present the banks financials are monitored and reconciled centrally on a daily basis through a real time Management Information System (MIS) performance and exceptions are easily tracked.

In addition to its financial role, the Division is also the planning arm of the Bank. Through the planning unit, the Bank manages the performance of the departments and units against set targets in their strategic and tactical plans. The planning unit also examines the external environment for the Bank providing the competitive market intelligence for better forecasting. Through this planning arm, the Bank's implementation of the strategic objectives has been highly successful resulting to its improved turnaround.

The Finance Division also houses the Banks Property and Supplies Department a facilitation department with key focus on establishment and refurbishment of branches as well as procurement of all non-human resources critical to the banks operations. Through this function the bank is now establishing cost-effective branches in relatively short periods and achieving a high level of infrastructure standardization. It procurement role has led to cost-savings given its competitive tender system and improved the quality of supply of goods and services to the Bank.

11.2.4 Company Secretary Division

The Company Secretary's Division serves as the vital link between management and the shareholders, providing Company Secretarial services and legal counsel to the Group and the Board of Management; particularly as the Bank has undergone the transformation through the business operational restructuring that has resulted in the turn-around and the current positioning as the fourth largest bank in terms of asset base, and more recently, in the re-structuring into a public limited liability company.

The division, through its Legal services department also cost effectively and efficiently manages the legal risk faced by the bank through close monitoring and management of the litigation portfolio by the in-house counsel, as well as proactive legal advise and guidance to all business and support units of the bank and its subsidiaries to inform on the business and other decisions being made on a day to day basis. Notably, no contingent liability on litigation or any other legal sanctions have crystallized over the last 10 years, and legal expenses of the bank have been maintained well below industry averages.

The Compliance function, a statutory requirement under the CBK Prudential Guidelines is also housed under the Company Secretary's division, to maximize on legal input. It is responsible for monitoring, assessing and reporting to Management and the Board of Directors on the bank's risk of legal or regulatory sanctions, financial loss or loss of reputation that the bank may suffer as a result of non-compliance with the laws regulations and best practice. This department supports the Branch network through their monitoring & control activities, and has formulated and is implementing the Know Your Customer (KYC) and Anti Money Laundering (AML) policies and procedures.

The division is also responsible for Security services. Appreciating that information communication technology is the main delivery system for the bank , the office of the Information Security officer was established under the Company Secretary's division, - for added independence of the function to effectively monitor and provide assurance to Management on information system security and adequately manage this risk. The approach is two pronged, -with the department also having the unit charged with the responsibility of fraud investigations and physical security also under the same division focusing on fraud prevention policies and procedures.

As part of the bank's responsibility to give back to the community, which resonates with the bank's founding mission in terms of providing affordable financial services to the co-operative movement and raising the standards of living for the ordinary Kenyan, the Board of Directors established a school fees bursary programme for needy but bright children of the co-operative movement. This bursary programme is being implemented through the Co-operative Bank Foundation, established in year 2006, as the vehicle for implementing the bank's corporate social responsibility activities. This falls under the Company Secretary's division, wherein more than 400 students are now beneficiaries of this programme that is making it possible for bright children in the co-operative movement, who would otherwise not have had access to education, to have a promising future; this belies the bank's firm appreciation that investing in our children is investing in the future of this nation.

11.2.5 Audit and Quality Assurance

To provide the desired level of assurance and effectively, image the level of business risk, the invested in its internal audit capacity. This key function of the bank has been re-enforced with its terms of reference in line with Central Bank Prudential Guidelines and conducts regular audits annually at all key risk area. Through its activities the bank has seen clear improvement on the management of risks. All areas are clearly assessed with improvement benchmarks being monitored by the Audit Committee of the Board. With the expected expansion of the banks business the unit has been adequately resourced to manage the growth.

11.2.6 Risk Management

The bank has in place an independent Risk Management arm whose key focus is to ensure an optimal mix between risks and returns for purposes of achieving its goals and objectives. Through a well established comprehensive framework the bank is able to identify its risks and put in place risk mitigation actions. In addition the bank is able to assess its risk appetite and is has adapted the enterprise wide risk concept which aims to embed a risk management culture in conformity with Basel II requirements.

11.2.7 Human Resources Development

The successful turnaround of the bank is largely attributable to our investment in the Human Resources. The bank has identified this as one of its key pillars and greatly invested in the human resource capacity. The bank currently employs a well motivated staff complement of 1969 members all qualified and recruited on merit. The banks human resource development programs has enhanced the productivity of its staff through provision of relevant training on management courses at its own Centre of Management Training, provided training grants for staff undertaking professional courses, established an e-learning program a virtual education program. It also sponsors International courses for staff to learn from external experiences and international best practices as well as invite internationally acclaimed facilitators to run customized group training programs. Through this and other initiatives the Bank remains committed to delivering on its vision of being a leading and dominant bank.

The Bank has also embraced a performance based culture through performance contracting with every member of staff on a top-down approach who now sign an annual performance contract to deliver on the set annual objectives. This is monitored through a Balance Score Card appraisal system that monitors the performance of staff at every key pillar and agreed tactical plans. Performance is rewarded merit through provision of competitive bonuses, salary increments and promotions.

As noted elsewhere, the Board of Directors has in the past approved policies and encouraged senior staff to own shares in the Bank more so with the excellent performance of the bank in the recent years. This has seen an incredible level of commitment and a business turn around in the performance of the bank as it has rejuvenated the level of commitment of staff who are now also co-owners of the organization.

11. BUSINESS OVERVIEW (CONTINUED)

11.3 Information on Subsidiaries

The company has two active subsidiaries, CoopTrust Investment Services Limited ("CISL") which is in the business of fund management, and Co-operative Consultancy Services Limited ("CCSL") which is in the business of investment advisory. Below are further details on the subsidiaries:

	CISL	CCSL
Amount of capital held by Co-op Bank in subsidiaries (Kshs.)	85,457,452.00	22,927,070.00
Proportion of capital held	100%	100%
Nominal amount of issued capital (Kshs.)	20,000,000.00	40,000,000.00
Reserves (Kshs.)	65,457,452.00	(17,072,930.00)
Profit/(Loss) for the year ended 31 December 2007 (Kshs.)	23,633,555.00	182,443.00

12. RISK FACTORS

Risk Management

Co-operative Bank has established a comprehensive framework for risk management that has been implemented across all business units. This framework is based on an identified range of possible risks, indicating their drivers, frequency, impact, trends and respective measures on how to mitigate them. All risks to the banking industry and those that are specific to the Co-operative Bank are monitored and actively managed by the respective business units and the Risk Management Department. There is a continuous monitoring and assessment of the Bank's risk limits to ensure appropriate and timely intervention in line with the Bank's objectives, strategies and current market conditions.

These risks and uncertainties are not the only issues that the Bank faces; additional risks and uncertainties not presently known to it or that it currently believes not to be material may also have a material adverse effect on Co-op Bank's financial condition or business success. If any or a combination of these risks actually occurs, Co-op Bank's business, financial condition and operating results could be adversely affected.

12.1 Competition

Co-op Bank currently has the fourth highest market share in terms of deposits and loans from customers. Competition in the banking sector is expected to grow even more than has been experienced before. However, the potential market is still largely untapped with banking services having a low penetration rate, especially among the rural people. This competition is therefore not a major concern in the foreseeable future. However, the Bank has actively engaged vigorous mitigating strategies to manage competition, among them the diversification into the non traditional markets, e.g. services targeting young innovative entrepreneurs.

12.2 Credit Risk

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

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

12.3 Liquidity Risk

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

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

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

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

12.4 Political, Regulatory and Legislation Risk

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

In the past, the performance of the Kenyan economy has been affected by its political situation. As a result of the outcome of, and reaction to, the 2007 elections, Kenya

12. RISK FACTORS (CONTINUED)

experienced a period of social and political turmoil, which included civil unrest, riots, protests and street demonstrations. On 28 February, 2008 a power sharing agreement was reached, and this has helped calm the tension and fears of the public. As a result all sectors of the economy, banking sector included, faced a difficult first quarter of 2008.

Regulatory risk is the risk of non-compliance with regulatory guidelines. Regulatory risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practice, or ethical standards issued by the regulator from time to time. Regulatory risk also arises in situations where the laws or rules governing certain Bank products or activities of the Bank's clients may be ambiguous or untested. Co-op Bank has a Compliance Officer, who is tasked with monitoring ongoing legislative compliance.

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

12.5 Interest Rate Risk

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

To mitigate this risk, the Bank aims to:

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

12.6 Currency Risk

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

- Daily monitoring of the overall foreign exchange risk exposure using spot mid-rates as availed by the Central bank of Kenya.
- Single currency exposure, irrespective of short or long position, based on the Bank's core capital.
- The Board of Directors sets the Intra-day foreign exchange exposures within strictly defined limits.

12.7 Operational Risk

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

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

12.8 Inflation Risk

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

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

13. SELECTED FINANCIAL DATA

The following financial data has been extracted, without material adjustment, from the Company's statements for each of the five years ended 31st December 2007, 2006, 2005, 2004 and 2003 and six months to June 2008. These statements have been audited. The summary financial data should be read in conjunction with the "Operating & Financial Review" and with the "Reporting Accountants' Report" included in this Information Memorandum.

BALANCE SHEET	June 2008	Year 2007	Year 2006	Year 2005	Year 2004	Year 2003
	KShs Mn	KShs Mn	KShs Mn	KShs Mn	KShs Mn	KShs Mn
Cash and short term funds	10,144	7,759	8,715	6,420	6,344	3,584
Government Securities	11,091	12,982	15,439	11,348	7,530	5,799
Loans and advances to customers (net)	43,404	38,075	27,783	27,195	25,115	16,201
Property and Equipment	3,412	3,107	2,794	2,556	2,341	2,340
Other assets	3,755	3,431	2,704	2,419	3,210	2,577
TOTAL ASSETS	71,806	65,354	57,435	49,938	44,540	30,501
Customer deposits	58,763	54,775	48,183	43,602	35,151	25,814
Other liabilities	5,502	4,119	4,417	2,270	5,995	2,551
TOTAL LIABILITIES	64,265	58,894	52,600	45,872	41,146	28,365
TOTAL SHAREHOLDERS' EQUITY	7,541	6,460	4,834	4,067	3,394	2,136

PROFIT & LOSS	June 2008	Year 2007	Year 2006	Year 2005	Year 2004	Year 2003
	KShs Mn	KShs Mn	KShs Mn	KShs Mn	KShs Mn	KShs Mn
Operating Income	4,718	8,276	6,917	5,299	4,213	3,145
Operating Expenses	(2,724)	(5,257)	(4,236)	(3,421)	(2,971)	(2,499)
Provision for impaired loans	(300)	(700)	(1,425)	(1,164)	(886)	(464)
Profit/(Loss) before tax	1,675	2,319	1,256	714	356	181
PROFIT/(LOSS) AFTER TAX	1,242	1,550	867	446	205	155

PERFORMANCE RATIOS	Year 2007	Year 2006	Year 2005	Year 2004	Year 2003
Return on Capital Employed (ROCE)	23%	18%	11%	6%	7%
Return on Assets (ROA)	2.4%	1.5%	0.9%	0.4%	0.5%
Provision charge/ advances	-2%	-3%	-3%	-2%	-2%

BALANCE SHEET RATIOS	Year 2007	Year 2006	Year 2005	Year 2004	Year 2003
Gross Advances to deposits	84%	93%	102%	115%	115%
Provision/ Gross Advances	-16%	-37%	-34%	-33%	-39%
Liquidity Ratios	33.5%	41.4%	35.7%	27.4%	31.3%

14. OPERATING & FINANCIAL REVIEW

The operating and the financial review are to be read together with this prospectus as a whole, including the factors discussed under the "Risk Factors", the information contained in the "selected Financial Data", the audited financial statements of the bank for the five year period ended 31 December 2007 and the six month period ended 30 June 2008.

Main Factors affecting revenue

The banks main sources of revenue are interest income and commissions from various customer transactions. Interest income is mainly from loans and advances and also Government securities. The bank has been growing its interest income as it concentrates on its core business of lending to the individuals, co-operatives societies, small and medium businesses as well as corporate customers. In the last one year to 30 June 2008 interest income from loans and advances increased significantly by 40% indicating the increasing business on the key income stream. The bank has been improving the quality of its loan book over the last 7 years resulting to huge provisions in the past. The book is now at industry average and thus the good yield and growth.

The commission income has also grown significantly over the last few years. Commission income is mainly driven by the number of customers and the number of transactions that the bank has processed within a given period. The bank has been on an expansion mode increasing the number of its branches and the Automated Teller Machines. The bank's customer base has grown significantly from approximately 320,000 five years ago to over 800,000 currently.

The Bank's Future Outlook

The banking industry is expected to sustain the strong performance reported over the last few years through to the foreseeable future, benefiting mainly from the high capitalization that is being experienced in the industry. This is also due to an improved domestic economy, expanding business opportunities both locally and from the region and a robust monetary policy stance. Institutions are expected to continue rolling out new products as they expand their branch and ATM network.

Competition is likely to increase with entry of new Banks, as customer's awareness increases and as the foray into rural Kenya continues which shall result in the ordinary Kenyan truly benefiting from high quality banking services. It is therefore expected the banking sector shall continue on its previous growth trajectory in 2008.

The Bank's strategic vision is to build on its market leadership position in all its chosen customer segments to become the Bank of choice providing leading and versatile financial solutions to customers, be they retail, co-operatives, corporate or government throughout the country. The Bank's strategic plans will effectively deepen and broaden its product and service offerings. This will be through significant expansion strategies that will give the bank capacity to service large numbers of customers as well as improve service offering.

The bank expects capital expenditure levels to remain relatively high over the next few years. This is consistent with the Company's strategy to expand its branch and ATM network footprint in most areas of the country and additional ones in areas we are already operating. The bank also expects to incur significant capital expenditures over the next few years in renewing its ICT systems to cope with the envisaged growth. The capital investments will enhance the banks capacity to recruit more customers and therefore grow its market share as well as serve the core customers of the bank. The bank continues to review its corporate strategies to ensure that we remain competitive in the face of increasing competition in the banking and financial sector.

Discussion of Current Fiscal Year Performance

The bank's customer base continues to grow with over eight hundred thousand customers currently. During the current year, the bank has opened 8 branches and over 20 more are expected before the year end. The overall customer base in Kenya continues to increase as banks continue expanding to areas not previously banked. The revenue base in the industry and the bank is therefore expected to continue growing albeit the stiff competition in the industry.

The bank's profit continued to improve and is expected to increase its annual profit this year by over 50% compared to the previous year. The profit before tax for the six months period to 30 June 2008 increased by 50% despite the skirmishes and election violence experienced at the beginning of the year.

Financial Results – 30 June 2008

Interest income increased from Kshs.2.53 billion in June 2007 to Kshs3.28 billion mainly due to increased lending to the various customers. Interest expense also increased from Kshs.440 million to Kshs.786million owing to the liquidity crunch in the market in the first six months of the year. Net interest income thus increased to Kshs2.5 billion from Kshs.2.1 billion compared to the same period last year.

Non interest income increased from Kshs.1.8 billion in June 2007 to Kshs2.2 billion mainly due to increase in non-funded income streams such as commission on loans and advances, foreign exchange income, electronic banking services, trade finance and personal and business banking. Loans and advances to customer majority of who are small scale farmers and business owners also grew significantly by 45% from Kshs30 billion in June 2007 to Kshs43.4 billion in June 2008.

Operating expenses increased to Kshs.3.05 billion from Kshs2.7 billion during the same period last year. The growth in operating expenses was fuelled by expansion of the bank necessitating increased operating costs. The number of branches increased as well as the number of customers. More staff were hired to cope with the expansion and also investment in operating systems and other assets required to serve customers.

The profit before tax increased to Kshs.1.68 billion up from Kshs1.12 billion as at 30 June 2007. The 50% increase in profitability was in line with growth in the various revenues lines notably the interest income and commissions. The momentum is expected to be maintained into the future especially once the IPO proceeds are received.

Future projections

Operationalisation of the strategic plan

The bank has a five year rolling strategic plan that is based on the vision and the mission of the bank. The strategy is then implemented by the use of tactical plans developed for the various divisions and whose attainment is reviewed every three months. There are 12 key corporate strategic objectives that the bank aims to achieve if the strategy is to be successful. Coupled with the strategic objectives are the core values of the bank as follows:

- We are proud to be Co-operative bank
- We value our customers
- We employ the best practice
- We grow our people
- We execute at speed
- We value our bank's reputation

The board reviews the implementation of the strategic plan on an ongoing basis to ensure that the bank stays relevant.

Expected financial outcomes

The implementation of the bank's strategy has been successful and has ensured that the bank's profitability continue to increase. The bank is expected to continue growing its profitability and other key results as follow;

- Increase the customer deposits to Kshs67billion by 31 December 2008 from Kshs60billion in June 2008
- An increase of the Total assets from Kshs72billion to Kshs90Billion
- Increase the shareholders funds to Kshs18.5billion up from Kshs7.2billion. This is on the assumption that the IPO proceeds will be realised.
- Interest income to increase from Kshs3.3billion to Kshs5.3billion.
- Commissions and other income is expected to increase by 36% to Kshs4.3billion
- Expenses are projected to increase as the bank increases it operations from Kshs2.9billion to kshs3.3billion representing 14% growth.

Profit before tax is therefore expected to be Kshs.3.5 billion which is 53% growth over the previous year.

Please refer to Appendix 2 on the Proforma Financial Statements for further details.

15. REGULATORY ENVIRONMENT

Introduction

The regulatory and governance related legislation that affects or is likely to affect The Co-operative Bank of Kenya Limited and the Initial Public Offer of its shares includes:

- The Banking Act
- The Central Bank of Kenya Act
- The Central Bank Prudential Guidelines
- The Companies Act,
- The Capital Markets Act
- Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya
- The Capital Markets (Securities) (Public Offers, Listing and Disclosure) Regulations 2002
- The Central Depositories Act

1. The Banking Act

This is described in the long title as an Act of parliament to regulate the business of banking and for matters incidental thereto and matters connected therewith.

A bank is defined under the Act as a company which carries on or proposes to carry on the business of banking in Kenya and includes the Co-operative Bank of Kenya Limited but does not include the Central Bank.

The Co-operative Bank of Kenya Limited was the only licensed bank that was not a company and was thus specifically recognized by statute as a bank. The Bank has since become a public limited liability company.

The Banking Act under Section 3 prohibits any person from transacting any Banking Business or financial business or the business of a mortgage finance company unless such person is an institution and such institution is duly licensed or holds a valid licence.

Section 5(4) requires the renewal of any licenses issued under the Act within three months of expiry of the said licences.

The Act further contains restrictions on the operations of any institutions licensed under it and gives the Central Bank of Kenya a supervisory role over banks and financial institutions and in this regard, periodic reports are to be sent to it from the licensed institutions.

Section 13 of the Act contains restrictions on ownership of share capital of a Bank. It prohibits any person not being a Government, a state corporation or a foreign licensed institution from holding more than 25% of the share capital of any institution (Section 13(1)).

Further, no financial institution or mortgage finance company may acquire or hold any part of the share capital of a bank.

S. 13 (3) requires that where any share is held by a company or by a nominee on behalf of another person, the company or the nominee, as the case may be, shall disclose to the institution and to the Central Bank the full particulars of the individual who is the ultimate beneficial owner of the share.

No licensed institution is permitted to transfer more than 5% of its share capital to another person without the approval of the Central Bank.

However, Section 53 of the Act allows the Minister, by notice in the gazette, to exempt an institution from the provision of Section 13 subject to such conditions as he deems necessary and for a period specified in the notice.

Since it was the intention of the bank that Co-opholdings holds more than 25% of its shares, an application was made to the Minister under Section 53 and exemptions granted by Legal Notice No. 108 dated 12th August 2008. Under the notice, Co-opholdings is exempted from the provisions of section 13 (1) and (3) of the Banking Act for a period of ten years from 8th August 2008. As a result, Co-opholdings is able to hold over 25% of the share capital of Co-op Bank. It is anticipated that Co-opholdings will, for the foreseeable future hold 62.0% of the issued and paid up share capital of the Bank once the Offer Shares are fully subscribed.

2. The Central Bank of Kenya Act

The Central Bank of Kenya Act is an Act of Parliament to establish the Central Bank of Kenya and to provide for the operation thereof; to establish the currency of Kenya and for matter connected therewith and related thereto.

As part of its operations, and as indicated above, the Central Bank has a supervisory role on commercial banks. Part VII contains provisions on its relations with banks licensed under the Banking Act. Some of the provisions relating to this include:

- Mandatory licensing of any institution carrying on foreign exchange business. CBK is empowered to permit a person to carry on foreign exchange business without a license;
- Formulation of regulations of reserves to be deposited with it by banks for their deposits and other liabilities; and
- Furnishing of certain information to the Central bank by other banks;

As mentioned above, CBK must approve the change in ownership of over 5% of the share capital of a licensed institution.

3. The Central Bank of Kenya Prudential Guidelines

The Central Bank of Kenya Prudential Guidelines for Institutions Licensed under the Banking Act contain provisions that impact on the operation of banking institutions. The guidelines are issued under section 33(4) of the Banking Act which allows the Central Bank to issue directions to institutions generally for the better carrying out of its functions with respect to guidelines to be adhered to by institutions in order to maintain a stable and efficient banking and financial system.

The guidelines contain provisions on licensing, capital, prohibited business, corporate governance, liquidity management, foreign exchange, restructurings, and enforcement of law, among other matters.

In particular, CBK/PG/02 on Corporate Governance

(1) Requires a form 1F 1-3 to be filled making disclosures relating to a person wishing to acquire 5% or more of an licensed institutions shareholding;

(2) Requires that CBK approves of any persons proposed as directors prior to them assuming office.

The Bank is and intends to remain in compliance of these guidelines.

4. The Companies Act (Cap. 486, Laws of Kenya)

The Bank is governed by the Companies Act by virtue of the fact that it is constituted as a company incorporated under the Laws of Kenya. The Bank should remain in compliance with the requirements of this Act especially with regard to the filing of returns.

The important provision in this regard is Section 43 of the Companies Act which relates to filing of the prospectus with the Registrar of Companies. The Companies Act refers to 'Prospectus' while the Capital Markets Act and Regulations use the terms 'Prospectus' and 'Information Memorandum' interchangeably. The Information Memorandum / Prospectus having been approved by the Board of Directors and the Capital Markets Authority has been lodged with the Registrar of Companies under Section 43.

5. The Capital Markets Act

The Capital Markets Act establishes the CMA for the purpose of promoting, regulating and facilitating the development of an orderly, fair and efficient capital market in Kenya.

Under section 12 of the Act, the Capital Markets Authority is empowered to formulate such rules, regulations and guidelines as may be required for the purpose of carrying out its functions. It has formulated regulations relating to listings and public offers.

The CMA has the mandate to approve a securities exchange in Kenya and to approve listing of shares thereon.

Under section 30A (1), the Act provides that no person shall, in Kenya, offer its securities for subscription or sale to the public or a section of the public unless prior to such offer, it publishes an information memorandum/ prospectus signed by or on behalf of its officers and files a copy thereof with the Authority. It further provides that every information memorandum should comply with such requirements as may be prescribed by the Authority.

The listing and issue of shares of the Co-operative Bank will be governed mainly by the Capital Markets Act and the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 issued thereunder.

6. The Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002

These Regulations set out among other things the listing eligibility criteria, the disclosure requirements, the process of obtaining approval and the continuing listing obligations. Co-op Bank will remain compliant with these Regulations.

7. Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya

These Guidelines set out good corporate governance requirements which listed companies should comply with and adhere to, observe and report on. Of particular interest is the composition and role of the Board, qualifications and experience of directors, board committees and general corporate governance. As a listed company, Co-op Bank will adhere to best practice in corporate governance and also report on its said compliance on a regular basis.

8. The Central Depositories Act, 2000

The Articles of Association recognize the applicability of the Central Depositories Act, 2000 to the Company once the Company's shares are listed. The Act will have impact on immobilization, upload of shares into the Central Depository System database and management of the register by virtue of the shares being resident in the central depository.

16. BOARD OF DIRECTORS, SENIOR MANAGEMENT & CORPORATE GOVERNANCE

A key contribution to the Bank's turnaround has been its investment in its institutional framework. Since 2002, the bank has continuously invested in its human capital and structures and to date has an admirable staff complement, a key attraction to the industry.

As an organization cognizant of the need for development of its human capacity, we continuously invest in this resource through training both internationally and locally, remuneration and a sustainable and enviable working environment for the staff. As part of measures to increase productivity in this key resource, the bank has put in place world class incentives. These include:-

Staff Recruitment, the bank operates an ambitious staff recruitment policy aimed at attracting the best staff in the industry. We employ an equal opportunity policy based on merit and driven by the need to have a highly professional staff complement.

Human Capital Development, a key contributor to our business success through enhancing the skill set of our human capital. We recognize the importance of skilling and re-skilling of our staff through continuous and relevant training for all staff. Our training program is user driven with each strategic business unit identifying its user training requirements which are approved by a dedicated training and user committee. The bank facilitates staff training provided by both local and international organizations trainers.

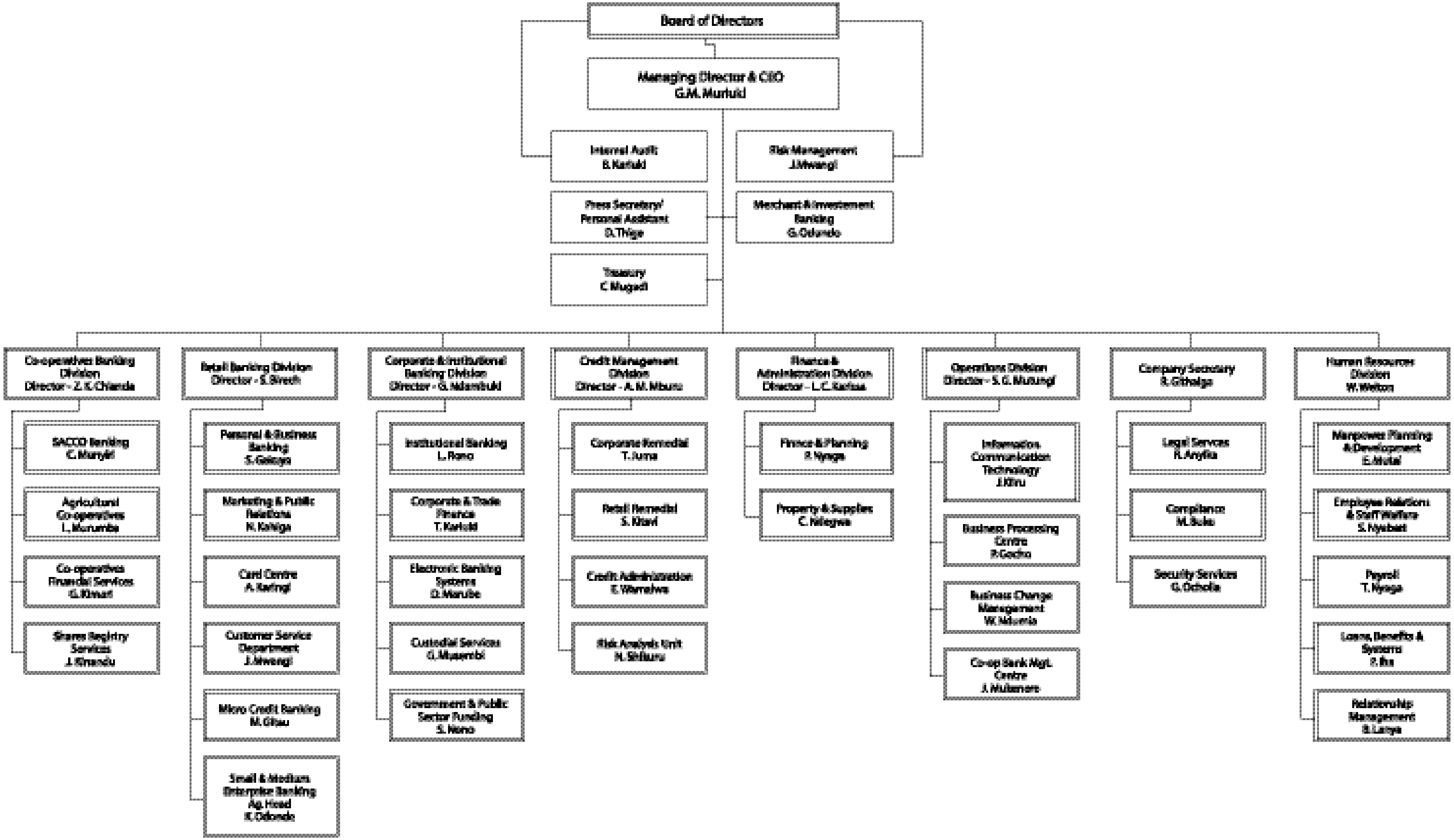
To support its local training content the bank has in place a dedicated staff training center, the Co-operative Bank Centre offering user training covering all aspects of the banks services. The bank also has a policy requiring each employee to undergo a minimum of 40 hours training annually.

Performance Based Reward, a reward system for all staff contracted to achieve set performance benchmarks. All achievements are rewarded annually through a competitive bonuses and salary increment scheme.

Staff Retention Schemes put in place in recognition of the excellent performance of the Bank over the years and as a means of attracting the best resource in the industry. Owing to the excellent contribution of the staff that led to attainment of the full circle turnaround of the bank with a profit of Kshs.2.3 billion after 7 years the bank under the previous governance structure of the co-operative society approved policies to offer and encourage directors and senior management to buy shares in the bank to increase their stake and cushion against possible loss of trained and experienced key staff to competitor banks. Through this and a number of other staff retention policies the Bank has witnessed great commitment and performance of the Bank. The bank will post IPO establish an Employee Share Ownership Scheme (ESOP) for its entire staff base.

Team Synergy and Spirit Programs

At Co-operative Bank we encourage a high level of team spirit. We consider ourselves as one family and in view of this we have put in place a number of initiatives to encourage a team culture through, formulation of a Co-operative Bank Culture espousing our core values, divisional team building programs and annual sports and extra-curricular events.


Board of Directors
Managing Director & CEO G.M. Muriuki
Internal Audit B. Kariuki
Risk Management J.Mwangi
Press Secretary/ Personal Assistant D. Thige
Merchant & Investement Banking G. Odundo
Treasury C Mugadi
Co-operatives Banking Division Director - Z. K. Chianda
Retail Banking Division Director - S. Birech
Corporate & Institutional Banking Division Director - G. Ndambuki
Credit Management Division Director - A. M. Mburu
Finance & Administration Division Director - L. C. Karissa
Operations Division Director - S. G. Mutungi
Company Secretary R. Githaiga
Human Resources Division W. Welton
SACCO Banking C. Munyiri
Agricultural Co-operatives L. Murumba
Co-operatives Financial Services G. Kimari
Shares Registry Services J. Kinandu
Personal & Business Banking S. Gakuya
Marketing & Public Relations N. Kahiga
Card Centre A. Karingi
Customer Service Department J. Mwangi
Micro Credit Banking M. Gitau
Small & Medium Enterprise Banking Ag. Head K. Odondo
Institutional Banking L. Rono
Corporate & Trade Finance T. Kariuki
Electronic Banking Systems D. Marube
Custodial Services G. Musembi
Government & Public Sector Funding S. Nono
Corporate Remedial T. Juma
Retail Remedial S. Kitavi
Credit Administration E. Wamalwa
Risk Analysis Unit N. Shiluru
Finance & Planning P. Nyaga
Property & Supplies C. Ndegwa
Information Communication Technology J. Kiiru
Business Processing Centre P. Gacho
Business Change Management W. Ndumia
Co-op Bank Mgt. Centre J. Mulamere
Legal Services R. Anyika
Compliance M. Bulo
Security Services G. Ochola
Manpower Planning & Development E. Mutai
Employee Relations & Staff Welfare S. Nyabati
Payroll T. Nyaga
Loans, Benefits & Systems P. Iha
Relationship Management B. Lanya

16. BOARD OF DIRECTORS, SENIOR MANAGEMENT & CORPORATE GOVERNANCE (CONTINUED)

Corporate Governance Statement

The Co-operative Bank of Kenya is committed to adhering to the highest standards of Corporate Governance in all its operations. This commitment is based not just on our desire to meet the requirements of good governance but also on our core values and beliefs.

The Board is responsible for the Group's corporate governance practices and recognizes its responsibilities to shareholders and other stakeholders to uphold the highest standards in economic, social, environmental and ethical matters by ensuring that the Group conducts its business in accordance with best practice in corporate governance. The Co-operative Bank of Kenya has in place mechanisms to fully comply with the provisions and principles of good corporate governance as set out in the Prudential Guidelines from the Central Bank under the Banking Act. As part of this process, all the directors attend training, at the Bank's expense, on good corporate governance provided by Center for Corporate Governance and various relevant exposures/seminars

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

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

The boards of the subsidiaries of the Bank, - Co-opTrust Investment Services Limited and Co-operative Consultancy Services (K) Limited - meet on a quarterly basis.

The full Board meets at least six times a year.

It is responsible for providing leadership to the Bank and has the following duties and responsibilities:

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

The Board evaluates the effectiveness of its performance against its set objectives, as well as the performance of its committees as at the end of each year, by way of both peer and self evaluations and an evaluation of the performance of the Chairman.

The Board has in place the following sub-committees: -

i. Audit Committee

ii. Staff and Nomination Committee

ii. Risk and Finance Committee.

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

Audit Committee

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

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

Staff and Nomination Committee

This committee meets at least four times in a year. Its mandate is to review human resource policies and make suitable recommendations on Senior Management appointments. In addition it has the responsibility of reviewing, vetting names for director positions and proposing/making recommendations to the Board of

Directors, who then present to the General Meeting, and also assessing the performance and effectiveness of directors of the Company. The current members are Mr. Muchiri, Mr. Riungu, Mr. Muriuki, Mr. Odhiambo, Mr. Sitienei and Major (Rtd) Wakasyaka.

Risk and Finance Committee

This was previously the Finance Committee of the Board whose mandate was to review all credit and finance matters. The scope of this committee was enhanced in year 2006 to include risk management issues in terms of management, assurance, reporting and overseeing all risks facing the bank. The current members are Mr. Muchiri, Mr. Malonza, Mr. Ongoro, Mr. Kimanthi and Mr. Kibera.

Management Committees

The Board has also ensured effective functioning of key Management Committees, also with defined terms of reference and scope of authority and reporting structure. The key Management committees are as follows;

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

- *The Credit Board of Management,* - the membership of which comprises the respective divisional directors. Its mandate is to receive review and consider all credit cases and matters that are beyond the limits of the divisional directors.

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

- *Business Support Committee (BUSCO)*

This is the Operational Risk Committee of the bank charged with the responsibility of overall monitoring and control of the Operating, Regulatory and Market Risks.

- *The Expenditure Management Committee*

This is the tender committee of the bank, and its mandate is to receive and consider all capital and recurrent expenditure cases referred to it by the Property & Supplies department.

- *IT User Prioritization Committee*

This Committee prioritises all requisitions on significant capital expenditure and budgets for investments in ICT and considers business case proposals for all proposed ICT investments.

- *The Staff Disciplinary Committee*

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

The bank is committed to ensuring effective communication with the shareholders and has used the Annual and Special General Meetings to sensitise the shareholders fully with the bank's activities and performance.

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

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

Stanley Charles Muchiri, (EBS) Group Chairman (Age 62).

Mr Muchiri Joined the Board in 1986 and became Chairman in 2002, having served as Vice-Chairman for nine years. He 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 over 30 years experience in top management of co-operative societies and worked as the General Manager of the giant Mugama Co-operative Society Union. He is the Chairman of the Kenya National Federation of Co-operatives (KNFC), which is the apex body of the co-operative movement in Kenya, Vice-President of the International Co-operative Alliance (ICA), and President of the International Co-operative Alliance Africa. He was decorated with the award of "Elder of the Burning Spear" in the year 2005 for his outstanding service to the nation. He has previously served as a Director in Coffee Board of Kenya, Kenya Planters Co-operative Union, Coffee Research Foundation and Kenya Farmers Association. He is the Chairman of the Co-operative Bank of Kenya Limited, Co-optrust Investment Services Limited, Co-operative Consultancy Services (K) limited and Co-opholdings Co-operative Society limited.

16. BOARD OF DIRECTORS, SENIOR MANAGEMENT & CORPORATE GOVERNANCE (CONTINUED)

Gideon Muriuki, (OGW) Group Managing Director and Chief Executive Officer (Age 44).

He was appointed Managing Director in the year 2001; he is the driver of, and is credited with the impressive full circle turnaround of the bank following a business and operational re-structuring of the bank undertaken under his leadership on taking over in the year 2001, wherein from a massive loss position of Kshs. 2.3 billion in the year 2001, the bank posted a profit before tax of Kshs. 2.3 billion in the year 2007, is making a dividend return to its shareholders since 2003, and is ranked fourth in the market in terms of asset base. Mr. Muriuki joined the Group in 1996 as a Senior Corporate Manager pioneering and providing leadership in the setting up of the Corporate Banking Department as part of the bank's change in strategic direction in embracing other market segments, and steadily rose through the ranks to become the General Manager in charge of Corporate and Institutional Banking in 1999, and before being appointed Managing Director in 2001 with a clear mandate to return the Bank into profitable trading. He holds a Bachelor of Science degree in Mathematics and is a Fellow of the Kenya Institute of Bankers. He has over 19 years experience in banking and finance between Barclays Bank, Standard Chartered Bank Kenya Limited and the Co-operative Bank of Kenya Limited.

He is also the Managing Director of Co-optrust Investment Services Limited and Co-operative Consultancy Services (K) limited. He is a director of the Deposit Protection Fund, Vice-President Africa – International Co-operative Banking Alliance (ICBA), Vice- Chairman of Co-operative College of Kenya, Executive Committee member of the Kenya Bankers Association, Council Member of the Nairobi Evangelical Graduate School of theology and former Chairman of AFRACA (African Rural and Agricultural Credit Association). He was decorated in year 2005 with the award of "Order of the Grand Warrior" in recognition of his successful turn around of the Bank. He is also a recipient of a decoration of "Chevalier de L'orde national du Burkina faso" by the President of Burkina Faso in recognition of his outstanding leadership and contribution to development of rural finance in Africa.

Julius Riungu, Vice- Chairman (Age 60).

Mr. Riungu is a businessman and a leading educationist with over 20 years experience in the teaching profession, before assuming key leadership positions in the co-operative movement. He has previously served as a Director in Coffee Board of Kenya and Coffee Research Foundation.

He is also the Vice-Chairman of Co-opholdings Co-operative Society limited, the strategic and majority shareholder in Co-operative Bank of Kenya limited.

Macloud Mukiti Malonza, Director (Age 38).

Mr. Malonza joined the board of Co-operative Bank in 2005. He holds a Bachelor of Arts degree, a Masters in Organisational 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 the Chairman of the giant Harambee Co-operative Society Limited that serves the employees of the various Government departments under the Office of the President.

John Kamau Murugu, Director (Age 58)

Mr. Murugu joined the board of Co-operative Bank in 2007 as the appointee of Permanent Secretary, Treasury. He has had an outstanding career as a banker with over 25 years experience, rising from the position of Assistant Manager to Director Bank Supervision at Central Bank, where his mandate was overall supervision of institutions operating under the Banking Act and the Building Societies Act. As Director Bank Supervision, he is credited with far reaching reforms that included review of the legal framework for growth and stabilisation of the industry.

He holds a Bachelor of Education degree and Masters of Arts in Economics. He is currently Director – Debt Management at the Ministry of Finance, having been retained under contract upon his retirement from Central Bank in 2006, to spearhead the integration of debt management functions scattered among several departments of the Ministry of Finance and Central Bank of Kenya and establish an autonomous office that will be fully responsible for re-structuring of the country debt portfolio and matters related to sovereign risk. He has been an alternate director for the Permanent Secretary – Treasury, in Kenya Commercial Bank, Industrial Development Bank and Jomo Kenyatta University.

Fredrick F. Odhiambo, (MBS) Director (Age 55).

Mr. Odhiambo joined the board of Co-operative Bank in 2005. He is the Commissioner for Co-operatives Development and Marketing. Under his leadership the co-operative sector that plays a crucial role in the economy of this country, has undergone a transformation, which began with the review of the governing legal framework – The Co-operative Societies Act and Rules - in 2005 to introduce greater accountability and embed corporate governance best practices in the management of this key sector. This has seen to the immense growth of this sector that mobilizes over Kshs.150 billion in savings from ordinary Kenyans. He was decorated with the award of "Moran of the Burning Spear" in year 2005 in recognition of his successful leadership that has translated to growth of the sector.

He holds a Bachelor of Science degree, and has attended several local and overseas courses/exposures including on project development and management and community development. He is also a Director in Kenya Union of Savings and Credit Co-operatives (KUSCO) – the umbrella body of the Savings and Credit Societies and the Coffee Board of Kenya. He is also a director of Co-opholdings.

Richard Lukas Kimanthi, Director (Age 52).

Mr. Kimanthi joined the board of Co-operative Bank in 1994. He is a businessman and has served in leadership positions in the co-operative movement for a considerable period. He has had several relevant local and overseas exposures. He also holds a diploma in Co-operative Management. He is also a director of Co-opholdings.

Major (Rtd.) Gabriel Wakasyaka, Director (Age 66).

Major Wakasyaka joined the Board of Co-operative Bank 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 logistics, with diverse relevant international exposure. He is also a director of Co-opholdings.

Wilfred Ongoro, Director (Age 54).

Mr. Ongoro joined the Board of Co-operative bank in 2006. He is an educationist with over 20 years experience, and has been in top leadership positions in the co-operative movement. He is currently the Chairman of one of the largest Teachers Saccos. He is also a director of Co-opholdings.

Julius Sitienei, Director (Age 54).

Mr. Sitienei joined the Board of Co-operative Bank 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 also a director of Co-opholdings.

Mr. Donald K. Kibera (Age 61)

Mr. Kibera is best known as the former Director – External Resources Department, -Treasury, in the Ministry of Finance where he was involved for over 5 years, driving the negotiation and securing of strategic external funding by the Government, handling the key issues of integration of donor commitments into expenditure framework budget process, authorization of disbursement of donor funds to implementing agencies, monitoring and evaluation of all budgeted donor projects and programmes, appraisal of new donor funded projects, coordination of bilateral consultative meetings, technical assistance, and management of donor/financial agreements including protocols. Mr. Kibera is a graduate of the University of Nairobi with a Bachelor of Arts Degree (Upper 2nd honours) and has undertaken various courses in financial management, policy analysis, statistics, development administration and human resource management, locally and overseas. Mr. Kibera had a celebrated civil service career and previously served at various capacities in the Government including Deputy Secretary Cabinet Office – Office of the President wherein his responsibilities have included the general management of administration of the various Ministries and management and control of financial matters. He has served as Chairman of the National Youth Service Task Force, whose mandate was to review the relevance of the National Youth Service Act to the present day Kenya and propose an implementation plan for reforming the National Youth Service. He is currently a consultant at the Treasury, Ministry of Finance, a board member and Chairman of the Financial Committee of the Humanitarian Fund for Mitigations of Effects and Resettlement of victims of Post-2007 election violence, and also Chairman of the Government Task Force on transport policy. Mr. Kibera joined the Board in year 2008.

16. BOARD OF DIRECTORS, SENIOR MANAGEMENT & CORPORATE GOVERNANCE (CONTINUED)

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

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

Dr. James M. Kahunyo – Director (Age 54).

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

Elijah Kathuri Mbogo – Director (Age 65).

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

Patrick Kaguta Githendu – Director (Age 55).

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

Scholastica Odhiambo - Director (age 48).

Mrs. Odhiambo joined the boards of the subsidiaries in 2008. She is currently working with the Kenya Revenue Authority as a Revenue Officer, where she has served for over 10 years and has been part of the team credited with the successful re-positioning of Kenya Revenue Authority in streamlining tax collection. She holds a Bachelor of Business Administration and is currently undertaking a diploma course on Corporate Governance offered by the Kenya College of Accountancy.

Cyrus Njine Kabira – Director (Age 66).

Mr. Kabira joined the board of Co-operative Consultancy Services in 2005 and the board of Co-optrust Investment Services in 2008. He is a business man and a key opinion leader in the tea sector wherein he has served as the Chairman of the giant Kirinyaga Tea Sacco, - (the first Sacco to start a FOSA in Central province) for the last 23 years. He has had relevant extensive international exposures on co-operative matters including attending seminars on deepening and strengthening management capacities for top co-operative leaders and managers in Kenya, and a study tour on the Israeli Co-operative movement. He has previously served as Director of Kenya Tea Development Authority.

Godfrey Mburia – Director (Age 52).

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

As at the date of the application for approval of the offer of the Shares and Listing, and for a period of at least two years prior to the date of the application, no director of the Co-op Bank has:

- had any petition under bankruptcy laws pending or threatened against the director;
- been involved in any criminal proceedings in which the director was convicted of fraud or any criminal offence, nor been named the subject of pending criminal proceeding, or any other offence or action either within or outside Kenya; or
- been the subject of any ruling of a court of competent jurisdiction or any governmental body, that permanently or temporarily prohibits such director from acting as an investment adviser or as a director or employee of a stockbroker, dealer, or any financial service institution or engaging in any type of business practice or activity.

There will be no variation in the emoluments receivable by directors as a consequence of the Offer and listing of the shares of Co-op Bank. It is estimated that the emoluments payable to directors in the current financial year will be approximate in value to those paid in the last financial year, which totalled to Kshs.55,678,000.

None of the directors has had any interest in transactions which are or were unusual or significant to the business of the group during the current or immediately preceding year.

Biographies of Senior Management and Departmental Heads

The Bank has in place a flat organizational structure with clear mandates to facilitate prompt delivery of services and alignment to the Corporate Strategy of the Bank. The Bank is managed by a Board of Management comprising of experienced professionals headed by the **Managing Director Mr. Gideon Muriuki** and the following experienced team:-

Lawrence Karissa, Director - Finance & Admimistration (Age 52 years)

Mr. Karissa provides leadership to the Finance and Administration Division of the Bank. He is also the Chairman of the Expenditure Management Committee (the procurement committee of the Bank). Through his efforts the Bank has achieved a high level of success in cost reduction in the procurement process and management of the Banks financials. Mr. Karissa has over 24 years experience in banking. He joined the Bank in January 1995 from the Kenya Commercial Bank where he held a senior managerial position in the Finance Department. He has also worked for the accounting firm PriceWaterHouseCoopers. Mr Karissa is also the Chairman of the Banks Board of Trustees of the Banks Retirement Benefits Scheme. He holds a Bachelor of Commerce degree in Accounting and is a Certified Public Accountant of Kenya.

Rosemary Majala Githaiga, Company Secretary (Age 45 years)

Mrs. Githaiga is responsible for the overall provision of legal counsel and company secretarial services, compliance and security services to the Group. Mrs. Githaiga has over 20 years experience as a Lawyer. She previously worked for Hamilton Harrison & Mathews Advocates. She has ably provided legal counsel aiding the bank, particularly through the transformation period that the bank has undergone in the last eight years with the attendant challenges faced. She holds an LL.B degree from the University of Nairobi and is a member of the Institute of Certified Public Secretaries of Kenya (ICPSK) and is also an associate member of the Chartered Institute of Arbitrators.

Geoffrey Ndambuki, Director – Corporate & Institutional Banking Division (Age 48 years)

Mr. Ndambuki provides leadership to the Corporate and Institutional Banking Division. Through his efforts the Division has recorded phenomenal growth especially in the area of liability growth. A Banking professional for over 15 years Mr. Ndambuki has worked in a number of financial institutions which include African Banking Corporation, Commercial Bank of Africa and Middle East Bank. He holds a Diploma in Marketing and Management from the Kenya Institute of Management.

Zachary Chianda, Director – Co-operatives Division (Age 50 years)

Mr. Chianda provides leadership to the Co-operatives Banking Division which is the flag ship division of the Bank. He is a career banker with over 27 years experience in banking and has worked in various senior positions in the bank including General Manager Corporate & Institutional Banking Division, Chief Manager Co-operatives Department and Chief Manager Operations & Control. Mr. Chianda has been instrumental in the successful re-positioning of the Bank in the co-operative movement, our core market segment through development and implementation of innovative and value adding financial services. He holds a Bachelor of Science Degree in Financial Services and is an Associate of Chartered Institute of Bankers (ACIB) of UK.

Samuel Birech, Director – Retail Banking (Age 44 years)

Mr. Birech is in charge of the Retail Banking division of the group. His role is to provide leadership to the Retail Business of the group that encompasses Personal banking segment, Micro banking sector, SME sector, Card Business as well as responsibility over the Branch network. Mr. Birech has been with the bank for 6 years and has overseen the transformation of the Retail business of the bank into a leading player in the retail segment of the industry. He is a holder of a B.com degree and prior to his engagement, Samuel spent 13 years in the banking industry. His previous employment was as a senior manager in the retail division of Barclays Bank of Kenya Limited.

16. BOARD OF DIRECTORS, SENIOR MANAGEMENT & CORPORATE GOVERNANCE (CONTINUED)

Samuel Mutungi, Director – Operations Division (Age 53 years)

Samuel Gitonga Mutungi provides leadership to the Operations Division of our bank which oversees the support areas of the bank including ICT, Business Change Management, Business Processing Centre and Co-operative Bank management Centre. The Operations Division supports the front lines business units to provide efficient customer service. He has served the bank for over fourteen (14) years at senior management positions and has been instrumental in developing the state-of-the-art ICT systems. Mr. Mutungi holds a Masters of Science (MSc) in Business Systems Analysis and Design from the City University (London) among other academic qualifications. He is also a Fellow of the Kenya Institute of Bankers and a founder member of the Kenya Computer Society. He joined the bank from Glaxo EA Limited, where he served as the head of Computers Services among other responsible positions.

Anthony Mburu, Director – Credit Risk Management (Age 43 years)

Mr. Mburu provides leadership to the Credit Management Division of the Bank that handles Credit Appraisal, Credit Administration as well as Debt Recovery functions of the Bank and has overseen the launching of a Risk Management Framework as well as set up of a Risk Management Department for the Bank. Through his efforts the Credit Management Division is now an efficient, robust and professional function ensuring the continued health of the credit portfolio through portfolio diversification, credit scoring and early identification and action of problem loans in the management of credit in the Bank. He holds a Bachelors degree in Commerce and has attended various proprietary and international certified credit courses. Prior to his engagement at the Bank, Anthony spent 16 years at Standard Chartered Bank in various capacities including the last eight years in senior management with his last appointment being an international role as Regional Head of Credit for SME in Africa.

Weda Welton, Director – Human Resources Division (Age 50 years)

Mrs. Welton provides leadership to the group on all HR related matters, she is responsible for developing HR policies in partnership with the business, as well as provide advisory services on all HR related issues. She has been with the bank for the last 13 years and has been instrumental in ensuring its successful turnaround through the recruitment, development and placement of top talent. 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. Mrs. Welton is also 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 and a Director of MENNO Plaza. Prior to her engagement by the Bank, Mrs. Welton worked with Hogg Robinson Insurance Brokers (later Alexander Forbes and now Eagle East Africa Insurance Brokers) , Agricultural Finance Corporation where she rose through the ranks to the position of Deputy Personnel & Administration Head.

Caroline Mugadi, Treasurer (Age 39 years)

Ms. Caroline Mugadi is charged with the responsibility of the Asset & Liability Management process covering Liquidity, Foreign Exchange & Interest Rate Risk Management in the bank. She in addition manages the market and counter-party risks with all commercial banks both locally and internationally and has been instrumental for growth in revenues in this key area. A banking professional of 14 years,, Caroline has worked for a number of financial institutions including Diamond Trust Bank, Stanbic Bank Kenya and Standard Chartered. She has a B.Sc. Degree in Mathematics and Chemistry and has undergone advanced training through workshops and a wide range of specialized courses. She represents the Bank and The Kenya Bankers Association at The Joint Purpose Liquidity Committee initiated by The Central Bank of Kenya.

Geoffrey O Odundo, Chief Manager – Merchant & Investment Banking, (Age 39 years)

Mr. Odundo provides leadership to the Asset Management and Advisory arm of the Group. He has been with the Bank for the last 9 years and has overseen a transformation of Co-optrust Investment Company Limited and Co-operative Consultancy Services Company Limited into leading asset management and financial advisory companies respectively. He holds a Bachelors degree in Mathematics and Economics and a Masters in Business Administration (Strategic Management). Prior to his engagement at the company, Geoffrey spent 9 years in the Insurance sector his last as a Senior Manager in the Employee Benefits Division of British American Insurance Company. He also represents the Bank as Chairman of the Financial Standards Committee Kenya

Bureau of Standards and is a Council Member of the Association of Pension Schemes and Fund Managers Association of Kenya.

Patrick Nyaga, Chief Manager – Finance and Planning (Age 41 years)

Mr. Nyaga is in charge of Finance and planning department. His role is to ensure proper accounting and reporting of the bank to the various users of information as well as to guide the planning and the strategy function of the bank. He has over 17 years working experience having worked for the bank for the last 4 years. Previously, he worked for Barclays Bank as Head of Assurance, accounting firm KPMG East Africa in various senior positions and Del-Monte Kenya limited. He holds a Bachelor of Commerce degree in Accounting, is a Certified Public Accountant of Kenya and is pursuing his MBA at the Strathmore Business School.

Beatrice Kariuki, Chief Manager – Internal Audit (Age 50 years)

Mrs. Kariuki is in charge of the Internal Audit Function of Co-operative Bank Group. Her role is to provide leadership in evaluating the adequacy and effectiveness of the group's risk management, control and governance processes and the quality of performance in carrying out assigned responsibilities. Mrs. Kariuki has been with the Bank for the last 18 years. Through her efforts the bank has achieved a strong compliance rating. She reports to the Audit Committee of the Board. She holds a Masters in Business Administration (Finance), Certified Public Accountant of Kenya [CPA (K)], and Certified Internal Auditor (CIA) qualifications. She is also a holder of Accreditation in Quality Assessment/Validation qualification. She is a member of ICPAK and The Institute of Internal Auditors

James Mwangi, Head Risk Management (Age 43 years)

Mr. James Mwangi provides leadership to the Risk Management department focusing on implementation of the enterprise risk policy and monitoring the banks compliance to the Basel II requirements. Through his efforts the bank is now implementing this requirement as per CBK guidelines. He holds a Bachelor of Philosophy from Urbanian University of Rome and a Diploma in Social Studies from Oxford University in the United Kingdom and a Masters in Business Administration from the University of Wales. Mr. Mwangi joined the Bank from Standard Chartered Bank where he served in a senior management capacity.

Catherine Munyiri, Chief Manager – Sacco Banking, (Age 45 years)

Mrs. Munyiri is the Chief Manager in charge of the Sacco Banking Department. Mrs Munyiri joined the bank in the year 2002 and has been instrumental to the business growth in this key sector which is core to the banks founding values. Mrs. Munyiri has also been instrumental to the development of the relationship management concept which has contributed immensely to entrenching the Sacco Bank partnership. She is a corporate banker and has served in senior capacities at ABN Amro Bank and Barclays Bank. She is a holder of a Bachelors Degree in Business Education and has undertaken local and international training in banking.

David Thige, Press Secretary and Personal Assistant to the Managing Director (Age 57 years)

Mr. David Thige joined the Bank in 1994 as Chief Manager – Marketing and Public Relations. Prior to this appointment he had worked as a Marketing Officer and Public Relations Officer at Kenya Commercial Bank for a Period of 10 years i.e. since 1984. Between 1981 and 1984 Mr. Thige worked as an Area Marketing Manager with BAT Kenya. While Co-op Bank was transforming into a full-fledged commercial bank in 1994 in the era of liberalization Mr. Thige was involved in the launch of new products and services and overall branch expansion. In 1999 Mr. Thige was appointed Press Secretary and Personal Assistant to the Managing Director a post he holds to date. His key duties among others have been media liaison and managing the press. Mr. Thige holds a Bachelor of Science Degree in Marketing, a Master of Arts in Marketing and Management and a certificate in Public Relations from ESAMI.

Mr. Charles Kamanda Ndegwa, Chief Manager Property & Supplies Management (Age 48 years),

Mr. Ndegwa provides leadership to a diverse team of professionals involved in Project Management, construction and refurbishment of Retail outlets and space acquisition. He also oversees the procurement arm of the bank which ensures the proper sourcing of all contractors, prudent inventory management and heads the printing press unit. He also oversees the property management of all the banks

16. BOARD OF DIRECTORS, SENIOR MANAGEMENT & CORPORATE GOVERNANCE (CONTINUED)

assets and facilities. Mr. Ndegwa has been with the Bank for the last 7 years and holds a bachelors degree in Economics and Philosophy. He has 24 years banking experience and has attended various professional courses locally and internationally. Prior to joining the bank he held management positions in Diamond Trust Bank of Kenya Ltd , CFC Bank Ltd , Nation Newspapers Ltd and Kenya Commercial Bank Ltd.

William Osir, Chief Manager – Coast Region (Age 47 years)

Mr. Osir is the Chief Manager in charge of the Bank branches and Business development in the Coast Province. His duties include managing the main branch in Mombasa and business development in all the Banks outlets in the Coast Province. He has been with the Co-operative Bank for nearly Seven years and holds a Bachelors Degree in Financial Services, and has a Diploma in Mortgage Lending. Prior to joining the Bank he had held senior positions in both local and International Banks in Kenya for over 15 years.

Stephen Gakuya, Chief Manager – Personal & Business Banking (Age 40 years)

Mr. Gakuya is the Head of Retail Banking in charge of the branches. Mr. Gakuya oversees the operation of all branches and personal banking business of the Bank. He has been instrumental in the implementation of the retail banking strategy including branch expansion and asset growth campaigns. Through his efforts the department continues to record excellent results on all measures making immense contribution to the bottom line. A qualified Banker, Mr. Gakuya has served in several senior capacities his last as a Senior Manager at Barclays Bank of Kenya Limited. Mr. Gakuya has been with the Bank for the last 4 years.

Ngumo Kahiga, Chief Manager – Marketing and Public Relations (Age 44 years)

Mr. Ngumo Kahiga provides strategic leadership in Marketing and Public Relations having joined the bank six years ago from McCann-Erickson where he had worked for over ten years in Strategic Brand Management. He holds a Post-Graduate Diploma in Journalism and Public Relations from the University of Nairobi and a Bachelors Degree in Education from Kenyatta University. He represents the bank in the Public Relations Committee at the Kenya Bankers Association and The Marketing Society of Kenya.

James Kiiru, Chief Manager – Information Technology (Age 47 years)

Mr. Kiiru is the Chief Manager Information and Communication Technology (ICT) Department. He provides strategic ICT leadership in the Bank. Through his efforts the bank has successfully installed a number of key business support programs that have been instrumental in business growth. Mr Kiiru is an experienced banker having previously served as a senior manager at Standard Chartered Bank. He holds a degree in Electric Engineering from the University of Nairobi and has attended a number of local and international management courses. Mr. Kiiru has been with the Bank for the last 3 years.

Daniel Marube, Chief Manager Electronic Payment Systems (Age 50 years)

Mr. Marube is in charge of the banks electronic Banking channels whose purpose is to empower customers to initiate online banking conveniently and securely. This includes mobile phone banking (M-Banking), Internet banking, direct debits among others. He has been instrumental in the M-Banking product which the bank pioneered in the industry as well as all its utility payment capabilities. This business line is now extremely profitable with revenues in excess of Kshs 400 million in the last financial year. A trained marketer Mr. Marube holds a Bachelors Degree in Business Administration, Masters in Business Administration (Strategic Marketing) and a Postgraduate diploma in management from the Cambridge Association of Managers. Prior to joining the Bank he served in senior capacities at General Motors, Amazon Motors and National Bank in marketing capacities. Mr. Marube has been with the Bank for the last 13 years.

Jacob Ondik, Chief Manager – Co-op House (Age 51 years)

Mr. Ondik is the Branch Manager of our main branch - Coop House Branch - and has been with the Bank for the last 24 years. Having joined as a Financial Analyst in a World Bank funded Project, Mr. Ondik later managed our staff training as the Principal of the Bank's Training Centre during the Bank's transition from being purely a banker for the Co-operative Movement to being a conventional commercial bank. Mr.Ondik holds a B.Com [Hons] and M.B.A degree. Prior to joining the Bank, Mr. Ondik worked with Securicor Kenya ltd as an Accounts Trainee.

Evans Mutai, Chief Manager Manpower Planning and Development (Age 37 years)

Mr Mutai is responsible for ManPower Planning and Development in the Bank. His role is to ensure the recruitment and development of the banks human capacity as well as facilitating forward planning and development of this key resource. He is a holder of Bachelor of Commerce in Accounting from the University of Nairobi and brings in a wealth of experience having served as a Senior Manager in Standard Chartered Bank Limited. Mr. Mutai joined the Bank in the year 2008.

Joseph Mukenere Mucharie, Chief Manager – Co-op Bank Management Centre (Age 48 years)

Mr. Mucharie gives leadership to the Co-operative Bank Management Centre that oversees skills development for the over 2000 staff of the bank transforming the skill set of this key resource. Through his leadership the Co-operative Management Centre is now a center of excellence providing training to both staff and other clients in the Co-operative Movement. Mr. Mucharie, a career trainer, has over 27 years experience. He joined the bank from a consultancy practice where he undertook several training consultancy assignments.

Julia M Kinandu, Head – Shares Registrar Services (Age 42 years)

Mrs. Kinandu head the Shares Registrar Services which today handles several shares and Bond Registers for quoted and unquoted companies and through her leadership the department is now a leading provider of registrar services. Mrs. Kinandu has been with the bank for a period of 10 years and holds a Bachelor of Laws (LL.B (Hons.)) from the University of Nairobi , Certified Public Secretary, CPS(K), and a Diploma in Management. She is an Associate Member of the Kenya Institute of Management (AMKIM) and joined the Bank from Deloitte & Touche (Livingstone Registrars Limited).

Mrs. Regina Anyika , Senior Legal Officer (Age 40 years)

Mrs. Regina Anyika heads the Legal Department in the Company Secretary's Division. Her role is to provide leadership to the legal team, which offers legal support to the more than 40 branches of the Bank and it's subsidiaries, Co-optrust Investment services Kenya Limited and Co-operative Consultancy Services Kenya limited. Mrs.Anyika holds a Bachelor of Laws (LL.B) Degree from the University of Nairobi, Certified Public Secretary (CPS) and a Masters Degree (MBA) from the University of Leicester (U.K) in Employee Relations. She is currently the Trust Secretary of the Bank's Staff Pension fund; she joined the Bank from Senator Cards Limited, now affiliated to Southern Credit Bank Limited. Mrs. Anyika has been with the Bank for the last 11 years.

Mercy Buku, Senior Manager Compliance (Age 43 years)

Ms. Buku is responsible for the Compliance function of the Bank. Her role is monitoring, reporting and advising on the compliance status of the organization to laws, regulations applicable codes of conduct and best practices. She holds a degree in law from the University of Nairobi and has held senior managerial positions in a number of financial institutions including CFC Bank Limited, Diamond Trust and PTA Bank. Ms. Buku has been with the Bank for the last 3 years.

Mr. William Ndumia, Head Business Change Management (Age 34 years)

Mr. William Ndumia provides leadership in driving change, process re-engineering and reviews also the bank's ICT projects management. He has been in the bank for 3 Years and implemented various ICT projects including ATM switch, call centre, internet banking , integrated various systems and improved various customer facing and internal processes within the bank which has impacted positively on the bank's competitiveness. He holds a Bachelors degree in Mechanical Engineering from Jomo Kenyatta University of Agriculture and Technology. Prior to his engagement at the company William worked for Fina Bank Kenya and Citibank.

Tom Kariuki, Head Corporate Banking and Trade finance (Age 36 years)

Mr. Kariuki is responsible for Corporate Banking and Trade Finance Department. He has over 11 years of banking experience and joined Co-operative Bank in 2002 as Head of Treasury Marketing before moving to Corporate Banking. Prior to that, he worked for Commercial Bank of Africa as a Senior Dealer in the Treasury Department. He holds a Bachelor of Science and an MBA (Finance) from the United States International University - Africa. He is a certified ACI professional.

16. BOARD OF DIRECTORS, SENIOR MANAGEMENT & CORPORATE GOVERNANCE (CONTINUED)

Lydia Rono, Head of Institutional Banking (Age 43 years)

Mrs. Rono is the head of institutional banking. She has 20 years experience and has served the bank in various senior capacities. In her current capacity she leads a team of Relationship Managers whose core responsibility is to grow the liability side of the Bank's balance sheet. She holds an MBA (Finance) from the University of Nairobi and a BCom degree in Accounting and Business Administration from Daystar University and has attended various courses and workshops in management and banking and business development both locally and abroad. Mrs. Rono has been with the Bank for the last 22 years.

Silvance O. Nono, Head of Government & Public Sector Banking department (Age 44 years)

Mr. Nono is responsible for growing the Bank's business within the Government & Public sector Institutions. Nono has banking experience spanning 20 years and has served as a credit Officer, Branch Manager and Senior relationship Manager prior to his current posting. He is a Certified Public Accountant. He has been instrumental in developing customized products for the public sector and has attended Government sponsored overseas study tours on Government Banking services. Mr. Nono has been with the Bank for the last 22 years.

Mr. Timothy Juma, Corporate & Institutional Banking Recoveries (Age 43 years)

Mr. Juma is in charge of Corporate & Institutional Banking Recoveries Department of Credit Management Division. He provides a leadership role in debt recovery. He has been with the Bank for the last six years, and has overseen the setting up of the recovery units to the current strong recovery team whose efforts have greatly impacted on the Bank's bottom line. Prior to this he worked in various capacities in the Standard Chartered Bank for 13 years, his last as a Senior Manager Group Special Assets. He holds a Bachelors degree in Commerce and an Executive MBA (Strategic Management) from Maastricht School of Management.

Mr. Peter Gocho, Head Business Processing Centre (Age 40 years)

Mr. Gocho is in charge of the Business processing Centre in the operations division of Co-operative Bank ltd. His role is to provide leadership in Business processing offering a key backbone support for the entire Front office network. Mr. Gocho has been with the Bank for the last 12 years supporting operations in Foreign and Treasury, Clearing, Bulk payments and other Key Business support services. He holds a Bachelors degree in Commerce and prior to his engagement he worked with Standard Chartered Bank. He also represents the Bank in various subcommittees of Kenya Bankers association and is currently the Chairman of Cheque truncation operations sub-committee. He is also a member of National Payments steering operations committee chaired by Central Bank.

Susan Kitavi, Head Retail Recoveries (Age 39 years)

Ms. Kitavi is in charge of the Retail Recoveries department of the Bank. She provides a leadership role in debt recovery in the retail sector and has been with the bank for the last 5 years. Her efforts have seen an improvement in the level of write-backs to the bottom line. She holds a Bachelors degree from Egerton University, Masters in Business Administration from ESAMI and National Diploma in Business Management. Prior to joining the Bank, she worked for CFC Bank in their credit department.

Anthony Karingi , Head Card Centre (Age 35 years)

Mr. Karingi is in charge of the Co-op Card Centre. He has responsibility for the overall management and growth of the bank's credit and debit card products. Mr Karingi has 12 years Sales & Marketing experience in the FMCG, Oil & Banking industries; he has recently joined the Bank from Barclays Bank where he headed the Barclaycard –Product & Business Development team for over 4 years. He holds a B.Comm in Business Administration & Marketing. Mr Karingi also represents the bank on the Kenya Credit & Debit Card Association (KCDCA) executive committee and acts as the key contact person with VISA. Mr. Karingi joined the bank in year 2008.

Githieya Kimari, Head Co-operative Financial Services (Age 53 years)

Mr. Kimari is Head of Co-operatives Financial Services. The department is responsible for developing alternative banking channels for the co-operative movement. Today the department is presiding over the roll out of the Saccolink Debit Card to over 40 Saccos which has been critical to extending the outreach and service delivery of Sacco services locally and internationally. Mr. Kimari graduated with Honors from St. Vincent College Latrobe Pa in the US where he majored in Economics and double minored in Philosophy and Political Science. He was inducted into Who's Who in American Colleges and Universities in 1981. He also holds a Masters degree in Business and Public Administration. Mr. Kimari has been with the Bank for the last 12 years.

George Ochola, Head Security Services Department (Age 35 years)

Mr. Ochola is in charge of the Security Services Department with the key role of providing leadership to the Information Security Unit and Fraud Prevention & Investigation Unit which encompasses Physical Security. He has been with the bank for the last two years and during this period he has been instrumental in the implementation of the information security policy. He holds a Masters degree in Telecommunication Policy and Regulation, Bachelors degree in Mathematics/Statistics, Postgraduate certificate in Communications Management. He is Certified Information Security Manager (CISM), and Certified Information System Auditor (CISA). Prior to his engagement at the bank, Mr. Ochola spent 8 years in the Telecommunication Sector with both Communications Commission of Kenya and Telkom Kenya Limited.

Gladys Musembi, Head - Custody and scheme Administration Services (Age 40 years)

Mrs. Musembi provides leadership to this key unit charged with the responsibility of providing custodial services to a wide range of corporate and retail clients. She has been instrumental in strengthening the operations of this key Department which now has a total client base of 50,000 customers. She joined the bank from ICEA Asset Management and ICEA Ltd where she had worked for over 10 years. She holds a Bachelor of Arts Degree and is a fellow of the Chartered Insurance Institute- UK .She is currently pursing Associate exams in Pensions Management. Gladys has been with the Bank for the last 2 years.

Lucy Murumba, Head Agricultural Co-operatives (Age 52 years)

She is in charge of Agricultural Co-operatives Department of the Bank. Her role is to provide leadership in business development in the Agricultural sector and the value chain. She has been with the bank for 14 years. She holds a Bachelors degree in Agriculture. She has served the Government as a Senior Agricultural Officer for 5 years and later seconded to a World Bank Project dealing with Coffee for 6 years before joining the Bank.

Joyce Mwangi, Head, Customer Service (Age 37 years)

Joyce Mwangi provides leadership to the Customer Care team and has been instrumental in the successful roll out of the Call Centre and overall improvement of customer service standards across the bank network. She holds a Bachelors degree in Business & Economics, a Diploma in Public Relations and Certification in Retail Management. Before joining the banking industry, Joyce had previously worked for over 7 years at Senior Management level in Retail Management, Customer Service, Sales and Marketing in the GSM Telecommunications and Oil industries. Joyce has been with the Bank for the last 2 years.

Kenado Odonde, Head Small and Medium Enterprises (Age 43 years)

Mr. Odonde heads the Small & Medium Enterprises department within the larger Retail Division. In this capacity he gives leadership to the SME arm through marketing and appraising SME credit applications from the branch network and cross-selling other bank products and services. He holds a Bachelor of Commerce, Marketing option. Prior to his appointment he had worked with Standard Chartered Bank, CFC Bank and Fina Bank. Mr. Odonde joined the bank in year 2008.

Moses Gitau, Manager Mirco-Credit Unit (Age 39 years)

Mr. Gitau is the Manager in Charge of the Micro-Credit Unit in the Bank. This is a key business product of the bank targeting the mass market and has been part of the team that oversaw the successful program that has lead to development of unique products such as the Haba Na Haba Savings account and the Micro-Credit Biashara Loan. Mr Gitau is an experienced banker of over 10 years with the Bank.

None of the members of senior management of Co-op Bank has committed any serious offence that may be considered inappropriate for the management of a listed company. Co-op Bank shall use its best endeavours to retain suitably qualified management during listing and to ensure no change of management occurs for a period of twelve months following the listing other than for reason of a commission of serious offence such as would affect their integrity or render them inappropriate for the management of a listed company.

No changes in the senior management are planned or expected during the twenty four months following the issue and listing of the shares of Co-op Bank.

17. TAXATION ON INCOME OF SHARES

The comments below are of a general nature based on taxation law and practice in Kenya as at the date of this Information Memorandum and are subject to any changes thereafter. They relate only to the position of persons who are the absolute beneficial owners of the Offer Shares. This section does not purport to be a complete analysis of all tax considerations relating to the Offer Shares and so should be treated with appropriate caution. Prospective investors should consult their own professional advisors concerning the possible tax consequences of purchasing, holding and/or selling Shares and receiving payments of dividends and/or other amounts in respect of the Offer Shares under the applicable laws of their country of citizenship, residence or domicile.

Dividend Payments

Withholding tax at the rate of 5% will be deducted by Co-op Bank from dividend payments made to Kenya resident shareholders of the Company as well as citizens of the East African Community Partner States and at 10% for non-resident shareholders in terms of prevailing legislation as set out in the Kenya Income Tax Act (which is subject to revision through changes in Government policy). Non-residents may be entitled to a tax credit in their country of residence, either under domestic law or under the tax treaties referred to below. If an Applicant is tax exempt, he/she will be required to provide a certified copy of the Tax Exemption Certificate.

Stamp Duty

So long as the Offer Shares are listed on the NSE no stamp, registration or similar duties or taxes will be payable in Kenya in connection with the transfer of such Shares in accordance with current legislation.

Tax Treaties

Kenya has entered into double taxation treaties with Canada, Denmark, Germany, India, Norway, Sweden, the United Kingdom and Zambia. Treaties with Italy, Uganda and Tanzania have been signed but are not yet in force.

18. STATUTORY & GENERAL INFORMATION

Principal objects

The principle objects of the Bank are contained in the Memorandum of Association of the company and include:

1. To carry on in Kenya and in any part of the world the businesses of banking in all its branches and departments, including the accepting of deposits of money on current account or otherwise subject to withdrawal by cheque, draft or order, the borrowing, raising or taking up of money, lending or advancing of money, securities and property, discounting, buying, holding, selling and dealing in investments of all kinds, bills of exchange, promissory notes, deposit receipts, coupons, drafts, bills of lading, warrants, debentures certificates, script and other instruments and securities, whether transferable, negotiable, or otherwise, the granting and issuing of letters of credit and circular notes, buying, selling and dealing in bullion, currencies and specie, acquiring, holding, issuing on commission, underwriting and dealing in stocks, funds, shares, debentures, debenture and loan stocks, bonds, obligations, securities and investments of all kinds, negotiating loans and advances, guarantees and indemnity of all descriptions, performance and surety bonds, credit guarantees or credit insurance, the receiving of securities, property and valuables of any description whatsoever on deposit or for safe custody or otherwise, collecting and transmitting moneys and securities, and managing property, and generally the transaction of every kind of mercantile business or agency business which may lawfully be transacted by banks.

2. To borrow, raise or take up money, to lend or advance money, securities and property, to discount, buy, sell and deal in bills of exchange, promissory notes coupons, drafts, bills of lading, warrants, debentures, certificates, scrip and other instruments and securities whether transferable or negotiable, or not, to grant and issue letters of credit and circular notes to buy sell and deal in bullion and specie, to acquire, hold, issue on commission, underwrite and deal with stocks, funds, shares, debenture stock, bonds, obligations, securities and investments of all kinds, to negotiate loans and advances, to receive money and valuables on deposit, or for safe custody, or otherwise, to collect and transmit money and securities, to manage property and to transact all kinds of agency business commonly transacted by bankers.

3. To advance and borrow money, negotiate loans and lend money for any purpose or object, with or without security including the lending of money to finance hire purchase agreements in respect of any property or assets.

4. To undertake and execute either by the Company or by an authorised officer thereof and either alone or with any other person any trusts the undertaking whereof may seem desirable and also to undertake either by the Company or by an authorised officer thereof and either alone or with any other person the office or executor administrator, receiver, treasurer, registrar or auditor, and to keep for any Bank, public entity, or body, any register relating to any stocks, funds, shares or securities, or to undertake any duties in relation to the requisition of transfers and the issue of certificates or other form of ownership.

5. To acquire all the undertaking, business, assets and liabilities of The Co-operative Bank of Kenya Limited, a Co-operative society registered under the Co-operative Societies Act under registration number 1530 of 1965 and licensed to carry on banking business under the Banking Act (Cap 488 of the Laws of Kenya)

6. To take or to concur in taking all such steps and proceedings as may seem best calculated to uphold and support the credit of the Company, to encourage the growth of the Co-operative movement in Kenya and East Africa, to obtain and justify public confidence, and to avert or minimise financial disturbances which might adversely affect the business of the Company.

7. To carry on whether alone or with others directly or through subsidiaries or associated company the business of scheme administrators, custodian bank, central depository agent, commercial shares registrar, Trustee Company, fund manager or investment bank or advisor and any other business that can lawfully and conveniently be carried on along with the banking business of the Company.

8. To promote, effect, insure, guarantee, underwrite, participate in, manage and carry out any issue, public or private, of state, municipal or other loans, or of shares, stock, debentures or debenture stock of any company, corporation or association, and to lend money for the purposes of any such issue.

9. To carry on business as merchant bankers, financiers, concessionaires, mortgage brokers, financial agents and advisors and to undertake and carry on and execute all kinds of financial, commercial, trading and other operations and to carry on in any part of the world the businesses of obtaining, receiving and holding money in any deposit or current account (whether expressed in Kenya Shillings or other currencies) or in any manner whatsoever and whether at interest or otherwise, and of utilizing the same to account in any manner thought fit, and the issuing of cheques or any other means of any description whatsoever to provide facilities for the withdrawal or transfer thereof.

18. STATUTORY & GENERAL INFORMATION (CONTINUED)

Material clauses in the Articles of Associations

Set out below are salient provisions of the Articles of Association of the Company. The numbering of the Articles is retained for ease of reference:

SHARES

6. Except as required by law, no person shall be recognised by the Company as holding any share upon any trust, and the Company shall not be bound by or be compelled in any way to recognise (even when having notice thereof) any equitable, contingent, future or partial interest in any share or any interest in any fractional part of a share or (except only as by these Articles or by law otherwise provided) any other rights in respect of any share except an absolute right to the entirety thereof in the registered holder.

7. Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share in the Company may be issued with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time to time by ordinary resolution determine.

8. The Company may by special resolution create and sanction the issue of Preference shares which are, or at the option of the Company are to be, liable to be redeemed, subject to and in accordance with the provisions of the Statutes. The special resolution sanctioning any such issue shall also specify by way of an addition to these Articles the terms in which and the manner in which any such Preference shares shall be redeemed.

9. If, at any time, the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class, or with the sanction of a special resolution passed after a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of these Articles relating to general meetings shall mutatis mutandis apply, but so that the necessary quorum shall be Two persons at least holding or representing by proxy one-third of the issued shares of the class and that any holder of shares of the class present in person or by proxy may demand a poll and if at any adjourned meeting of such holders a quorum is not present, the holders present shall form a quorum.

10. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

10A. The Company may by special resolution create and sanction the issue of preference shares which are, or at the opinion of the Company are to be, liable to be redeemed, subject to and in accordance with the provisions of the statutes. The special resolution sanctioning any such issue shall also specify by way of an addition to these Articles the terms in which and the manner in which any such preference shares shall be redeemed.

CERTIFICATES

11A. The provisions of the Central Depositories Act 2000 as amended or modified from time to time shall apply to the Company to the extent that any securities of the Company are in part or in whole immobilized or dematerialized or are required by the regulations or rules issued under the Central Depositories Act to be immobilized or dematerialized in part or in whole, as the case may be. Any provisions of these articles that are inconsistent with the Central Depositories Act or any regulations or rules issued or made pursuant thereto shall be deemed to be modified to the extent of such inconsistencies in their application to such securities. For the purposes of these articles of association, immobilization and dematerialized shall be construed in the same way as they are construed in the Central Depositories Act.

PURCHASE OF SHARES

14. No part of the funds of the Company shall be employed in the purchase of, or in loans upon the security of, the Company's shares, but nothing in this Article shall prohibit transactions permitted under the Statutes.

18. STATUTORY & GENERAL INFORMATION (CONTINUED)

TRANSFER OF SHARES

26. The Board may decline to register the transfer of a share on which the company has a lien.

27. The Directors may refuse to register any instrument of transfer of shares, if:-

(a) the registration fee of Kenya Shillings 100/- (or such lesser fee (if any) as the Directors may from time to time prescribe as the registration fee) is not paid to the Company in respect thereof; or

(b) it is not accompanied by the Certificate for the shares to which it relates, and such other evidence as the Directors may reasonably require to show the rights of the transferor to make the transfer; or

(c) it is of shares of more than one class; or

(d) the transferee named therein is:-

(i) an infant person; or

(ii) a person incapable by reason of mental disorder of managing and administering his property and affairs; or

(iii) a partnership in its partnership name; or

(e) in the case of a transfer to joint holders, they exceed Four in number.

28. There will be no registration fees in respect of shares traded at any recognized stock exchange.

28A.If the Directors refuse to register a transfer they shall within Two months after the date on which the transfer was lodged with the Company send to the transferee notice of the refusal.

29. The registration of transfers may be suspended at such times and for such periods as the Directors may from time to time determine provided always that such registration shall not be suspended for more than Thirty days in any year.

30. The Company shall be entitled to charge a fee not exceeding Kenya Shillings 50/- on the registration of every probate, letters of administration, certificate of death or marriage, power of attorney, or other instrument.

30A.Nothing in these articles shall preclude the Directors from recognising a renunciation of the allotment of any share by the allottee in favour of some other person.

ALTERATION OF CAPITAL

46. The Company may from time to time, by ordinary resolution, increase the share capital by such sum, to be divided into shares of such amount, as the resolution shall direct, or, in default of such direction, as the Directors shall determine.

47. Subject to any direction to the contrary that may be given by the resolution sanctioning the increase of capital, all new shares shall, before issue, be offered to such persons as at the date of the offer are entitled to receive notices from the Company of general meetings in proportion, as nearly as the circumstances admit, to the amount of the existing shares to which they are entitled. The offer shall be made by notice specifying the number of shares offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and after the expiration of that time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares offered, the Directors may dispose of the same in such manner as they think most beneficial to the Company. The Directors may likewise so dispose of any new shares which, by reason of the ratio which the new shares bear to shares held by persons entitled to an offer of new shares, cannot in the opinion of the Directors, be conveniently offered under this Article.

48. Any new shares may be offered at par, at a premium or (subject to the provisions of the Act) at a discount as the Directors may decide.

49. The new shares shall be subject to the same provisions with reference to the payment of calls, liens, transfer, transmission, forfeiture and otherwise as the shares in the original share capital.

50. The Company may, by ordinary resolution:

(a) Consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;

(b) sub-divide its existing shares, or any of them, into shares of smaller amount than is fixed by the Memorandum of Association subject, nevertheless, to the provisions of the Act;

(c) Cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any persons;

And may, by special resolution:

(d) Reduce its share capital, any capital redemption reserve fund and any share premium account in any manner and with, and subject to, any incident authorised, and consent required, by law.

18. STATUTORY & GENERAL INFORMATION (CONTINUED)

GENERAL MEETINGS

51. The Company shall in each year hold a general meeting as its annual general meeting in addition to any other meetings in that year, and shall specify the matter as such in the notices calling it. Not more than Fifteen months shall elapse between the date of one annual general meeting of the Company and that of the next: Provided that if the first annual general meeting is held within Eighteen months of the date of incorporation of the Company, it need not be held in the year of incorporation nor in the next following year. Annual and extraordinary general meetings shall be held at such times and places within Kenya as the Directors shall from time to time appoint.

52. All general meetings other than annual general meetings shall be called extraordinary general meetings.

53. The Directors may, whenever they think fit, convene an extraordinary general meeting, and extraordinary general meetings shall also be convened on such requisition, or, in default, may be convened by such requisitionists, as provided by the Act.

NOTICE OF GENERAL MEETINGS

54. An annual general meeting and a meeting called for the passing of a special resolution shall be called by Twenty-one days' notice in writing at the least, and a meeting of the Company other than an annual general meeting or a meeting for the passing of a special resolution shall also be called by Twenty-one days' notice in writing at the least. The notice shall be exclusive of the day of which it is served or deemed to be served and of the day for which it is given and shall specify the place, the day and the hour of meeting and, in case of special business, the general nature of that business, and shall be given, in manner hereinafter mentioned or in such other manner, if any, as may be prescribed by the Company in general meeting, to such persons as are, under the regulations of the Company, entitled to receive such notices from the Company, provided that a meeting of the Company shall notwithstanding that it is called by shorter notice than that specified in this Article be deemed to have been duly called if it is so agreed:

    (a) in the case of a meeting called as the annual general meeting, by all Members entitled to attend and vote thereat; and

    (b) in the case of any other meeting, by a majority in number of the Members having a right to attend and vote at the meeting, being a majority together holding not less than Ninety-five per cent (95%) in nominal value of the shares giving that right.

55. In every notice calling a meeting of the Company there shall appear with reasonable prominence a statement that a Member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote in his stead and that a proxy need not be a Member.

56. The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

56A. Notices of General Meetings of the Company may be given by post, by advertisement in the print media, by display on the Company's website or otherwise on the internet, by electronic mail or by such other means as in the opinion of the Directors it would be reasonable to expect the notice will come to the attention of the members entitled to attend the meeting.

VOTES OF MEMBERS

67. Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands every Member present in person shall have one vote, and on a poll every Member present in person or by proxy shall have one vote for each share of which he is the holder.

68. In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names stand in the Register.

69. A Member incapable by reason of mental disorder of managing and administering his property and affairs may vote, whether on a show of hands or on a poll, by his receiver, or other person authorised by any court of competent jurisdiction to act on his behalf, and such person may on a poll vote by proxy.

70. No Member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of shares in the Company have been paid.

72. On a poll votes may be given either personally or by proxy.

73. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or, if the appointer is a Corporation, either under seal, or under the hand of an officer or attorney duly authorised. A proxy need not be a Member of the Company.

CORPORATIONS

78. Any Corporation which is a Member of the Company may, by resolution of its Directors or other governing body, appoint such persons as it thinks fit to act as its representative at any meeting of the Company or of any class of Members of the Company. The production at a meeting of a copy resolution certified by a Director (other than the appointee if he himself shall be a Director) and the Secretary, if any, of such Corporation to be a true copy of the resolution, shall be accepted by the Company as sufficient evidence of the validity of his appointment. The person so appointed shall be entitled to exercise the same powers on behalf of such Corporation as it could exercise if it were an individual Member of the Company.

DIRECTORS

79. Unless and until otherwise from time to time determined by an ordinary resolution of the Company, the number of the Directors (excluding Alternates) shall not be less than eight (8) nor more than thirteen (13) in number. The first Directors shall be appointed by the subscribers to the Memorandum of Association, or a majority thereof, by notice in writing. If at any time the number of Directors falls below the minimum number fixed by or in accordance with these Articles, the remaining Directors may act for the purpose of convening a general meeting or for the purpose of bringing the number of Directors to such minimum, and for no other purpose.

80. The Board shall cause to be kept a register of the Directors' holdings of shares and debentures of the Company and of its subsidiaries or holding Company (if any) as required by the Act, and shall cause the same to be available for inspection during the period and by the persons prescribed, and shall produce the same at every annual general meeting as required by the Act.

82. Any Director who by request performs special services or goes or resides abroad for any purposes of the Company may be paid such extra remuneration by way of salary, percentage of profits or otherwise as the Board may determine.

83. Directors shall not be required to hold any share qualification but shall be entitled to receive notice of and to attend and speak at all General Meetings of the Company.

83A.The Directors of the Company shall at all times include the Commissioner for Co-operative Development appointed under the Co-operative Societies Act (Cap 490 of the laws of Kenya as amended from time to time), and the Permanent Secretary to the Treasury as constituted under the Permanent Secretary to the Treasury (Incorporation) Act (Cap 101 of the laws of Kenya). The latter may nominate an alternate from the Ministry of Finance in the government of the Republic of Kenya which alternate shall not at the same time be the holder of the position of director in a Company that carries on business in competition with the Company.

POWERS AND DUTIES OF DIRECTORS

90. The Directors may exercise all the powers of the Company to borrow or raise money and to mortgage or charge its undertaking, property and uncalled capital and to issue debentures, debenture stock, legal and equitable mortgages and charges and other securities whether outright or as security (principal or collateral) for any debt, liability or obligation of the Company or any third party.

MANAGING DIRECTOR

94 (1)The Directors shall appoint a Managing Director who shall be the Chief Executive of the Company for such period and on such terms and at such remuneration (whether by way of salary, or commission, or participation in profits, or partly in one way, and partly in another), as they may think fit and, subject to the terms of any agreement entered into in any particular case, may revoke any such appointment.

(2)Any person appointed to be the Managing Director as aforesaid shall not, while he holds such office, be subject to retirement by rotation nor shall he be taken into account in determining the rotation in which the Directors retire. The Managing Director shall nonetheless be taken into account in reckoning the total number of directors for purposes of Article 79. His appointment as Director shall immediately determine if he ceases for any reason to be the Managing Director.

(3)The Directors shall entrust to and confer upon any such Managing Director as aforesaid, any of the powers exercisable by them as Directors (other than the powers of making calls and issuing shares) including in particular all executive powers and the day-to-day management and operation of the Company.

(4)The Managing Director shall be entitled to attend and speak and vote at all meetings of the Board and of Committees of the Board.

18. STATUTORY & GENERAL INFORMATION (CONTINUED)

(5 Without prejudice to the generality of the foregoing, the duties of the Managing Director will include:

(a) to conduct the business of the Company in accordance with the policy guidelines formulated by the Board;

(b) to cause the Company's funds and securities to be kept under safe custody at all times;

(c) to keep or cause to be kept, full and accurate accounts of all receipts and payments in books of the Company;

(d) to make such payments from the funds of the Company as may be necessary for the day-to-day operations of the Company;

(e) to prepare, or cause to be prepared, the Annual Report of the Company; and

(f) to prepare, or cause to be prepared, the Balance Sheet and Accounts for audit and for submission to the Board;

(g) to render to the Board at its meetings, or at such other times as required, an account of all the transactions and the financial position of the Company; and

(h) to perform such other duties as may be prescribed by the Board.

EXECUTIVE DIRECTORS

94A.(1) The directors may from time to time appoint a person (or persons) of such qualification as the directors may from time to time determine to the office of the Executive Director other than as Managing Director, and reporting to the Managing Director, for such period and on such terms and with such powers as they may think fit and subject to the terms of any agreement entered into any particular case, may revoke any such appointment.

(2) Such person shall be entitled to attend and speak but not to vote at board meetings.

(3) An Executive Director so appointed shall not, whilst holding that office be subject to retirement by rotation or be taken into account in determining the rotation or retirement of directors but shall cease to be a Director of the Company if he ceases to be such Executive Director for any reason or cause. Such a director shall nonetheless be taken into account in reckoning the total number of directors for purposes of Article 79.

(4) An executive director shall receive such remuneration (whether by way of salary, commission or participation in profits, or partly in one way and partly in another) as the directors may on the recommendation of the Managing Director determine.

DIRECTORS CONTRACTS

95.(1) A Director who is in any way, whether directly or indirectly interested in a contract or proposed contract with the Company shall declare the nature of his interest at a meeting of the Directors in accordance with Section 200 of the Act.

(2) A Director may hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction with his office of Director for such period and on such terms (as to remuneration and otherwise) as the Directors may determine and no Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser, or otherwise, or from being interested whether directly or indirectly in any contract or arrangement proposed to be entered into or in fact entered into by or on behalf of the Company; nor shall any such contract or arrangement in which any Director shall be so interested be avoided, nor shall any Director so contracting, or being interested, be liable to account to the Company for any profit realised by him from such contract or arrangement in which he shall be so interested by reason of such Director holding that office or the fiduciary relation thereby established.

(3) A director shall not vote in respect of any contract or arrangement in which he is interested, and if he shall do so his vote shall not be counted, nor shall he be counted in the quorum present at the meeting, but neither of these prohibitions shall apply to:-

(a) any arrangement for giving any director any security or indemnity in respect of money lent by him or obligations undertaken by him for the benefit of the company; or

(b) to any arrangement for the giving by the company of any security to a third party in respect of a debt obligation of the company for which the director himself has assumed responsibility in whole or in part under a guarantee or indemnity or by deposit of a security; or

(c) any contract by a director to subscribe for or underwrite shares or debentures of the company; or

(d) any contract or arrangement with any other company in which he is interested only as officer of the Company or as a holder of minority shares or other securities.

(4) A Director, notwithstanding his interest, may be counted in the quorum present at any meeting whereat he or any other Director is appointed to hold any such office or place of profit under the Company or whereat the terms of any such appointment are arranged and he may vote on any such appointment or arrangement other than his own appointment or the arrangement of the terms thereof.

(5) Any Director may act by himself or his firm in a professional capacity for the Company, and he or his firm shall be entitled to remuneration for professional services as if he were not a Director; provided that nothing herein contained shall authorise a Director or his firm to act as Auditor to the Company.

(6) A general notice given to the Directors by any Director to the effect that he is a Member of any specified Company or firm and is to be regarded as interested in any contract which may thereafter be made with that Company or firm shall be deemed a sufficient declaration of interest in regard to any contract so made but no such notice shall be of effect unless either it is given at a meeting of the Directors or the Director takes reasonable steps to secure that it is brought up and read at the next meeting of the Directors after it is given.

DISQUALIFICATION OF DIRECTORS

99. The office of Director shall be vacated if the Director:

(a) ceases to be qualified to hold a directorship in a Bank in Kenya under the Central Bank of Kenya Prudential Guidelines;

(b) ceases to be or is prohibited from being a Director by virtue of any provision of the Act; or

(c) becomes bankrupt; or

(d) becomes incapable by reason of mental disorder of exercising his functions as Director; or

(e) resigns his office by notice in writing to the Company; or

(f) is absent, without the previous sanction of the Directors, for a period of more than Six months from meetings of the Directors held during such period and the Directors resolve that his office be vacated accordingly.

ROTATION OF DIRECTORS

100. At the first Annual General Meeting of the Company and at every succeeding Annual General Meeting, one third of the Directors eligible to retire by rotation or, if their number is not a multiple of three the number nearest to but not exceeding one third shall subject to the provisions of Article 94 and 94A hereof, retire from office, those retiring in every year being those who have been longest in office since their last election or appointment but as between persons who become Directors on the same day, those to retire shall unless they otherwise agree among themselves, be determined by lot. A retiring Director shall be eligible for re-election and shall act as a Director throughout the meeting at which he is retiring.

100A. No person, other than a director retiring at the meeting, shall unless recommended by the directors, be eligible for election to the office of director at any General Meeting unless, not less than three or more than twenty one days before the date appointed for the meeting, there shall have been left at the office notice in writing signed by a member duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election, and also notice in writing signed by that person of his willingness to be elected.

101. The company at the meeting at which a Director retires in the manner aforesaid, may fill the vacated office by electing a person thereto and, in default, the retiring Director shall if offering himself for re-election, be deemed to have been re-elected unless, at such meeting, it is expressly resolved not to fill such vacated office or a resolution for the re-election of such Director shall have been put to the meeting and lost.

102. The Directors shall have power at any time, and from time to time, to appoint a person as an additional Director either to fill a casual vacancy or as an addition to the existing Directors but so that the total number of Directors shall not exceed the maximum authorised by these Articles; but any person so appointed shall retire from office at the next following ordinary general meeting, but shall be eligible for election by the Company at that meeting as an additional Director.

103. The Company may from time to time by ordinary resolution increase or reduce the number of Directors and may also determine in what rotation the increased or reduced number is to go out of office.

18. STATUTORY & GENERAL INFORMATION (CONTINUED)

104. The Company may by ordinary resolution, of which special notice has been given in accordance with the Act remove any Director before the expiration of his period of office, and, without prejudice to the powers of the Directors under Article 102 hereof, may by an ordinary resolution appoint another person in his stead; the person so appointed shall be subject to retirement at the same time as if he had become a Director on the day on which the Director in whose place he is appointed was last elected a Director. Such power of removal may be exercised notwithstanding anything in these Articles or in any agreement between the Company and such Director but without prejudice to any claim such Director may have for damages for breach of contract of service between him and the Company.

104A. Notwithstanding the foregoing, if at any time any single shareholder holds a majority of the issued shares in the Company he shall be entitled to nominate and have elected to the Board, without opposition from nominees of other shareholders, at least seven (7) directors. Only the majority Shareholder may nominate candidates for those seven positions of Director.

PROCEEDINGS OF DIRECTORS

106. The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors and unless so fixed shall be at least one half of the number of the directors then in office.

107. The continuing Directors may act notwithstanding any vacancy in their body but, if and so long as their number is reduced below the number fixed by or pursuant to the regulations of the Company as the necessary quorum of Directors, the continuing Directors or Director may act for the purpose of increasing the number of Directors to that number, or of summoning a general meeting of the Company, but for no other purpose.

108. The Directors may elect a Chairman and Vice-Chairman for their meetings and determine the period for which they are each to hold office, but if no such Chairman or Vice-Chairman is elected, or if at any meeting neither the Chairman nor the Vice-Chairman is present within thirty minutes after the time appointed for holding the same, the Directors present may choose one of their number to be Chairman of the meeting. The Chairman and Vice Chairman of any single shareholder who holds a majority of the issued shares in the Company will automatically be elected the Chairman and Vice Chairman respectively of the meetings of the Board, and of the general meetings of the Company.

109. The Directors may delegate any of their powers to committees consisting of such Member or Members of their body as they think fit; any such committee shall conform to any regulation that may be imposed on it by the Directors. The Committees shall include but not be limited to the Audit Committee and the Risk and Finance Committee.

DIVIDENDS AND RESERVE

118. The Company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the Directors.

119. The Directors may from time to time pay to the Members such interim dividends (including therein the fixed dividends payable upon any preference or other shares at stated times) as appear to the Directors to be justified by the profits of the Company.

120. No dividend shall be paid otherwise than out of profits.

121. Subject to the rights of persons, if any, entitled to shares with special rights as to dividends all dividends shall be declared and paid according to the amounts paid or credited as paid on the shares, but if and so long as nothing is paid up on any of the shares in the Company dividends may be declared and paid according to the amounts of the shares. No amount paid or credited as paid on a share in advance of calls shall, while carrying interest, be treated for the purposes of this regulation as paid on the share. All dividends shall be apportioned and paid proportionately to the amounts paid or credited as paid on the share during any portion or portions of the period in respect of which the dividend is paid; but if any share is issued on terms providing that it shall rank for dividend as from a particular date such share shall rank for dividend accordingly.

122. The Directors may, before recommending any dividend, set aside out of the profits of the Company such sums as they think proper as a reserve or reserves which shall, at the discretion of the Directors, be applicable for any purpose to which the profits of the Company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments (other than shares of the Company) as the Directors may from time to time think fit. The Directors may also without placing the same to reserve carry forward any profits which they may think prudent not to divide.

123. Notice of any dividend that may have been declared shall be given in manner hereinafter mentioned to the persons entitled to share therein.

124. The Directors may deduct from any dividend payable to any Member all sums of money (if any) presently payable by him to the Company on account of calls or otherwise in relation to the shares of the Company.

124A. The Directors may retain any dividend or other money payable on or in respect of a share on which the Company has lien and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.

125. Any general meeting declaring a dividend or bonus may direct payment of such dividend or bonus wholly or partly by the distribution of specific assets and in particular of paid up shares, debentures or debenture stock of any other Company or in any one or more of such ways and the Directors shall give effect to such resolution, and where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient, and in particular may issue fractional certificates and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any Member upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

126. Any dividend, interest or other moneys payable in respect of shares may be paid by cheque or warrant sent through the post directed to the registered address of the holder or, in the case of joint holders, to the registered address of that one of the joint holders who is first named on the Register or to such person and to such address as the holder or joint holders may in writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent. Any one of two or more joint holders may give effectual receipts for any dividends, bonuses or other moneys payable in respect of the shares held by them as joint holders.

127. No dividends shall bear interest against the Company.

128. Any dividend or bonus share or other right unclaimed for a period of more than Twelve years from the date of the declaration thereof may at any time thereafter be forfeited by resolution of the Directors. Prior to the expiry of the twelve-year period, such dividend bonus share or right shall be recognised in the Company's books of accounts as a contingent liability but the Company shall not be liable to invest the same in any manner whatsoever or to account for any interest or other profit earned on account of such unclaimed dividend share or other right.

CAPITALISATION OF PROFITS

134. The Company in general meeting may upon the recommendation of the Directors resolve that it is desirable to capitalise any part of the amount for the time being standing to the credit of any of the Company's reserve accounts or to the credit of the profit and loss account or otherwise available for distribution, and accordingly that such sum be set free for distribution amongst the Members who would have been entitled thereto if distributed by way of dividend and in the same proportions on condition that the same be not paid in cash but be applied either in or towards paying up any amounts for the time being unpaid on any shares held by such Members respectively or paying up in full unissued shares or debentures of the Company to be allotted and distributed credited as fully paid up to and amongst such Members in the proportion aforesaid, or partly in the one way and partly in the other, and the Directors shall give effect to such resolution: Provided that a share premium account and a capital redemption reserve fund may for the purposes of this Article, only be applied in the paying up of unissued shares to be issued to Members of the Company as fully paid bonus shares.

135. Whenever such a resolution as aforesaid shall have been passed the Directors shall make all appropriations and applications of the undivided profits resolved to be capitalised thereby, and all allotments and issues of fully paid shares or debentures, if any, and generally shall do all acts and things required to give effect thereto, with full power to the Directors to make such provision by the issue of fractional certificates or by payment in cash or otherwise as they think fit for any shares or debentures becoming distributable in fractions, and also to authorise any person to enter on behalf of all the Members entitled thereto into an agreement with the Company providing for the allotment to them respectively, credited as fully paid up, of any further shares or debentures to which they may be entitled upon such capitalisation, or (as the case may require) for the payment up by the Company on their behalf, by the application thereto of their respective proportions of the profits resolved to be capitalised, of the amounts or any part of the amounts remaining unpaid on their existing shares, and any agreement made under such authority shall be effective and binding on all such Members.

18. STATUTORY & GENERAL INFORMATION (CONTINUED)

WINDING UP

141. If the Company shall be wound up the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by the act, divide amongst the Members in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as the liquidator, with the like sanction, shall think fit, but so that no Member shall be compelled to accept any shares or other securities whereon there is any liability.

Restriction on Transferability of Shares

The Articles do not contain pre-emption rights. It should be noted however that the Banking Act restricts the holding of more than 25% of the share capital of a banking institution. In addition transfers of more than 5% of an institution requires Central Bank of Kenya approval before being effected. The Minister for Finance has by gazette notice number 108 dated 12th August 2008 exempted Co-opholdings from the provisions of section 13 (1) and (3) of the Banking Act allowing it to hold more than 25% of the Bank's issued shares for 10 years.

Minutes of the Board and General Meetings

The following are important Resolutions passed by the Company and its predecessor, the co-operative society (now Co-opholdings):

Company Minutes

On 11th July 2008, the Board passed the following resolutions:

1. Resolution approving and recommending for approval to the general meeting of the Company the approval and confirmation of the Agreement for Transfer of Business Assets and Liabilities dated 11th July 2008 between the Company and Co-opholdings Co-operative Society Limited.

2. Resolution recommending to the general meeting of the Company the increase of share capital of the Company from 250,000,000/= to 3,700,000,000/=.

3. Resolution approving the listing of the banks share capital on the Nairobi Stock Exchange and recommending that the general meeting of the Company passed a resolution to this effect.

4. Resolution recommending to the General Meeting of the Company that it resolves to sell by way of an initial public offer about 20% of the share capital of the Company to the public through NSE, and to list such shares, and noted that Co-opholdings would retain at least 62% of the issued share capital of the Company.

On 5th August 2008, the Board of Directors of the Company passed the following resolution:

1. Resolution to allot ordinary shares of the Company to Co-opholdings and the holders of Class B share of Co-opholdings a total of 2,935,127,600 ordinary shares credited as fully paid on the terms set out in the Transfer Agreement, and approved the issue of share certificates therefor, and subject to completion of the Transfer Agreement. Such allotment to be effective on 8th August 2008.

Minutes of General Meetings

On 11th July 2008 a Special General Meeting of the Company passed the following resolutions:

1. Resolution noting and approving the Initial Directors of the Company.

2. Resolutions approving and confirming the Agreement for Transfer of Business Assets and Liabilities, as per section 9 of the Banking Act.

3. Resolution increasing the authorized share capital of the Company to Kshs 3,700,000,000/= divided into 3,700,000,000 ordinary shares of Kshs 1/= each by the creation of an additional 3,450,000,000 ordinary shares of Kshs 1/=.

4. Special Resolution to list the entire issued share capital of the Company on the Nairobi Stock Exchange subject to receiving all regulatory approvals.

5. Special Resolution to issue to the Public by way of an IPO and subject to obtaining all necessary approvals about 20% of the authorized share capital of the Company on such terms and for such amounts as the Directors would determine.

18. STATUTORY & GENERAL INFORMATION (CONTINUED)

On 5th August 2008 a Special General Meeting of the Company passed a resolution to receive and adopt the Statutory Report of the Company and authorized its filing with the Registrar of Companies.

6. There is no power enabling the directors, in the absence of an independent quorum, to vote remuneration (including pension or other benefits) to themselves or any members of their body.

Co-opholdings Co-operative Society Limited (until 8th August 2008 called the Co-operative Bank of Kenya Limited):

On 25th April 2008 The Annual General Meeting of the Society resolved to split the nominal value of the shares of the Society from shares of Kshs 100/= each to shares of Kshs 1/=.

On 27th June 2008, an Extraordinary General Meeting of the Bank approved:

(a) The Incorporation of a company to take over the Business Assets and Liabilities of the Bank. The Company was to bear the same name as the Bank.

(b) A resolution to Confirm and Approve the Agreement for Transfer of Business Assets and Liabilities of the Bank to the Company in consideration for the issue to the Society of shares equivalent to those held by the Class A shareholders of the Society, and issue to all Class B shareholders of the Society of equivalent shares in the Company in exchange for the shares that they held in the Society which would be relinquished.

Statutory Information

1. The borrowing powers of Co-op Bank are exercisable by the Directors of the Bank.
2. As at the date of application for approval of the offer for shares and listing, Co-op Bank is not in breach of any of any loan covenants.
3. The borrowing powers of the bank have not been exceeded in the past three years.
4. There is no amount of loan capital outstanding in the Bank or its subsidiaries.
5. In the opinion of directors, the issued capital of Co-op Bank (including the amount to be raised in pursuance of this issue) is adequate for the purposes of the business of the Issuer and of its subsidiaries for the foreseeable future.

Documents for Inspection

The following documents, or copies thereof, will be available for inspection at Co-operative Bank House, Haile Selassie Avenue, Nairobi for the duration of the Offer, during normal business hours:

1. Certificate of Incorporation & Memorandum and Articles of Association of the Co-operative Bank of Kenya Limited;
2. Copies of any special or ordinary resolutions amending the Memorandum and Articles of Association or the Bank's share capital within the last five years;
3. Copy of the Shareholder's Resolution approving the listing and offer of shares to the public;
4. Copy of this Information Memorandum, a copy of which has been delivered to the Registrar of Companies for registration;
5. Copy of the material contract set out below;
6. Copy of the Transfer Agreement dated 11th July 2008.
7. Director's service contract and Senior Managers' letters of appointments;
8. The audited final accounts of the Bank and of the Group (including all notes, reports or information required by the Companies Act) for the last five (5) years – 2003 to 2007 and 6 months audited accounts to June 30, 2008;
9. The property, plant and equipment valuations as at 31st December 2007;
10. List of immovable property in which Co-op Bank has a legal or beneficial interest;
11. The written and signed consent of the reporting accountants (Ernst & Young) to the publication of their reports, the texts of which are included in Appendix 1, and references thereto, in the form and context in which they appear in this Information Memorandum;
12. The written and signed consent of the legal advisors (Mboya & Wangong'u Advocates) to the publication of their opinion of even date, the texts of which are included in Appendix 3, and references thereto, in the form and context in which they appear in this Information Memorandum;

18. STATUTORY & GENERAL INFORMATION (CONTINUED)

13. The written consents of the all transaction advisors named in this Information Memorandum to act in those capacities;

14. Copy of the Valuation Report by the independent valuers (Mancleam Valuers)

15. The approval of the CMA relating to the offer and the listing; and

16. The approval of the NSE relating to the admission and listing.

17. The letter of no objection issued by the Central Bank of Kenya in respect of the listing of the Issuer's shares

Material Contracts

A. Other than the Transfer Agreement between Co-opHoldings and Co-op Bank dated 11th July 2008, the Bank is not party to any material contracts except in the normal course of business. Contracts to which it is a party include contracts for supply, installation and maintenance of its information technology systems, correspondent banking contracts, security services contracts, security documents printing contracts and card agreements.

B. The Company is a party to the Transfer Agreement. The key features of the Transfer Agreement are:

1. The agreement is between Co-opholdings Co-operative Society Limited (which at the date of the agreement was called the Co-operative Bank of Kenya Limited) and the Co-operative Bank of Kenya Limited, the Issuer herein.

2. The agreement is for the acquisition by the Issuer of the entire business assets and liabilities of Co-opholdings.

3. The assets acquired include the banking business, the branches, the cash and deposits, government securities, the immovable and movable property. The Issuer also acquired the benefits of contracts, the benefit of insurance contracts and any litigation to which the Co-opholdings was a party. The Issuer accepted the burden of any bank deposits, any litigation against Co-opholdings and all other liabilities of Co-opholdings as of the effective date.

4. The Issuer took over all staff contracts and liabilities including pension liabilities of staff previously employed by Co-opholdings.

5. The effective date for the transfer was 8th August 2008.

6. The consideration for the acquisition was the issue by the Issuer to Co-opholdings the number of ordinary shares equal to the Class A shares held in Co-opholdings, and directly to the holders of Class B shareholders of an equal number of ordinary shares in the Issuer. Such Class B shareholders would accept such shares and release their shareholding in Co-opholdings.

7. The Agreement was conditional upon, among other conditions:

   a. The grant by the Central Bank of Kenya of a banking licence to the Issuer.

   b. The confirmation of the Agreement by the duly convened general meeting of Co-opholdings pursuant to Section 9(4) of the Banking Act.

   c. The confirmation of the Agreement by the duly convened general meeting of the Issuer pursuant to Section 9(4) of the Banking Act.

   d. The approval by the Minister for Finance of the transfer of the business, assets and liabilities therein envisaged pursuant to Section 9(1) of the Banking Act.

   e. The Minister for Finance having given an exemption pursuant to Section 53 of the Banking Act to Co-opholdings and Issuer from the operation of Section 13(1) of the Banking Act and thereby permitting the holding of more than 25% of the shareholding in the Issuer by Co-opholdings.

   f. The authorized share capital of the Issuer having been increased or expanded to facilitate the allotment and issuance of the Consideration Shares.

The Agreement became effective on 8th August 2008, effectively converting the Co-operative Bank of Kenya Limited into a company limited by shares.

18. STATUTORY & GENERAL INFORMATION (CONTINUED)

Material litigation

The Company is party, both as plaintiff and defendant, to a number of court cases arising mostly from its attempts to realize security or recover money lent. Most of the cases constitute applications for injunctions to stop sale of properties charged to the Bank. We set out below the material litigation in which the Bank is involved with materiality judged by value of subject matter. This subject matter is generally the underlying loans. In addition, to the cases relating to realization of security or recovery of monies lent, there are a number of cases between the Bank and its former chief executive which are also listed on account of potential liability even though the claims are for general damages.

The Bank and its lawyers are of the view that in each of the cases it has either a strong defense or a strong case and the outcome of the cases will not adversely affect the financial position of the Bank. In cases where recovery is doubtful, appropriate provisions have been done in line with the CBK Prudential Guidelines. Such cases cannot be specified in view of the fact that this information is confidential to the bank.

Case Number	Brief facts of the case	Current position
HCCC NO 314 OF 2008 OF NAIROBI (MILIMANI) The Bank versus Seven Fourteen Limited	This is a claim by the bank, for Kshs 55,241,344.45 being outstanding amount owed to the Bank by the debtor in respect of a loan granted to the defendant.	Summons to enter are being served. The Bank and its lawyers are of the view that the Bank has a good case with good chances of success.
HCCC NO. 492 OF 2008 OF NAIROBI (MILIMANI) ARESCO LIMITED VS. THE BANK	This is a matter related to number 1 above. It is a claim by ARESCO Limited (Guarantor to Seven Fourteen Limited) against the Bank seeking an INJUNCTION against sale of the Bank's security Title Number Ngong/Ngong/12516.	Hearing of the application for injunction scheduled for October, 2008. The bank and its lawyers are of the view that the bank has a good case with good chances of success.
HCCC NO 74 of 2000 KISUMU JOSANNA ACADEMY VERSUS THE BANK	This is a suit against the bank seeking an injunction to stop the sale of Bank's security. The Bank's claim against the plaintiff is KShs72,903,190.30	The bank and its lawyers are of the view that the bank has a good case.
HCCC NO 457 of 2002 NAIROBI Hellen Njeri Nderitu vs. the Bank & James K. Nderitu	This is a claim against the bank seeking an injunction against sale of Bank security. The bank's claim against the debtors is Kshs193,814,764.25	Matter partly heard before a judge who was transferred. To be heard afresh hearing in October 2008. The bank and its lawyers are of the view that the bank has a good case with good chances of success.
HCCC No 109 of 2001 (NAIROBI) Thika Coffee Mills ltd vs. Gakuyu Farmers Co-operative Society Limited, Coffee Board of Kenya and the Bank	This is a claim by Thika Coffee Mills against Gakuyu Farmers Co-op Society Limited, the Bank and Coffee Board. The Bank sought to be enjoined to safeguard its interests in view of the indebtedness of Gakuyu Farmers Cooperative Society Limited to the Bank (in the sum of Kshs 49,140,020.90	The suit is part heard. The bank and its lawyers are of the view that the bank has a good case with good chances of success.

18. STATUTORY & GENERAL INFORMATION (CONTINUED)

Case Number	Brief facts of the case	Current position
HCCC No 2603 of 1995 (Nairobi) Methi & Swani FCS vs. The Bank	This is a claim against the Bank for injunction to stop sale of farms taken as security. The bank is owed Kshs KShs268,669,952.15	The matter has been referred to the constitutional court by the bank's debtor.The bank and its lawyers are of the view that the bank has a good case with good chances of success
HCCC No 653 of 2002 at Nairobi Moses Ndungu Muigai Vs. The Bank	This is a claim against the Bank for injunction to stop sale of security. Bank's claim is for Kshs 158,497,946.70	Bank allowed to issue fresh statutory notice for sale and is in discussion with debtor on sale by private treaty. Bank has a strong case.
HCCC No. 293 of 2003 Suera Flowers Ltd & Erastus K Mureithi vs. Co-operative Bank Ltd & 3 others	The plaintiffs filed suit on 28/3/2005 claiming injunction to restrain the bank from publishing defamatory statements against the plaintiffs regarding their tax and bank /customer relationship, general damages for defamation. The claim is for un-quantified general damages	The bank and its lawyers are of the view that the bank has a good case.
HCCC No. 305 of 2005 Co-op Bank vs. Erastus K Mureithi & Suera Flowers	The Bank filed suit on 1/4/2003 against the defendants seeking declaration that certain advertisements done by the first defendant were comparative and referred to the bank and were defamatory. The bank seeks un-quantified general damages for defamation.	Matter partly heard before a judge who was transferred. To be heard afresh hearing in October 2008. The bank and its lawyers are of the view that the bank has a good case with good chances of success.
HCCC No. 172 of 2008The Bank versus E.K. Muriithi	The bank filed and obtained interim injunction on 7/5/2008 to restrain the defendant from calling press conferences and/or publishing press releases concerning the bank or its officers.	The bank obtained a temporary injunction. Matter yet to be heard fully.
HCCC no. 121 of 2005The Bank versus Charterhouse Bank Limited	The bank filed suit on in 2005 claiming USD 322, 411.65 from Charterhouse bank being the sum of a Guarantee issued on behalf of Charterhouse bank's customer. The defendant has filed a counterclaim for USD 101,804. Charterhouse is under statutory management by CBK.	The defendant is under statutory management and this may prejudice an otherwise strong case.

These cases are in addition to the four cases the details of which are set out in the Reporting Accounts Report at page 127 of Appendix 1, and three of which are below the materiality threshold selected at 35,000,000/=.

Details of these cases are available in the Bank's data room on request.

18. STATUTORY & GENERAL INFORMATION (CONTINUED)

Material property

The Bank is the registered leasee or owner of and carries on business on the following material properties:

a.	Land Reference Number 209/4290	– Co-operative Bank House
b.	Land Reference Number 209/ 7959	– Industrial Area Property
c.	Land Reference Number 15216	– Karen Property
d.	Meru Municipality/ Block 7/ 105	– Meru Property
e.	Nyeri Municipality/ Block Ii/ 205	– Nyeri Property
f.	Eldoret Municipality/ Block 7/ 105	– Eldoret Property
g.	Kisumu Municipality/ Block 7/ 362	– Kisumu Property
h.	Land Reference Number 4953/ 91	– Thika Property
i.	Land Reference Number 15065/ 56	– Karen Property
j.	Land Reference Number 5955/ 14 & 15	– Karen Property
k.	Ngong Township/ Block 2/ 569	– Ngong Property
l.	Land Reference Number 8056/ 324	– Mumias Municipality

All rates and rents are up to date where applicable. The Bank leases other property on which it operates branches. It is the bank's current policy to not own new land and buildings but to lease any land or premises required for its business.

Material loans

The Bank in the normal course of business lends to Customers and has a loan portfolio constituting both secured and unsecured loans. The Bank has in place a risk management system which ensures that loans are properly evaluated and made in accordance with the law and the Bank's policies. Appropriate provisions are made for bad and doubtful debts in accordance with the Prudential Guidelines issued by the Central Bank of Kenya.

Details of specific loans may be obtained subject to bank-client confidentiality and suitable non-disclosure agreements upon request in writing.

APPENDIX 1: REPORTING ACCOUNTANTS' REPORT

THE CO-OPERATIVE BANK OF KENYA LIMITED

INDEPENDENT ACCOUNTANTS' REPORT

FOR THE INITIAL PUBLIC OFFERING (IPO)

INFORMATION MEMORANDUM

October 2008

Ernst & Young
Certified Public Accountants
Kenya-Re Towers, Upperhill
Off Ragati Road
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00100 Nairobi, Kenya
Phone: +254 20 2715300
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27 October 2008

The Directors
The Co-operative Bank of Kenya Limited
Co-operative House
Haile Selassie Avenue
Nairobi

Ladies and Gentlemen,

REPORTING ACCOUNTANTS' REPORT ON THE CO-OPERATIVE BANK OF KENYA LIMITED FOR THE INITIAL PUBLIC OFFERING

A. Introduction

We have examined the consolidated audited financial statements of The Co-operative Bank of Kenya Limited (the "Bank") and its subsidiaries, Co-operative House Limited, Co-optrust Investment Services Limited and the Co-operative Consultancy Services Kenya Limited (collectively referred to as "The Group") for the five years to 31 December 2007 and the six months period to 30 June 2008.

The directors of the Group are responsible for the preparation of the Information Memorandum and all the information contained therein and for the financial statements and financial information to which this Accountants' report relates and from which it has been prepared. Our responsibility is to review and compile the financial information set out in our report from the financial statements.

Ernst & Young have acted as auditors of the Group for the 5 years to 31 December 2007 and the six months period to 30 June 2008. For each of the relevant periods, unqualified audit reports were issued.

The audited financial statements have been prepared on the basis of the accounting policies set out in section B below. For all the accounting periods dealt with in this report, the financial statements have, in all material respects, been prepared in accordance with the International Financial Reporting Standards.

Yours faithfully

Certified Public Accountants

Nairobi

2 ACCOUNTING POLICIES

SECTION B

1. GENERAL INFORMATION

The Co-operative Bank of Kenya Limited, a financial institution licensed under the Kenyan Banking Act (Chapter 488) and Co-operative Societies Act (Chapter 490), provides banking and related services in various parts of the country.

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 periods presented, unless otherwise stated.

a) Basis of preparation

The consolidated financial statements are prepared under the historical cost convention as modified by the measurement at fair value of trading and available for sale investment securities. The consolidated financial statements of The Co-operative Bank of Kenya Limited and all its subsidiaries (the 'Group') have been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Consolidation

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries as at 30 June and 31 December for each period. The subsidiaries include Co-optrust Investment Services Limited, Co-operative Consultancy Services Kenya Limited and Co-operative House Limited all wholly owned by the Bank.

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

c) Changes in accounting policies

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

Adoption of new standards

In 2008, several new and revised standards, amendments and interpretations to published standards became effective and have been adopted by the Group, where relevant to its operations.

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008, but they are not relevant to the Group's operations:

- International Financial Reporting Interpretation Committee(IFRIC) 11, 'IFRS 2 – 'Group and treasury share transactions'.
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'; and
- IFRIC 12, 'Service concession arrangements.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective for the Group's operations:

- IFRS 2, Amendments to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations (effective 1 January 2009)
- IFRS 3, Business Combinations (effective from 1 July 2009)
- IFRS 8, Operating Segments (effective from 1 January 2009)
- IAS 1, Presentation of Financial Statements amendment (effective from 1 January 2009)
- IAS 23 Borrowing Costs (effective 1 January 2009)
- IAS 27, Consolidated and Separate Financial Statements (effective 1 July 2009)

The directors anticipate that the adoption of these standards will have no material effect on the financial statements of the Group.

d) Significant accounting estimates and assumptions

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

2 ACCOUNTING POLICIES (CONTINUED)

Estimates and assumptions

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

i) Impairment losses on loans and advances

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

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

ii) Impairment of non-financial assets

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

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

iii) Fair value of financial instruments

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

iv) Deferred tax assets

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

e) Recognition of income and expenses

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

i) Interest and similar income and expenses

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

f) 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:

Interest and similar income and expenses

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

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

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

2 ACCOUNTING POLICIES (CONTINUED)

ii) Fee and commission income

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

iii) Dividend income

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

iv) Rental income

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

g) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met. 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 are recognised in profit or loss as incurred.

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Any revaluation surplus is credited to the assets revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the capital reserve.

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%

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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in income statement in the period the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial period end.

h) Intangible assets and amortisation

Intangible assets acquired separately are measured on initial recognition at cost. Subsequently amortisation and accumulated impairment losses are netted from the cost. Internally generated intangible assets, excluding capitalized development costs, are not capitalised and expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

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

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

i) Operating leases

Where:-

i) A group company is the lessee

The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

ii) A group company is the lessor when assets are held

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.

2 ACCOUNTING POLICIES (CONTINUED)

j) Bad and doubtful debts

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific loan or advance may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment, based on the net present value of future anticipated cash flows including anticipated recoveries from guarantees and collateral, discounted at effective interest rates, recognised in the income statement. Provisions are computed based on:

i) Central Bank of Kenya Prudential Guidelines

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

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

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

ii) International Accounting Standard (IAS) 39

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

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

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 credit loss allowances and provisions 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 loan loss allowances and provisions, management considers factors such as credit quality, portfolio size, concentrations, and economic factors.

In order to estimate the required allowance or provision, 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 allowances and provisions made depends on how well estimates are made for future cash flows for specific counterparty allowances and provisions and the model assumptions and parameters used in determining collective allowances and provisions. While this necessarily involves judgment, management believes that their allowances and provisions are reasonable and supportable.

If impairment charges computed under International Accounting Standard (IAS) 39 are lower than provisions required under CBK Prudential Guidelines, the excess provisions 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 provisions required under this guideline, the impairment charges are considered adequate as per Prudential Guidelines.

k) Foreign currency transactions

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

2 ACCOUNTING POLICIES (CONTINUED)

l) Financial Instruments

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

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

Financial assets at fair value through profit or loss

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

Held for trading

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

Held-to-maturity investments

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

Loans and other assets

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.

Fair value

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

Financial liabilities

Financial liabilities are measured at amortised cost except for financial liabilities designated at fair value through profit and loss. Financial liabilities are initially recognised at fair value less, in the case of liabilities carried at amortised cost (including deposits and balances from other banking institutions, other customer deposits, loans, other borrowings and other liabilities), transaction costs incurred and any difference between the proceeds net of transaction costs and the redemption amount is recognised in the income statement as interest expense over the period to maturity using the effective interest rate method. Financial liabilities which are repayable on demand are recorded at nominal value. Financial liabilities are derecognised when they are extinguished.

m) Employee benefits

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

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

n) Taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

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

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

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

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

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

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

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

o) 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.

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 installments. 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.

p) 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, government securities and deposits and balances due from banking institutions. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

q) Repurchase agreement transactions

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) are recognised in the balance sheet

2 ACCOUNTING POLICIES (CONTINUED)

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.

r) Impairment of tangible and intangible assets

Assets carried at amortised cost

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

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

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

s) Offsetting

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

t) Customer Deposits

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

u) Deposits due from/ to other banks

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

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

v) Foreign exchange forward and spot contracts

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

w) Guarantees, acceptances and letters of credit

Guarantees, acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

x) Dividends

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

y) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

z) Fiduciary assets

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

3. FINANCIAL RISK MANAGEMENT

Introduction and overview

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

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

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

Risk management framework

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

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

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

(i) Credit risk

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

Management of credit risk

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

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

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

c. Reviewing and assessing credit risk.

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

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

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

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure to credit risk: Loans and advances to customers

	Note	2008 30 June KShs '000	2007 31 December KShs '000	2006 31 December KShs '000	2005 31 December KShs '000	2004 31 December KShs '000	2003 31 December KShs '000
Carrying amount	12(a)	50,927,300	45,441,777	44,438,810	42,654,202	38,604,111	27,895,909
Gross amount- impaired loans							
Grade 5: Loss category		1,813,812	1,902,196	8,367,107	7,639,466	8,675,326	7,943,608
Grade 4: Doubtful category		5,733,773	3,941,048	5,272,269	5,903,352	4,260,154	4,628,154
Total amount		7,547,585	5,843,244	13,639,376	13,542,818	12,935,480	12,571,762
Allowance for impairment	12	(6,544,013)	(5,296,711)	(13,561,224)	(13,064,490)	(12,423,251)	(10,635,803)
Carrying amount		1,003,572	546,533	78,152	478,328	512,229	1,935,959
Collectively assessed for impairment							
Grade 1: Normal		40,083,040	35,336,333	24,656,118	20,813,456	19,254,269	10,262,127
Grade 2: Watch list		2,002,836	1,379,732	2,305,975	4,058,372	3,212,681	2,833,006
Gross amount		42,085,876	36,716,065	26,962,093	24,871,828	22,466,950	13,095,193
Allowance for impairment	12	(554,969)	(384,701)	(384,701)	(717,717)	(519,611)	(509,269)
Carrying amount		41,530,907	36,331,364	26,577,392	24,154,111	21,947,339	12,585,864
Past due but not impaired							
Grade 3: Substandard		1,293,839	2,882,468	3,837,341	4,239,556	3,201,681	2,229,014
Allowance for impairment	12	(424,054)	(1,685,593)	(2,709,702)	(1,677,087)	(546,195)	(550,020)
Carrying amount		869,785	1,196,875	1,127,639	2,562,469	2,655,486	1,678,994
Net carrying amount		43,404,264	38,074,772	27,783,183	27,194,908	25,115,054	16,200,817

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.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

Loans with renegotiated terms

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

Allowances for impairment

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

Write-off policy

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

Collateral on loans and advances

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

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

Discounted Value of Securities

	2008	2007	2006	2005	2004	2003
	30 June	31December	31 December	31 December	31December	31 December
Doubtful & Loss categories	1,491,304	1,171,523	1,144,780	1,975,624	1,874,440	1,724,440
Sub standard Loans	855,193	1,314,931	1,349,122	1,317,069	1,197,327	880,736
Normal & Watch categories	2,355,134	2,355,134	2,243,265	2,273,382	2,066,696	1,520,231
	4,701,631	4,841,588	4,737,167	5,566,075	5,138,463	4,125,407

Settlement Risk

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

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Liquidity risk

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

Management of liquidity risk

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

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

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

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. Details of the reported Bank ratio of net liquid assets to deposits and customers at the reporting date and during the reporting year/ period were as follows:

	2008 30 June	2007 31December	2006 31 December	2005 31 December	2004 31December	2003 31 December
At 30 June/ 31 December	35.7%	33.5%	41.4%	35.7%	29%	16.5%
Average for the period	28.2%	37.2%	39.4%	31.3%	31.3%	21.3%
Maximum for the period	35.7%	42.5%	45.7%	38 %	42.2%	33.6%
Minimum for the period	23.2%	33.3%	30.4%	24.2%	22.3%	11.16%

(iii) Market risk

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

Management of market risk

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

Exposure to market risk – trading portfolios

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure to interest rate risk – non trading portfolios

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

(iv) Operational risk

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

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

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

a) requirements for appropriate segregation of duties, including the independent authorisation of transactions

b) requirements for the reconciliation and monitoring of transactions

c) compliance with regulatory and other legal requirements

d) documentation of controls and procedures

e) requirements for the periodic 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 (CBK) sets and monitors capital requirements for the Banking industry as a whole. In implementing current capital requirements the CBK requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

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

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

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

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

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

The Bank's regulatory capital position for the five years ended 31 December 2007 and six months ended 30 June 2008 was as follows:

Tier I Capital	2008 30 June KShs '000	2007 31 December KShs '000	2006 31 December KShs '000	2005 31 December KShs '000	2004 31December KShs '000	2003 31 December KShs '000
Ordinary share capital	2,933,682	2,857,042	2,660,952	2,619,562	2,285,633	1,212,151
Non repayable share premium/grants	666,729	676,953	697,400	720,302	746,065	756,050
Retained earnings	3,008,909	2,387,967	1,030,232	283,328	(48,031)	(190,886)
Other reserves	32,277	10,042	10,806	25012	10,292	10,889
General reserves	3,100	3,100	3,100	3,100	3,100	3,100
Less: Investments in equity of other institutions	(5,720)	(5,720)	(7,000)	(8,400)	(11,200)	(12,600)
	6,638,977	5,929,384	4,395,490	3,642,904	2,985,859	1,778,704
Tier II Capital						
Revaluation reserves	76,294	76,677	77,441	78,969	79,734	130,494
Term subordinated	75,658	45,659	338,286	1,918,161	2,803,161	1,118,161
General loan loss provision	384,701	384,701	384,701	384,701	519,611	179,226
	536,653	507,037	800,428	2,381,831	3,402,506	1,427,881
Total	7,175,630	6,436,421	5,195,918	6,024,735	6,388,365	3,206,585
Total risk weighted assets	48,453,889	41,269,105	32,498,623	32,346,332	27,455,605	21,262,674
Total capital to risk ratio	14.81%	15.60%	15.99%	18.63%	23.27%	15.08%
Minimum total capital to risk assets ratio	12%	12%	12%	12%	12%	12%

C. CONSOLIDATED INCOME STATEMENTS FOR THE FIVE YEARS TO 31 DECEMBER 2007 AND SIX MONTHS ENDED 30 JUNE 2008

	Note	2008 6 months KShs'000	2007 12 months KShs'000	2006 12 months KShs'000	2005 12 months KShs'000	2004 12 months KShs'000	2003 12 months KShs'000
Interest income	1	3,282,710	5,519,826	4,417,732	4,241,389	2,756,114	2,135,869
Interest expense	2	(785,760)	(1,000,432)	(1,078,849)	(1,498,820)	(568,494)	(702,869)
Net interest income		2,496,950	4,519,394	3,338,883	2,742,569	2,187,620	1,433,000
		-					
Fees and commission income		1,522,783	2,909,127	2,508,935	2,124,093	1,875,133	1,261,558
Gain on foreign exchange		284,458	414,221	299,110	196,713	135,686	156,811
Net gain from disposal of investments		-	38,556	18,033	1,806	17,371	71,073
Changes in fair value of investments		(70,785)	(12,034)	(76,544)	(30,016)	(133,151)	22,258
Amortization of investments held to maturity		(11,874)	(22,793)	(29,118)	(35,288)	-	-
Other operating income	3	496,398	429,385	857,663	298,906	130,639	199,350
Operating income		4,717,930	8,275,856	6,916,962	5,298,783	4,213,298	3,144,050
Impairment losses on loans and advances	12(c)	(300,253)	(699,891)	(1,424,644)	(1,163,557)	(886,499)	(464,231)
Other operating expenses	4	(2,742,384)	(5,257,440)	(4,236,318)	(3,421,225)	(2,970,502)	(2,499,298)
OPERATING EXPENSES		3,042,637	2,318,525	1,256,000	714,001	356,297	180,521
PROFIT BEFORE TAXATION		1,675,293	2,318,525	1,256,000	714,001	356,297	180,521
TAXATION	6(a)	(433,409)	(768,919)	(389,488)	(267,867)	(151,420)	(25,529)
PROFIT AFTER TAXATION		1,241,884	1,549,606	866,512	446,134	204,877	154,992
EARNINGS PER SHARE							
Basic and diluted (KShs.)	7	0.43	0.54	0.33	0.27	0.14	0.11

D. CONSOLIDATED INCOME STATEMENTS FOR THE FIVE YEARS TO 31 DECEMBER 2007 AND SIX MONTHS ENDED 30 JUNE 2008

		2008	2007	2006	2005	2004	2003
ASSETS		KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cash and balances with Central Bank of Kenya	8	5,329,530	6,025,266	5,281,056	4,586,617	3,727,180	2,713,563
Placements and balances with other banking institutions	9	4,814,702	1,773,418	3,433,908	1,833,842	2,616,820	870,163
Trading investments	10	3,159,616	3,278,530	2,114,438	3,030,813	4,117,643	5,258,319
Non trading investments	11	7,931,392	9,703,371	13,325,043	8,317,075	3,412,397	541,108
Loans and advances	12(a)	43,404,264	38,074,772	27,783,183	27,194,908	25,115,054	16,200,817
Tax recoverable	6(b)	27,732	-	-	-	9,969	54,968
Other assets	13	3,446,576	3,175,731	2,366,386	2,011,868	2,526,186	1,771,700
Intangible assets	14	175,472	156,335	141,534	137,827	153,001	124,731
Prepaid leases on land	15	41,622	41,933	42,592	43,196	43,912	44,629
Property and equipment	16	3,412,266	3,107,229	2,793,787	2,556,410	2,340,827	2,340,007
Deferred tax	17	62,922	17,620	152,988	226,256	477,283	580,512
TOTAL ASSETS		71,806,094	65,354,205	57,434,915	49,938,812	44,540,272	30,500,517
LIABILITIES							
Deposits and balances from other banking institutions	18	3,288,319	1,422,611	2,279,052	740,375	4,304,547	1,336,653
Other customer deposits	19	58,763,061	54,775,390	48,182,587	43,601,821	35,151,287	25,814,297
Loans	20	30,000	30,000	30,000	24,500	24,500	24,500
Other borrowings		45,658	45,658	54,816	-	235,500	-
Tax payable	6 (b)	-	233,951	334,754	1,658	-	-
Other liabilities	21	2,137,628	2,386,314	1,719,240	1,503,848	1,430,392	1,189,357
TOTAL LIABILITIES		64,264,666	58,893,924	52,600,449	45,872,202	41,146,226	28,364,807
CAPITAL EMPLOYED							
Share capital	22	2,933,090	2,856,450	2,660,363	2,618,977	2,285,048	1,211,566
Reserves		3,941,609	2,698,362	1,343,685	598,836	271,531	131,746
Capital grants	23	666,729	676,953	697,400	717,848	746,065	756,051
Proposed dividend	24	-	228,516	133,018	130,949	91,402	36,347
SHAREHOLDERS' FUNDS		7,541,428	6,460,281	4,834,466	4,066,610	3,394,046	2,135,710
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		71,806,094	65,354,205	57,434,915	49,938,812	44,540,272	30,500,517

E. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE FIVE YEARS TO 31 DECEMBER 2007 AND SIX MONTHS TO 30 JUNE 2008

	Share capital KShs'000	Capital reserve KShs'000	Co-operative development fund KShs'000	General reserve KShs'000	Share transfer fund KShs'000	Share fractions KShs'000	Revenue reserves KShs'000	Total KShs'000
Balance at 1 January 2003	1,210,931	333,903	10,292	3,100	551	63	(40,821)	1,518,019
Realisation on revaluation surplus	-	(4,368)	-	-	-	-	4,368	-
Net movement in grants for the year	-	-	-	-	-	-	(283,370)	(283,370)
Deferred tax	-	(10,600)	-	-	-	-	-	(10,600)
Net transfer of shares	635	-	(10,292)	-	(17)	-	10,292	618
Profit for the year	-	-	-	-	-	-	154,992	154,992
Proposed dividend	-	-	-	-	-	-	(36,347)	(36,347)
Balance at 31 December 2003	1,211,566	318,935	-	3,100	534	63	(190,886)	1,343,312
Balance at 1 January 2004	1,211,566	318,935	-	3,100	534	63	(190,886)	1,343,312
Realisation on revaluation surplus		(4,368)					4,368	-
Net movement in grants for the year	-	-	-	-	-	-	25,012	25,012
Deferred tax	-	1,310	-	-	-	-	-	1,310
Issue of shares	1,073,482	-	-	-	-	-	-	1,073,482
Net transfer of shares	-	-	-	-	(12)	-	-	(12)
Profit for the year	-	-	-	-	-	-	204,877	204,877
Proposed dividend	-	-	-	-	-	-	(91,402)	(91,402)
Balance at 31 December 2004	2,285,048	315,877	-	3,100	522	63	(48,031)	2,556,579

E. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE FIVE YEARS TO 31 DECEMBER 2007 AND SIX MONTHS TO 30 JUNE 2008 (CONTINUED)

	Share capital KShs'000	Capital reserve KShs'000	Co-operative development fund KShs'000	General reserve KShs'000	Share transfer fund KShs'000	Share fractions KShs'000	Revenue reserves KShs'000	Total KShs'000
Balance at 1 January 2005	2,285,048	315,877	3,100	522	63	91,402	(48,031)	2,647,981
Realisation on revaluation surplus	-	(4,368)	-	-	-	-	4,368	-
Net movement in grants for the year	-	-	-	-	-	-	10,806	10,806
Deferred tax	-	1,310	-	-	-	-	-	1,310
Issue of shares	333,929	-	-	-	4	-	-	333,933
Dividends paid	-	-	-	-	-	(91,402)	-	(91,402)
Profit for the year	-	-	-	-	-	-	446,134	446,134
Proposed dividend	-	-	-	-	-	130,949	(130,949)	-
Balance at 31 December 2005	2,618,977	312,819	3,100	522	67	130,949	282,328	3,348,762
Balance at 1 January 2006	2,618,977	312,819	3,100	522	67	130,949	282,328	3,348,762
Realisation on revaluation surplus	-	(4,368)	-	-	-	-	4,368	-
Net movement in grants for the year	-	-	-	-	-	-	10,042	10,042
Deferred tax	-	1,310	-	-	-	-	-	1,310
Issue of shares	41,386	-	-	-	3	-	-	41,389
Dividends paid	-	-	-	-	-	(130,949)	-	(130,949)
Profit for the year	-	-	-	-	-	-	866,512	866,512
Proposed dividend	-	-	-	-	-	133,018	(133,018)	-
Balance at 31 December 2006	2,660,363	309,761	3,100	522	70	133,018	1,030,232	4,137,066

E. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE FIVE YEARS TO 31 DECEMBER 2007 AND SIX MONTHS TO 30 JUNE 2008 (CONTINUED)

	Share capital KShs'000	Capital reserve KShs'000	Co-operative development fund KShs'000	General reserve KShs'000	Share transfer fund KShs'000	Share fractions KShs'000	Revenue reserves KShs'000	Total KShs'000
Balance at 1 January 2007	2,660,363	309,761	3,100	522	70	133,018	1,030,232	4,137,066
Realisation on revaluation surplus	-	(4,368)	-	-	-	-	4,368	-
Net movement in grants for the year	-	-	-	-	-	-	32,277	32,277
Deferred tax	-	1,310	-	-	-	-	-	1,310
Issue of shares	196,087	-	-	-	-	-	-	196,087
Dividends paid	-	-	-	-	-	(133,018)	-	(133,018)
Profit for the year	-	-	-	-	-	-	1,549,606	1,549,606
Proposed dividend	-	-	-	-	-	228,516	(228,516)	-
Balance at 31 December 2007	2,856,450	306,703	3,100	522	70	228,516	2,387,967	5,783,328
Balance at 1 January 2008	2,856,450	306,703	3,100	522	70	228,516	2,387,967	5,783,328
Realisation of revaluation surplus	-	(2,184)	-	-	-	-	2,184	-
Net movement in revenue grants for the period	-	-	-	-	-	-		
-	709	709						
Deferred tax	-	655	-	-	-	-	-	655
Issue of shares	76,640	-	-	-	-	-	-	76,640
Dividends paid	-	-	-	-	-	(228,516)	-	(228,516)
Profit for the period	-	-	-	-	-	-	1,241,884	1,241,884
Balance at 30 June 2008	2,933,090	305,174	3,100	522	70	-	3,632,744	6,874,700

F. CONSOLIDATED CASH FLOW STATEMENTS FOR THE FIVE YEARS TO 31 DECEMBER 2007 AND SIX MONTHS TO 30 JUNE 2008

	Note	2008	2007	2006	2005	2004	2003
		6 months	12 months	12 months	12 months	12 months	12 months
	Note	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
CASH GENERATED FROM/(USED IN)							
OPERATING ACTIVITIES:-	25 (a)	2,157,608	(1,962,956)	4,096,721	4,308,533	738,032	116,885
Tax paid		(739,739)	(733,045)	(20,179)	(3,902)	-	(3,615)
		1,417,869	(2,696,001)	4,076,542	4,304,631	738,032	113,270
CASH FLOWS FROM INVESTING ACTIVITIES:-							
Purchase of property & equipment		(499,666)	(646,134)	(560,024)	(548,528)	(280,663)	(247,583)
Purchase of software		(45,265)	(70,475)	(67,802)	(65,452)	(99,695)	(62,872)
Proceeds from disposal of property & equipment		15,473	(4)	2,318	4,336	10,001	13,258
Dividends received		-	-	-	116	-	18
Net cash flows used in investing activities:-		(529,458)	(716,613)	(625,508)	(609,528)	(370,357)	(297,179)
CASHFLOWS FROM FINANCING ACTIVITIES		-					
Proceeds on issue of share capital		76,640	196,087	41,386	333,930	1,073,520	635
Loans received			-	60,316	-	25,012	24,500
Dividends paid		(228,516)	(133,018)	(130,949)	(91,402)	(36,347)	-
Proceeds from Loans		-	(250,139)	(1,640,192)	(235,500)	235,500	-
Grant refunded to donor		-	-	-	-	-	(121,889)
Share transfer fund		-	-	-	-	(12)	(17)
Share fractions		-	-	3	4	-	-
Net cash flows used in financing activities		(151,876)	(187,070)	(1,669,436)	7,032	1,297,673	(96,771)
Net movement in cash and cash equivalents		736,535	(3,599,684)	1,781,598	3,702,135	1,665,348	(280,680)
Cash and cash equivalents at the beginning of the period		7,094,741	10,280,204	8,199,496	4,300,648	2,499,614	2,623,483
Effects of exchange rate changes		284,458	414,221	299,110	196,713	135,686	156,811
Cash and cash equivalents at the end of the period	25	8,115,734	7,094,741	10,280,204	8,199,496	4,300,648	2,499,614

G. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. INTEREST INCOME

	2008 KShs'000 6 months	2007 KShs'000 12 months	2006 KShs'000 12 months	2005 KShs'000 12 months	2004 KShs'000 12 months	2003 KShs'000 12 months
Loans and advances	2,620,641	4,191,866	3,156,439	3,393,542	2,166,219	1,852,550
Government securities	625,763	1,285,586	1,228,790	793,740	563,934	276,114
Deposits and placements with banks	36,306	42,374	32,503	54,107	25,961	7,205
	3,282,710	5,519,826	4,417,732	4,241,389	2,756,114	2,135,869

2. INTEREST EXPENSE

Short call deposits	220,616	242,640	335,931	233,638	73,680	63,393
Fixed deposits	414,707	494,657	561,529	1,069,482	219,474	333,442
Transaction accounts	30,138	158,377	127,131	109,301	122,040	113,054
Interbank borrowings	105,495	55,998	36,816	51,474	43,392	38,111
Government loans	14,804	48,760	17,442	34,925	109,908	154,869
	785,760	1,000,432	1,078,849	1,498,820	568,494	702,869

3. OTHER OPERATING INCOME

Dividend income	-	-	-	116	110	110
Gain on disposal of property	-	(4)	1,693	2,131	7,562	7,540
Rent income (net)	23,286	45,695	43,032	44,128	22,828	8,826
Provision write back:						
Specific	369,555	-	653,074	55,052	-	-
General	-	-	-	134,910	-	-
Amortisation of capital grants	10,224	20,447	20,448	28,217	51,522	99,571
Miscellaneous income	93,333	363,247	139,416	34,352	48,617	83,303
	496,398	429,385	857,663	298,906	130,639	199,350

4. OTHER OPERATING EXPENSES

Staff costs	1,292,005	2,417,756	1,910,226	1,317,622	1,121,467	986,243
Contribution to staff retirement benefit scheme	115,161	200,888	187,142	129,415	109,182	94,258
Directors emoluments: - As directors	30,626	55,678	55,773	49,794	29,635	26,855
Depreciation of property and equipment	179,154	332,854	281,004	325,945	276,043	277,127
Amortization of leasehold land	311	659	604	716	717	717
Amortization of intangible assets	26,128	55,674	66,511	83,361	71,426	51,488
Auditors' remuneration	3,700	7,550	6,865	6,865	6,894	5,374
Contribution to Deposit Protection Fund	36,774	70,421	60,298	47,704	38,507	29,474
Other administrative costs	954,326	1,505,914	876,191	666,635	599,641	567,639
Other operating expenses	104,199	610,046	791,704	793,168	716,990	460,123
	2,742,384	5,257,440	4,236,318	3,421,225	2,970,502	2,499,298

G. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. PROFIT BEFORE TAXATION	2008 KShs'000 6 months	2007 KShs'000 12 months	2006 KShs'000 12 months	2005 KShs'000 12 months	2004 KShs'000 12 months	2003 KShs'000 12 months
Profit before taxation is stated after charging:-						
Staff costs	1,292,005	2,417,756	1,910,226	1,317,622	1,121,467	986,243
- As executives	30,626	55,678	55,773	49,794	29,635	26,855
Depreciation of property and equipment	179,154	332,854	281,004	325,945	276,043	277,127
Amortization of leasehold land	311	659	604	716	717	717
Amortization of intangible assets	26,128	55,674	66,511	83,361	71,426	51,488
Auditors' remuneration	3,700	7,550	6,865	6,865	6,894	5,374
Impairment of loans and advances	300,253	699,891	1,424,644	1,163,557	886,499	464,231
Contribution to Deposit Protection Fund	36,774	70,421	60,298	47,704	38,507	29,474
Loss on disposal of property and equipment	-	-	-	-	-	17,460
Contribution to staff retirement benefit scheme	115,161	200,888	187,142	129,415	109,182	94,258
And after crediting:-						
Foreign exchange gain	284,458	414,221	299,110	196,713	135,686	156,811
Gain on disposal of property and equipment	(4)	(4)	1,693	2,131	7,562	-
Net rental income	23,286	45,695	43,032	44,128	22,828	8,826
Dividend income	-	-	-	116	110	110
Amortization of capital gains	10,223	20,447	20,448	28,217	25,761	49,785
Provisions written back on loans and advances	369,555	-	653,074	189,962	25,778	-

6. TAXATION						
(a) Income statement:-						
Current tax at 30% on the taxable profit for the period	478,560	594,281	352,560	15,529	9,231	3,795
Under/(over) provisions in the previous periods	(504)	37,960	(37,650)	-	37,650	-
Deferred tax	(44,647)	136,678	74,578	252,338	104,539	21,734
Tax charge	433,409	768,919	389,488	267,867	151,420	25,529
(b) Balance sheet:-						
Balance brought forward	233,951	334,754	1,658	(9,969)	(54,968)	(114,946)
Charge for the period	478,560	594,281	352,560	15,529	9,231	3,794
Under/(over) provision in previous periods	(504)	37,960	715	-	37,650	59,799
Paid during the period	(739,739)	(733,044)	(20,179)	(3,902)	(1,882)	(3,615)
At 30 June/ 31 December	(27,732)	233,951	334,754	1,658	(9,969)	(54,968)
Reconciliation of taxation expense to tax based on accounting profit:-						
Accounting profit	1,675,293	2,318,525	1,256,000	714,001	356,297	180,521
Tax applicable rate of 30%	502,588	695,558	376,800	214,200	106,889	54,156
Overprovision in previous periods(504)	-	(37,650)	-	37,650	-	
Tax effect of items not eligible for tax	(68,675)	73,361	50,338	53,667	6,881	(28,627)
	433,409	768,919	389,488	267,867	151,420	25,529

7. EARNINGS PER SHARE

Earnings per share is calculated on the profit attributable to ordinary shareholders and on the weighted average number of ordinary shares in issue at 31 December

Weighted average number of shares (in '000)	2,933,000	2,856,500	2,660,400	2,619,000	2,285,000	1,211,600

	2008 KShs'000 6 months	2007 KShs'000 12 months	2006 KShs'000 12 months	2005 KShs'000 12 months	2004 KShs'000 12 months	2003 KShs'000 12 months
8. CASH AND BALANCES WITH CENTRAL BANKS						
Cash on hand	2,049,286	2,405,929	2,196,647	1,372,319	983,963	810,663
Central Bank of Kenya	3,280,244	3,619,337	3,084,409	3,214,298	2,743,217	1,902,900
	5,329,530	6,025,266	5,281,056	4,586,617	3,727,180	2,713,563
9. DEPOSITS AND BALANCES DUE FROM BANKS						
Commercial banks	2,964,702	34,719	287,840	788,889	1,766,948	349,000
Foreign banks	1,850,000	1,738,699	3,146,068	1,044,953	849,872	521,163
	4,814,702	1,773,418	3,433,908	1,833,842	2,616,820	870,163
10. TRADING INVESTMENTS						
Treasury bonds maturing within 91 days of balance sheet date	71,773	298,067	-	-	200,000	-
Treasury bonds maturing after 91 days of balance sheet date	3,087,843	2,980,463	2,114,438	3,030,813	3,917,643	5,258,319
	3,159,616	3,278,530	2,114,438	3,030,813	4,117,643	5,258,319

These are treasury bonds issued by the Government of the Republic of Kenya and acquired by the Group for the generation of revenue from short term fluctuations in interest rates.

11. NON TRADING INVESTMENTS

a) Held to maturity investments

	2008	2007	2006	2005	2004	2003
Government treasury bills	1,249,600	1,483,800	4,427,729	4,216,178	19,784	458,809
Treasury bonds maturing within 91 days of balance sheet date	40,000	1,002,273	101,471	89,983	150	
Treasury bonds maturing after 91 days of the balance sheet date	6,604,973	7,180,479	8,717,744	3,931,415	3,311,564	-
	7,894,573	9,666,552	13,246,944	8,237,576	3,331,498	458,809

The held to maturity investments include treasury bonds issued in accordance with an agreement dated 30 June 2006 between the Ministry of Finance, Co-operative Bank of Kenya Ltd and Coffee Development Fund (CODF). The Ministry of Finance issued Treasury Bonds worth KShs 3,244,012,519 to the Bank. The Treasury bonds were to mature as follows: KShs 1 billion, KShs 1 billion and KShs 1,244,012,519 on 30 June 2007, 30 June 2008 and 30 June 2009 respectively.

G. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. NON TRADING INVESTMENTS (Continued)	2008 KShs'000	2007 KShs'000	2006 KShs'000	2005 KShs'000	2004 KShs'000	2003 KShs'000
b) Unquoted investments						
Total unquoted investments	36,819	36,819	78,099	79,499	80,899	82,299
Total non trading investments	7,931,392	9,703,371	13,325,043	8,317,075	3,412,397	541,108
12. LOANS AND ADVANCES						
a) Net loans and advances						
Overdrafts	2,314,487	1,771,429	1,952,233	2,611,361	2,315,851	2,390,432
Commercial loans	45,759,708	40,820,073	39,262,839	38,110,985	33,771,819	23,398,037
Government/ Donor funded loan schemes	1,334,227	1,440,662	1,771,226	815,481	1,262,808	1,213,137
Credit card balances	505,914	433,330	857,693	669,071	833,054	606,133
Micro enterprises	1,012,964	976,283	594,819	447,304	420,579	288,170
Gross loans and advances	50,927,300	45,441,777	44,438,810	42,654,202	38,604,111	27,895,909
Provision for impairment of loans and advances	(7,523,036)	(7,367,005)	(16,655,627)	(15,459,294)	(13,489,057)	(11,695,092)
	43,404,264	38,074,772	27,783,183	27,194,908	25,115,054	16,200,817
b) Sectoral analysis:-						
Agriculture	2,314,487	3,801,812	4,747,770	5,846,700	8,283,567	6,545,794
Manufacturing	45,759,708	1,001,901	622,602	158,557	125,329	79,709
Construction	1,334,227	2,831,570	7,581,418	8,866,938	2,399,200	2,362,123
Service	505,914	22,476,282	19,185,520	13,502,082	13,389,214	9,334,344
Other	1,012,964	15,330,212	12,301,500	14,279,925	14,406,801	9,573,939
	50,927,300	45,441,777	44,438,810	42,654,202	38,604,111	27,895,909
c) Provision for impairment of loans and advances						
(i) Specific provisions:						
Balance at 1 January	6,982,304	16,270,926	15,074,593	12,969,446	11,515,866	9,999,424
Specific provisions made during the year	300,253	699,891	699,891	1,424,644	1,424,644	1,163,557
Interest not recognised as (expense)/income	147,436	414,138	208,502	996,642	933,745	1,105.063
Specific provisions written off	(291,658)	(10,402,651)	(19,809)	(55,052)	-	-
Interest write backs	-	-	-	-	(26,279)	(52,852)
Balance at 30 June/ 31 December	7,138,335	6,982,304	16,270,926	15,074,593	12,969,446	11,515,866
(ii) General provisions:						
Balance at 1 January	384,701	384,701	384,701	519,611	179,226	179,226
Provisions made during the period	-	-			340,385	
General provisions written back	-	-	-	(134,910)	-	-
Balance at 30 June/ 31 December	384,701	384,701	384,701	384,701	519,611	179,226
	7,523,036	7,367,005	16,655,627	15,459,294	13,489,057	11,695,092

13. OTHER ASSETS

	2008 KShs'000	2007 KShs'000	2006 KShs'000	2005 KShs'000	2004 KShs'000	2003 KShs'000
Interest receivable	741,761	565,595	291,453	235,960	262,272	133,912
Deposit with default financial institutions	-	43,052	43,052	43,052	43,052	43,552
Deferred clearing	1,735,894	1,341,237	1,497,652	1,196,747	1,786,287	1,214,791
Sundry debtors and prepayments	968,921	1,268,899	577,281	579,161	477,627	422,997
	3,446,576	3,218,783	2,409,438	2,054,920	2,569,238	1,815,252
Provisions for deposits with default financial institutions	-	(43,052)	(43,052)	(43,052)	(43,052)	(43,552)
	3,446,576	3,175,731	2,366,386	2,011,868	2,526,186	1,771,700

14. INTANGIBLE ASSETS

	2008	2007	2006	2005	2004	2003
Cost	774,840	729,576	659,101	427,139	357,128	257,433
Amortisation	(599,368)	(573,241)	(517,567)	(289,312)	(204,127)	(132,702)
Net Book Value	175,472	156,335	141,534	137,827	153,001	124,731

Intangible assets relate to computer software

G. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	2008 KShs'000	2007 KShs'000	2006 KShs'000	2005 KShs'000	2004 KShs'000	2003 KShs'000
15. PREPAID LEASES ON LAND						
Cost	55,568	55,568	55,568	55,568	55,568	55,568
Amortisation	(13,946)	(13,635)	(12,976)	(12,372)	(11,656)	(10,939)
Net Book Value	41,622	41,933	42,592	43,196	43,912	44,629
16. PROPERTY AND EQUIPMENT						
COST						
Freehold land and buildings	1,759,087	1,759,087	1,759,087	1,759,087	1,759,087	1,020,063
Capital work-in-progress	637,787	338,595	450,997	225,491	274,101	920,494
Office machinery	143,209	113,622	97,990	65,186	54,850	55,906
Furniture and equipment	637,023	576,824	480,968	479,355	409,402	383,480
Motor vehicles	144,437	128,119	113,276	116,869	117,000	131,310
Fixtures	1,165,593	1,163,897	704,362	714,933	410,206	405,042
Computers	1,664,490	1,590,182	1,417,512	1,412,695	1,239,235	1,123,610
	6,151,626	5,670,326	5,024,192	4,773,616	4,263,881	4,039,905
ACCUMULATED DEPRECIATION						
Freehold land and buildings	308,117	286,530	243,939	203,329	160,762	117,688
Capital work-in-progress	-	-	-	-	-	-
Office machinery	92,284	87,220	79,106	47,023	39,702	37,795
Furniture and equipment	434,684	410,835	367,662	382,556	352,604	331,396
Motor vehicles	103,514	97,883	87,079	85,445	84,565	87,328
Fixtures	579,578	527,877	452,367	413,065	357,984	329,241
Computers	1,221,183	1,152,752	1,000,252	1,085,788	927,437	796,450
	2,739,360	2,563,097	2,230,405	2,217,206	1,923,054	1,699,898
NET BOOK VALUE						
Freehold land and buildings	1,450,970	1,472,557	1,515,148	1,555,758	1,598,325	902,375
Capital work-in-progress	637,787	338,595	450,997	225,491	274,101	920,494
Office machinery	50,925	26,402	18,884	18,163	15,148	18,111
Furniture and equipment	202,339	165,989	113,306	96,799	56,798	52,084
Motor vehicles	40,923	30,236	26,197	31,424	32,435	43,982
Fixtures	586,015	636,020	251,995	301,868	52,222	75,801
Computers	443,307	437,430	417,260	326,907	311,798	327,160
	3,412,266	3,107,229	2,793,787	2,556,410	2,340,827	2,340,007

17. DEFERRED TAX

	2008	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
	2008	2007	2006	2005	2004	2003
Deferred tax movement and balances are analysed as follows:	2008	2007	2006	2005	2004	2003
Tax losses carried forward	-	-	(129,016)	(321,242)	(563,234)	
Loan losses disallowed for tax purposes	115,410	(115,410)	(115,410)	(115,410)	(155,883)	(53,768)
Revaluation surplus	(91,619)	91,619	92,929	122,780	124,090	125,400
Accelerated depreciation over wear & tear	18,879	(12,529)	(84,566)	(84,887)	(118,784)	(84,719)
Provisions and other deferred tax assets	20,252	18,700	(45,941)	(19,723)	(5,464)	(4,191)
	62,922	(17,620)	(152,988)	(226,256)	(477,283)	(580,512)

18. DEPOSITS AND BALANCES DUE TO BANKS

	2008	2007	2006	2005	2004	2003
Payable on demand	-	-	-	-	453,215	705,793
Payable within 30 days	3,244,414	1,405,054	2,279,052	62,399	445,068	71,106
Payable after 30 days but within 1 year	43,905	17,557	-	677,976	3,406,264	559,754
	3,288,319	1,422,611	2,279,052	740,375	4,304,547	1,336,653

19. CUSTOMER DEPOSITS

	2008	2007	2006	2005	2004	2003
Call deposits	171,252	308,732	3,327,940	3,666,811	2,552,452	2,510,611
Fixed deposits	15,784,758	13,746,938	7,723,601	14,401,624	11,592,239	7,206,495
Transactions accounts	21,246,282	21,225,925	17,112,113	13,983,839	11,411,202	9,568,573
Savings accounts	191,445	134,845	-	-	-	-
Current accounts	18,120,564	16,696,678	16,589,425	10,628,804	8,619,029	5,760,690
Foreign currency deposits	3,248,760	2,662,272	3,429,508	920,743	976,365	767,928
	58,763,061	54,775,390	48,182,587	43,601,821	35,151,287	25,814,297

In 2007, a clause was introduced in the Banking Act prohibiting charges on Savings accounts. Consequently accounts styled Savings but with transactional features were classified as transaction accounts.

	2008	2007	2006	2005	2004	2003
From government and parastatals:-						
Payable on demand	2,497,538	1,539,585	3,215,907	1,929,621	1,460,567	1,595,629
Payable within 30 days	671,158	232,142	1,833,892	1,861,538	1,733,308	1,845,506
Payable after 30 days but within 1 year	4,365,756	1,958,969	2,216,497	6,176,472	3,715,536	2,513,235
	7,534,452	3,730,696	7,266,296	9,967,631	6,909,411	5,954,370
From private sector and individuals:-						
Payable on demand	40,221,256	39,045,292	17,808,040	9,310,723	7,168,594	4,352,741
Payable within 30 days	2,062,058	3,061,495	1,575,266	15,694,582	14,222,241	733,146
Payable after 30 days but within 1 year	8,945,295	8,937,907	21,532,985	8,628,885	6,851,041	14,774,040
	51,228,609	51,044,694	40,916,291	33,634,190	28,241,876	19,859,927
	58,763,061	54,775,390	48,182,587	43,601,821	35,151,287	25,814,297

G. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	2008	2007	2006	2005	2004	2003
20. LOANS	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
	2008	2007	2006	2005	2004	2003
Eastern Province Horticultural and Traditional Food Crop Project	30,000	30,000	30,000	24,500	24,500	24,500

21. OTHER LIABILITIES

Interest payable	303,206	4,123	27,160	616,674	539,970	464,233
Transfers in transit	-	-	-	-	17,970	25,650
Sundry creditors and accruals	1,748,465	2,101,170	1,076,091	544,463	541,505	420,052
Other creditors	85,957	281,021	615,989	342,711	330,947	279,422
	2,137,628	2,386,314	1,719,240	1,503,848	1,430,392	1,189,357

22. SHARE CAPITAL

Authorised:						
An unlimited number of shares of KShs 1 each						
Issue of new shares: Class A	-	-	-	333,929	1,073,502	635
Issued and fully paid:-						
Class A shares	2,254,155	2,232,243	2,229,788	1,853,371	779,829	779,194
B shares	678,935	624,207	430,575	431,677	431,717	431,737
Share transfers:-						
Class B shares transferred to class A	-	-	1,196	1,102	(40)	(20)
Transferred from class A to B	-	-	(1,196)	(1,102)	40	20
	2,933,090	2,856,450	2,660,363	2,618,977	2,285,048	1,211,566

23. CAPITAL GRANTS

Fair value of grant receipts						
Fair value at 1 January and 31 December	676,952	697,400	717,848	746,065	771,826	875,450
Grant net of amortization at 1 January	679,952	697,400	717,848	746,065	771,826	805,836
Amortization for the period	(10,223)	(20,447)	(20,448)	(28,217)	(25,761)	(49,785)
At 31 December	666,729	676,953	697,400	717,848	746,065	756,051

24. PROPOSED DIVIDENDS	2008	2007	2006	2005	2004	2003
	6 months	12 months	12 months	12 months	12 months	12 months
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Proposed dividend	-	228,516	133,018	130,949	91,402	36,347
Dividends per share (KShs)	-	0.08	0.05	0.05	0.04	0.03
Dividend cover	-	7	7	5	4	4

The dividend per share is calculated on the total proposed dividends for each respective year and on the number of ordinary shares in issues as at the close of the respective period/ year.

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT	2008	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
(a) CASH FLOWS FROM OPERATING ACTIVITIES						
This has been derived as follows						
Profit before Taxation	1,675,293	2,318,525	1,256,000	714,001	356,297	180,521
Adjustments for:						
Depreciation	179,154	332,692	281,004	325,945	276,043	277,127
Amortization of Prepaid lease rentals	311	659	604	716	717	717
Provision for diminution in value of investment	-	1,580	1,400	1,400	1,400	1,400
Impairment of plant, property and equipment	-	-	38,602	-	-	-
Amortization of Intangible assets	26,127	55,674	66,511	83,361	71,426	51,488
Amortization of grants	(9,514)	(20,447)	(20448)	(28,217)	(25,761)	(49,785)
Gain on disposal of property and equipment	-	4	(1,693)	(2,131)	(7,562)	(7,540)
Foreign Exchange gain	(284,458)	(414,221)	(299,110)	(196,713)	(135,686)	(155,890)
Unrealized loss on re-measurement of investments	70,785	12,034	76,544	30,016	133,158	(26,194)
Amortization of investments held to maturity	11,874	22,793	29,118	35,288	15,878	-
Dividend income	-	-	-	-	(110)	(110)
Cash flows from operating activities before working capital changes	1,669,572	2,309,293	1,428,532	963,550	685,800	271,734
Advances to customers	(5,329,492)	(10,008,120)	1,051,917	(2,079,855)	(8,914,237)	(370,851)
Other assets	(270,845)	(809,345)	(336,628)	514,701	(4,066,838)	(991,403)
Deposits from customers	3,987,671	6,592,803	4,580,766	8,172,261	9,336,990	3,838,603
Deposit from banks	1,865,708	(856,441)	1,538,677	(3,564,260)	2,967,894	-
Other liabilities	(248,686)	656,564	215,392	318,443	241,035	69,190
Central Bank of Kenya cash ratio	98,213	(524,124)	(436,836)	(464,073)	(520,129)	(293,217)
Amount due from subsidiary companies	-	-	-	-	-	28,002
Trading investments	(190,039)	(878,058)	839,831	269,866	1,007,517	(2,435,173)
Non – trading investments	575,506	1,554,472	(4,784,930)	177,900	-	-
Cash generated (used in) / from operating activities	2,157,608	(1,962,956)	4,096,721	4,308,533	738,032	116,885

G. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(b) ANALYSIS OF CASH AND CASH EQUIVALENTS

	2008 KShs'000	2007 KShs'000	2006 KShs'000	2005 KShs'000	2004 KShs'000	2003 KShs'000
Cash on hand	2,049,286	2,405,929	2,196,647	1,372,319	983,963	810,663
Cash with Central Bank of Kenya	3,280,244	3,619,337	3,084,409	3,214,298	2,743,217	1,902,900
Deposits and placements due from banks	4,814,702	1,773,418	3,433,908	1,833,842	2,616,820	870,163
Government securities and other investments maturing within 91 days						
Investments maturing within 91 days	1,361,373	2,784,141	4,529,200	4,306,161	19,699	458,810
	11,505,605	10,582,825	13,244,164	10,726,620	6,363,699	4,042,536
Less Central Bank of Kenya Ratios	(3,389,871)	(3,488,084)	(2,963,960)	(2,527,124)	(2,063,051)	(1,542,922)
	8,115,734	7,094,741	10,280,204	8,199,496	4,300,648	2,499,614

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the balance sheet date. Cash and cash equivalents excludes the cash reserve requirement held with the Central Banks.

26. RELATED PARTY TRANSACTIONS

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

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

	2008 KShs'000	2007 KShs'000	2006 KShs'000	2005 KShs'000	2004 KShs'000	2003 KShs'000
Directors	143,739	128,847	63,789	44,069	41,545	30,519
Employees	2,081,214	1,769,491	1,512,306	1,244,493	981,252	756,580
Employees	-	-	-	-	-	16,774
	2,224,953	1,898,338	1,576,095	1,288,562	1,022,797	803,873

The weighted average interest on loans to related parties during the periods were:

	2008 %	2007 %	2006 %	2005 %	2004 %	2003 %
	4	4	3.94	3.89	2.9	4.92

(b) Inter-company balances:-

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

	2008	2007	2006	2005	2004	2003
Due from: -						
Balances due from subsidiary companies	3,799	-	-	3,755	1,302	1,668
Due to:-						
Deposits from subsidiary companies	1,943		18,106	15,688	30,634	9,682
Other balances	-	1,250	3,328	-	2,932	1,318
	1,943	1,250	21,434	15,688	33,566	11,000

	2008	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
(c) Compensation of key management personnel						
Directors	30,626	55,678	55,773	49,794	29,635	26,855
Senior managers	208,479	232,538	219,889	239,233	186,748	163,283

(d) Co-operative Bank Foundation

The Foundation is a registered trust established to assist bright needy students from the co-operative movement in paying school fees. The Bank has to date donated a total of KShs 30 Million towards this Foundation.

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

This is a defined contribution scheme and provides, under the rules of the scheme, retirement benefits for the staff of The Co-operative Bank of Kenya Limited and its subsidiaries. Under the terms of their appointment, Co-optrust Investment Services Limited is responsible for the investment of funds. The Scheme was converted to a Defined Contribution Scheme with effect from 1 January 2007. The Group contributed KShs 113,028,795 (2007: KShs 200,888,234).

27. GROUP INTEREST RATE RISK

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the exposure to interest rate risks as at 31 December / 30 June.

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
Interest sensitivity gap at 31 December 2003	(11,128,095)	(5,709,119)	2,026,864	9,277,069	1,547,257	3,986,024	-
Interest sensitivity gap at 31 December 2004	(2,124,981)	(13,198,328)	4,139,688	11,062,974	4,706,395	(4,585,748)	-
Interest sensitivity gap at 31 December 2005	(16,853,556)	(4,881,158)	2,084,140	8,399,287	7,329,785	3,921,502	-
Interest sensitivity gap at 31 December 2006	(33,065,142)	(2,958,152)	4,139,688	22,015,332	5,097,621	3,889,883	-
Interest sensitivity gap at 31 December 2007	35,784,016	5,655,783	1,805,707	(31,483,538)	(4,706,987)	(3,443,548)	-
Interest sensitivity gap at 30 June 2008	34,688,090	11,830,911	(3,371,647)	(35,165,226)	(4,805,064)	(2,817,062)	-

28. GROUP LIQUIDITY RISK MANAGEMENT

The Group manages the liquidity structure of assets, liabilities and commitments so that cash flows are appropriately matched to ensure that all funding obligations are met when due. The table below analyses the group's assets and liabilities into relevant groupings based on the remaining period at 31 December / 30 June to the contractual maturity dates.

	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
Net liquidity gap at 31 December 2003	(9,580,387)	(6,125,707)	2,118,518	9,446,490	4,141,086	-
Net liquidity gap at 31 December 2004	(10,737,624)	(8,658,281)	4,265,206	11,507,633	3,623,066	-
Net liquidity gap at 31 December 2005	(12,405,925)	(4,881,158)	2,484,023	8,675,914	6,037,146	-
Net liquidity gap at 31 December 2006	(27,245,953)	(2,957,860)	5,130,133	22,312,501	2,761,179	-
Net liquidity gap at 31 December 2007	(30,146,442	(5,655,783	2,993,988	31,660,146	1,148,089	-
Net liquidity gap at 30 June 2008	(29,197,278)	(11,803,179)	3,749,480	35,405,087	755,573	-

29. FOREIGN CURRENCY EXPOSURE

The Group manages the currency denominations of assets, liabilities and commitments so that cash flows are appropriately matched to ensure that all funding obligations are met when due.

The table below analyses the group’s assets and liabilities into relevant groupings based on the remaining period at 31 December / 30 June to the contractual maturity dates.

	USD	GBP	EURO	JPY	ZAR	Other	TOTAL
	KShs’000	KShs’000	KShs’000	KShs’000	KShs’000	KShs’000	KShs’000
Net exposure as at 31 December 2003	23,346	854	3.094	85	670	1,996	30,045
Net exposure as at 31 December 2004	586	19,368	1,428	224	147	2,913	24,666
Net exposure as at 31 December 2005	(8,317)	487	24	169	(112)	1,290	(6,459)
Net exposure as at 31 December 2006	5,472	3,807	613	(62)	733	(1,183)	9,380
Net exposure as at 31 December 2007	8,659	485	(884)	-	27	27	(26)
Net exposure as at 30 June 2008	361	167	(244)	-	21	21	(9)

G. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30. SENSITIVITY ANALYSIS

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

(i) Interest rate risk

Interest rate risk is the risk of loss resulting from changes in interest rates, including changes in the shape of yield curves. The Group bases its analysis on the interest sensitivity gap (Note 30).The sensitivity computations assume that financial assets maintain a constant rate of return from one year to the next. The effect on profit due to reasonable possible changes in interest rates, with all other variables held constant, is as follows:

	2008	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Effect on profit before tax of a +3% change in interest rates	92,976	92,976	105,027	(105,881)	123,815	(107,623)
Effect on profit before tax of a -3% change in interest rates	(72,315)	(72,315)	(81,688)	82,352	(96,301)	83,707

(ii) Currency risk

Currency risk is the risk of loss resulting from changes in exchange rates. The Group bases its analysis on the foreign currency exposure analysis (Note 32). The Group has assets and liabilities in various currencies; however, the most significant exposure arises from assets denominated in the US dollar. The following table demonstrates the sensitivity to reasonably possible change in the KShs/ US dollar exchange rate, with all other variables held constant, of the Group's profit before tax.

	2008	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Effect on profit before tax of a +5% change in exchange rates	334	478	302	122,806	(28,307)	109,320
Effect on profit before tax of a -5% change in exchange rates	(334)	(302)	(300)	(122,806)	28,307	(109,320)

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value is the amount at which an instrument could be exchanged in a current transaction between willing parties other than enforced or liquidation sale. The fair value of on-balance sheet financial instruments approximate to their carrying amounts as they bear variable interest rates determined under market conditions. The fair values of off-balance sheet financial instruments are the same figures appearing as contingent liabilities and commitments.

32. OPERATING LEASE COMMITMENTS

As Lessee

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

	2008	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Within One year	656	656	656	670	682	693
Between 2 and 5 years	2,625	2,625	2,625	2,683	2,727	2,772
Over 5 years	41,341	41,341	41,998	45,943	43,296	44,003
	44,622	44,622	45,279	49,297	46,705	47,468

Lease commitments relate to lease rentals payable by the group for its leasehold properties

33. COMMITMENTS

	2008	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
i) Capital: Authorised and contracted for	334,284	56,558	44,200	63,185	151,333	73,369
ii) Capital: Authorised and not contracted for	779,998	330,070	318,093	299,890	286,815	276,708
iii) Loans committed but not disbursed at period end	1,975,000	636,547	850,104	1,094,304	255,403	779,058

34. CONTINGENT LIABILITIES

	2008	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
a) Letters of credit, guarantees and other engagements entered into on behalf of customers	2,064,074	2,064,074	3,472,713	1,735,448	951,903	1,272,431

G. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34. CONTINGENT LIABILITIES (continued)

b) Pending legal suits: -

(i) A former customer has sued the Bank seeking special damages amounting to KShs 25,866,564 plus general damages to be quantified by the court, for stopping a cheque for KShs 1,072,279 issued against the customer's account. In the opinion of the directors, the judgement is likely to be in favour of the Bank as it has a strong defence. No liability is therefore expected to crystallise.

(ii) In the year 2003, former employees who left the Bank in 1999 sued the Bank for wrongful dismissal. If the suit is successful, the Bank will be required to pay approximately KShs 3.5 million. The Bank has lodged a counter-claim against this suit.

(iii) A former customer has sued the Bank seeking restitution of KShs 31 million on the ground of irregular withdrawals from his account in the period 1998 to 1999.The Bank filed a defence denying any allegations of fraud. The matter has been referred by Court to Criminal Investigation Department.

(iv) The Bank went to Court to enforce sale of security for a customer who had defaulted in paying Kshs.251 million. The customer however obtained an injunction to stop the sale of the security and also made a claim for general and special damages of Kshs.639 million. The matter is pending in Court for hearing and determination.

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

35. POST BALANCE SHEET EVENTS

At the Annual General Meeting of The Co-operative Bank of Kenya Limited (Society) held on 25 April 2008, the Bank split its shares in the ratio of 1 to100. This effectively increased the number of shares to 2,935,127,600. Earnings per share and dividend per share as reported in the Accountants' Report is based on the profit attributable to ordinary shareholders and on the weighted average number of ordinary shares in issue during the relevant years adjusted with the effect of the July 2008 split.

The Co-operative Bank of Kenya Limited (registered as a co-operative society under the Co-operative Societies Act) changed its status to a public limited liability company under the Companies Act vide Gazette Notice No. 7089 dated 8 August 2008. In effect all the business, assets, liabilities, agreements and contracts were transferred to the new entity.

After this transfer of the business, assets and liabilities, the Society subsequently changed its name to

Co-opholdings Co-operative Society Limited.

36. COMPARATIVES

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

37. INCORPORATION

The Bank is incorporated in Kenya under the Co-operative Societies Act.

38. CURRENCY

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

H. STATEMENT OF ADJUSTMENTS

In compiling the financial information included herein, we have effected adjustments and restatements which have affected the figures reported in the audited financial statements as follows.

a) Agency loans policy revision

The Group changed the policy of holding agency loan balances in its books in 2007. These funds are received for onward lending to customers. The default risk remains with the principal lender consequently the agency loans are now held in memorandum accounts. The effect on the consolidated balance sheet was as follows:

i) Adjustments that impact on total liabilities

	2008	2007	2006	2005	2004	2003
LOANS	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
As reported in the audited financial statements	30,000	30,000	283,469	1,918,161	1,918,161	1,918,161
Prior adjustment	-	-	(253,469)	(1,893,661)	(1,893,661)	(1,893,661)
As reported in the Accountants' Report	30,000	30,000	30,000	24,500	24,500	24,500

ii) Adjustments that impact on total assets

	2008	2007	2006	2005	2004	2003
LOANS AND ADVANCES	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
As reported in the audited financial statements	43,404,264	38,074,772	28,036,652	29,088,569	27,008,715	18,094,478
Prior adjustment	-	-	(253,469)	(1,893,661)	(1,893,661)	(1,893,661)
As reported in the Accountants' Report	43,404,264	38,074,772	27,783,183	27,194,908	25,115,054	16,200,817

b) Restatement due to share split

On 11 July 2008, the Bank split its shares in the ratio of 1 to 100 and this, effectively increased the number of ordinary shares from 29,330,910 to 2,933,091,000. Earnings per share and dividend per share as reported in the Accountants' Report is based on the profit attributable to ordinary shareholders and on the weighted average number of ordinary shares in issue during the relevant years adjusted with the effect of the July 2008 split.

i) Restatement to earnings per share

	2008	2007	2006	2005	2004	2003
	6 months	12 months	12 months	12 months	12 months	12 months
	KShs	KShs	KShs	KShs	KShs	KShs
As reported in the audited financial statements	42.93	54.25	32.83	27.36	14.36	10.86
As reported in the Accountants' Report	0.43	0.54	0.33	0.27	0.14	0.11

ii) Restatement to earnings per share

	2008 6 months KShs	2007 12 months KShs	2006 12 months KShs	2005 12 months KShs	2004 12 months KShs	2003 12 months KShs
As reported in the audited financial statements	-	8	5	5	4	3
As reported in the Accountants' Report	-	0.08	0.05	0.05	0.04	0.03

The review was for the purpose of our Accountants' Report to be included in the Information Memorandum relating to the Initial Public Offering in the Republic of Kenya.

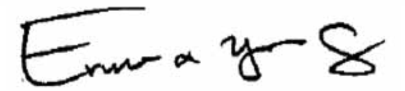
I. CONSENT

We consent to the inclusion of this report in the Information Memorandum to be issued in October 2008 in the form and context in which it appears.

J. OPINION

In our opinion, the financial information set out above gives, for purposes of the Information Memorandum dated October 9, 2008, a true and fair view of the profit and cash flows of the Group for the five financial years ended 31 December 2007 and the six months ended 30 June 2008 and of the state of the financial affairs of the Group as at the end of each of those years.

Yours faithfully



Certified Public Accountants

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October 27, 2008

The Directors
The Co-operative Bank of Kenya Limited
Co-operative House
Haile Selassie Avenue
Nairobi

Ladies and Gentlemen,

THE CO-OPERATIVE BANK OF KENYA LIMITED
INDEPENDENT REPORTING ACCOUNTANTS' REPORT
ON THE PROFORMA FINANCIAL STATEMENTS

We have reviewed the accounting policies and calculations for the Proforma Balance Sheet, Income Statement and Cash flow Statement for the period ending 31 December 2008 set out below. The directors have compiled the forecasts and are solely responsible for them.

In our opinion, the forecasts, as far as the accounting policies and calculations are concerned, have been properly compiled on the basis of the assumptions made by the directors set out below and are presented on a basis consistent with the accounting policies normally adopted by the Bank.

Since the forecasts are based on assumptions concerning future events, actual results may vary from the forecasts which have been presented and the variations may be material. Accordingly, we express no opinion on whether or not the forecasts will be achieved.

Yours faithfully

Ernst & Young

Certified Public Accountants
Nairobi

KEY ASSUMPTIONS ON WHICH THE PROJECTIONS ARE BASED

The key assumptions on which the financial projections are based were derived from management's 5 year strategic plan (2008-2012). The forecasts are based on the main assumption that the Bank will raise not less than KShs 6.6 billion from the intended IPO. The projections therefore hinge on an aggressive expansion program taking into account the predicted economic trends.

Other key assumptions include;

BALANCE SHEET

(a) Cash and balances with Central Bank of Kenya

These will be determined by regulatory cash ratio requirements as well as expected steady growth in deposits. The Bank anticipates a growth rate of 23% between 2007 and 2008.

(b) Placements and balances with other banking institutions

There will be increased placements in other banking institutions due to the anticipated high liquidity at the conclusion of the IPO. The growth is expected to ease later as funds are committed to other uses.

(c) Trading and non trading investments

There will be increased investment in Government securities especially due to the anticipated high liquidity at the conclusion of the IPO. The Bank anticipates a growth rate of 54% in investments between 2007 and 2008. The growth is expected to ease later on as funds are committed to the intended projects subject to related deposit levels. The main instruments of trading will be Government securities.

(d) Loans and advances to customers

Sustained growth is expected in loans given the intended branch network expansion to tap the un-banked population in the country. The Kenyan population remains largely un-banked and will be a source of deposits to boost growth in advances. Venturing into new lending products such as mortgage financing will accelerate growth in loans. The Bank projects a growth rate of 33% in loans between 2007 and 2008.

(e) Customer deposits

Customer deposits are dependent on growth in number of deposit customers, the number of outlets and the average deposit size as the Bank expands its outlets across the country. Deposits are projected to grow by 21% between 2007 and 2008.

(f) Fixed assets

There will be significant investment to cater for branch expansion, ICT systems overhaul and additional ATM outlets. In addition the values for land and buildings will increase due to revaluation as the current values are based on a 1996 valuations.

(g) Other assets

These are made up mainly of sundry debtors and prepayments, deferred clearing and interest receivable which are expected to experience a controlled growth.

(h) Loans and other borrowings

This comprises loans granted by the government as well as other donor/agencies for on lending to vital and needy sectors of the economy usually at concessionary terms. We do not expect to receive much in this area.

(i) Tax payable

This relates to the balance usually the last installment of the year's corporation tax.

(j) Other liabilities

Comprises mainly of sundry creditors and accruals, not much growth is expected in this area.

(k) Total equity

Share capital will be boosted by the intended IPO. No further injection is expected in the near future. Revenue reserves will continue growing in line with the expected continued increase in profits after tax. The Bank intends to maintain the current dividend policy of between 5% and 8% hence most of the profits will be ploughed back to sustain business growth.

INCOME STATEMENT

(a) Interest income

Interest income arises from interest earned on loans and advances, Government securities and interest on placements in other banking institutions. Projected interest rates on these financial instruments are as follows:-

i) Loans and advances: 2008 - 15%

ii) Government Securities: 2008- 7.9%

iii) Placements: 2008 - 7%

iv) Interest on customer Deposits: 2008 - 3%

(b) Interest expense

This is based on the total customer balances in interest earning accounts at various rates. Interest is accrued on a daily basis. The growth in the customer base as the Bank reaches out to the wider co-operative movement and other non banked customers will lead to a 50% increase in interest expense in comparison to 2007.

(c) Fees and commission income

This is based on the number of customers' transactions and the average cost per transaction per year. As the Bank grows its customer base fees and commission income is expected to increase.

(d) Other income

The Bank expects to receive payments on some significant bad debts which will result into substantial write-back.

(e) Impairment losses on loans and advances

Loan loss provisions are based on a percentage of gross loan portfolio. These are estimated to be at the rate of 2% for the year 2008.

(f) Staff costs and benefits

Staff costs and benefits are expected to grow by 25% annually from year 2007 due to recruitment of additional staff. The increase factors in recruitment, training and inflationary salary reviews.

(g) Other operating expenses

The Bank is on an expansion mode especially once the IPO money is received. Operating expenses are projected to grow to cater for the increasing operations.

(h) Depreciation

This is based on the depreciation policy and the increase in fixed assets.

PROJECTED BALANCE SHEET AS AT 31 DECEMBER 2008

ASSETS	**KShs' 000**
Cash and balances with Central Bank of Kenya	7,423,320
Placements and balances with other banking institutions	4,256,203
Trading investments	3,850,690
Non trading investments	12,838,040
Loans and advances	50,753,706
Other assets	4,388,072
Intangible assets	173,726
Prepaid leases on land	41,933
Property and equipment	3,878,665
Deferred tax	-
TOTAL ASSETS	87,604,355
LIABILITIES	
Deposits and balances from other banking institutions	1,991,655
Other customer deposits	66,278,222
Loans	30,000
Other borrowings	366,000
Tax payable	2,032
Other liabilities	3,615,707
TOTAL LIABILITIES	72,283,616
CAPITAL EMPLOYED	
Share capital	9,597,478
Reserves	4,720,755
Capital grants	656,506
Proposed dividend	346,000
SHAREHOLDERS' FUNDS	15,320,739
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	87,604,355

PROJECTED INCOME STATEMENT AS AT 31 DECEMBER 2008

	31 December 2008
	KShs' 000
Interest income	7,873,339
Interest expense	(1,500,648)
Net interest income	6,372,691
Fees and commission income	3,476,647
Gain on foreign exchange	454,488
Other operating income	516,735
Operating income	10,820,561
Impairment losses on loans and advances	(800,000)
Other operating expenses	(6,567,011)
OPERATING EXPENSES	(7,367,011)
PROFIT BEFORE TAXATION	3,453,550
TAXATION	(1,036,065)
PROFIT AFTER TAXATION	2,417,485
EARNINGS PER SHARE (KShs)	0.66

PROJECTED CASH FLOW STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2008

CASH FLOWS FROM OPERATING ACTIVITIES:-	
Profit before taxation	3,453,550
Adjustments for:	
Depreciation	352,518
Amortisation of Prepaid lease rentals	622
Provision for diminution in value of investment	3,160
Amortisation of intangible assets	52,256
Amortisation of capital grants	20,448
Foreign exchange gain	(454,488)
Unrealised loss on re-measurement of investments	75,594
Amortisation of investment held to maturity	56,983
Cash flows from operating activities before working capital changes	3,560,643
Advances to customers	(12,678,934)
Other assets	(1,212,341)
Deposits from customers	11,502,832
Deposits from Banking Institutions	569,044
Other liabilities	1,229,393
Central Bank of Kenya Cash ratio	(749,256)
Trading Investments	(572,160)
Non-Trading Investments	(3,134,669)
Cash consumed by operating activities	(1,485,448)
Tax paid	(1,267,983)
Net cash flow from operating activities	(2,753,431)
CASH FLOWS FROM INVESTING ACTIVITIES:-	
Purchase of Property & Equipment	(1,120,065)
Purchase of software	(54,053)
Net cash flow from investing activities:-	(1,174,117)
CASH FLOWS FROM FINANCING ACTIVITIES:-	
Proceeds on issue of share capital	6,741,028
Proceeds from grants	(2,181)
Proceeds from loans	320,342
Dividends paid	(228,516)
Share transfer fund	3,258
Net cash flow from financing activities	6,833,931
NET MOVEMENT IN CASH AND CASH EQUIVALENTS	2,906,382
Cash and cash equivalents at the beginning of the year	7,094,741
Foreign exchange gain	454,488
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	10,455,611

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Our Ref: **C067 /005/M/2008/P** Your Ref:

October 27, 2008

The Directors

The Co-operative Bank of Kenya Limited

Co-operative Bank House

Haile Selassie Avenue

P. O. Box 48231-00100

NAIROBI

Dear Sirs,

RE: INITIAL PUBLIC OFFERING OF 701,300,000 ORDINARY SHARES AND LISTING OF THE ENTIRE ISSUED SHARE CAPITAL OF THE CO-OPERATIVE BANK OF KENYA LIMITED.

We act as legal advisors to the Co-operative Bank of Kenya Limited (''the Bank" or "the Company") in relation to an Initial Public Offer of 701,300,000 new ordinary shares ("the Offer Shares") in the Bank and the proposed listing of the entire issued share capital ("the Shares") of the Bank on the Nairobi Stock Exchange Limited. The Offer Shares when fully subscribed and issued will represent 19.3% of the issued share capital of the Company.

We are Advocates of the High Court of Kenya, practising and qualified as such to practise in Kenya, and to advise upon the laws of Kenya.

This Opinion is prepared in connection with the Initial Public Offering of the Offer Shares and the Listing of the Shares and in accordance with Regulation 6 of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002. Further, this Opinion is prepared pursuant to a legal due diligence carried out by us on the Bank, and pursuant to which we have issued to you a Legal Due Diligence Report.

Unless (a) otherwise stated; or (b) the context otherwise requires, words and terms defined in the Information Memorandum/Propsectus to which this Legal Opinion is attached ("the Information Memorandum") and issued in relation to the issue of the Offer Shares and the Listing of the Shares bear the same meanings in this Opinion.

1. Documents

For the purposes of this Opinion, we have examined originals or copies certified to our satisfaction of the following documents:

(a) the certificate of incorporation of the Company (C.23/2008) dated 3rd July 2008, and its Memorandum and Articles of Association in force as at the date of this Opinion;

(b) The Company's Statutory Books namely the Register of Directors, the Register of Shareholders and the Company's Register of Charges. We also reviewed a summary of the Company's shareholding structure as at the date hereof prepared by the Company's shares registrar;

(c) All documents filed by the Company with the Registrar of Companies;

(d) Minutes of all Meetings of the Board of Directors of the Company and of all General Meetings of the Company;

(e) Minutes of the Board of Directors and General Meetings of the Company's predecessor in the banking business, now called Co-opholdings Co-operative Society Limited ("Co-opholdings");

(f) Certificate of Registration and the by-laws of Co-opholdings.

(g) Agreement for Transfer and Acquisition of Business Assets and Liabilities between the Company and Co-opholdings dated 11th July 2008 ("the Transfer Agreement") and by which Co-opholdings transferred all its business, assets and liabilities to the Company.

(h) Kenya Gazette Notice No.7089 dated 6th August 2008 which took effect on 8th August 2008 by which the Minister for Finance through the Governor of the Central Bank of Kenya Limited approved the transfer set out in (g) above.

(i) Legal Notice No. 108 taking effect from dated 12th August 2008 and published on 21st August 2008 in relation to Co-opholding's shareholding in the Bank.

(j) Schedule of Properties owned and/or held by the Company as on the date hereof and in particular the Original Title Documents for Land Reference Number 209/4290 on which stands Co-operative Bank House;

(k) Leases in respect of properties occupied by the Bank.

(l) Leases in respect of properties occupied by third parties where the Bank is the Landlord.

(m) The Charges and Debentures and other securities held by and registered in favour of the Bank as security for the Bank's lending.

(n) Licence to Transact Banking Business issued to the Bank by the Central Bank of Kenya.

(o) Permits from the various local authorities in which the Bank operates;

(p) Details of Contracts and Litigation to which the Bank is a party.

(q) Insurance Register maintained by the Bank;

(r) The letter of no-objection issued by the Central Bank of Kenya in respect of the listing of the Shares.

(s) A letter from the Capital Markets Authority dated 17th October 2008 approving the issue of the Offer Shares and subsequent listing of the Shares on the Nairobi Stock Exchange;

(t) Such other records and documents as we have considered necessary or appropriate for the purposes of this Opinion in respect of the Company, its subsidiaries and associated Companies.

2. Assumptions

For the purposes of this Opinion, we have proceeded on the following assumptions:

(a) That all information provided and representations made to us by the Bank and its officers and advisors are true, accurate and complete in all material respects.

(b) The authenticity and completeness of all documents submitted to us as originals or copies, the genuineness of all signatures on all documents provided to us, the conformity to originals of all copies, and the accuracy of any translations;

(c) That the issue and execution of all licences, agreements and other relevant documents provided to us have been duly authorized, executed and delivered by all parties thereto other than the Bank; and

(d) That there has not occurred any event or events that would render documents examined or representations received inaccurate or untrue.

3. Opinion

A. Based upon and subject to (1) the foregoing; (2) paragraphs 3 B & 5 of this Opinion; (3) any matters set out in the Report; (4) the reservations set out below; and (5) to any matters not disclosed to us, we are of the opinion that:

(i) the Company is a public company, duly registered in Kenya with limited liability pursuant to the provisions of the Companies Act (Chapter 486 Laws of Kenya);

(ii) the Company is the successor in title to all business, assets and liabilities previously carried on and of Co-opholdings which carried on banking business under the name and style of the Co-operative Bank of Kenya Limited until 7th August 2008, and that the Company took over the business effective 8th August 2008 by virtue of the Transfer Agreement.

(iii) The Company under its objects is empowered to conduct banking business, and is duly licensed to do so.

(iv) The Company's authorised share capital is KShs. 3,700,000,000/= comprising 3,700,000,000 ordinary shares of Kshs 1/=. Of these 2,935,127,600 ordinary shares are issued and credited as fully paid up, and 3,636,427,600 ordinary shares of Kshs 1/= will be the issued and fully paid up share capital if the Offer Shares are fully subscribed.

(v) The Company has a board of directors consisting of the following individuals:

a. Stanley C Muchiri - Chairman

b. Julius Riungu – Vice Chairman

c. Gideon Muriuki – Managing Director

d. Major (Retired) Gabriel Wakasyaka - Director

e. Richard Lucas Kimanthi - Director

f. Wilfred Ongoro - Director

g. Julius Sitienei - Director

h. Macloud Mukiti Malonza - Director

i. Frederick Odhiambo, the Commissioner of Co-operatives Development - Director

j. John Murugu (representing The Permanent Secretary to the Treasury) - Director

k. Donald Kibera - Director

The Company Secretary is Mrs. Rosemary M. Githaiga.

(vi) The Directors have all been certified as fit and proper under the Banking Act and Prudential Guidelines issued thereunder.

(vii) The Company continues to maintain its registers of board minutes, general meeting minutes and assets at its registered office. The Company's register of members is maintained in-house by the Company's Shares Registrar Department.

B. Based upon and subject as aforesaid, we are further of the opinion, with specific regard to Regulation 6 of the Capital Markets (Securities) (Public Offers, Listing and Disclosure) Regulations, 2002, that:

(i) All authorizations, approvals, consents, licenses, exemptions, filings or registrations of or with any governmental or public bodies or authorities of or in Kenya required in connection with the business of the Company have been obtained in proper form, and are in full force and effect;

(ii) The Company has lawfully vested in it good title to the property listed in its register of assets and in particular the immovable property described in the "Material Property" Section of the Information Memorandum;

(iii) Excepting contracts with advisors and agents engaged by the Company in the Initial Public Offering of the Offer Shares and subsequent listing of the Shares there are no contracts with any bank, securities exchange, investment bank, broker or any other person with respect to the offer of the Offer Shares or the proposed listing;

(iv) Except as disclosed in Paragraph 4 below there is no material litigation, prosecution or other civil or criminal legal action in which the Company or any of its directors (in their capacity as such) are involved; and

(v) The capital structure of the Company is in conformity with all applicable laws and the Offer Shares are authorized and not issued, and are available for issue as set out in the Information Memorandum.

C. Based upon and subject as aforesaid, and without prejudice to the generality of the matters set out in paragraph 3A of this Opinion, we are also of the opinion that:

(i) The Company is in compliance with the provisions of the Banking Act and the Companies Act.

(ii) All approvals necessary for the Initial Public Offering of the Offer Shares and the proposed listing of the Shares have been granted.

(iii) The Company has made appropriate insurance arrangements for its properties and is up to date in payment of premiums due on the policies that it has taken out;

(iv) This Information Memorandum includes such information as prospective investors would reasonably require and reasonably expect to find herein, for the purpose of making an informed assessment of :-

(a) the assets and liabilities of the Company; and

(b) The rights attaching to the Shares.

4. Material Matters

We note the following material matters:

(i) Transfer and Acquisition of Business, Assets and Liabilities

The consideration for the transfer of business, assets and liabilities under the Transfer Agreement was the issue of ordinary shares in the Company to Co-opholdings Co-operative Society Limited ("the Society") equal in number to the Class A shares held in Coopholdings as of 7th August 2008, and to holders of Class B shares in Co-opholdings Co-operative Society Limited as on 7th August 2008 of ordinary shares in the Company equal in number and par value to the shares held in Coopholdings. The Class B shareholders would thereby cease to be holder of Class B shares in Coopholdings and hold ordinary shares directly in the Bank.

(ii) Material Litigation/Claims

The Company is party to a number of court cases arising mainly from its attempts to realize security or recover money lent. The material ones have been disclosed in Chapter 18 of the Information Memorandum. Most of the material litigation consists of applications by borrowers and guarantors of banking facilities for injunctions to stop the Bank from realizing its security.

The Directors and the bank's legal advisors in the cases are of the view that the Bank has good chances of success and the outcome of the cases, including where the Bank is the plaintiff, is not likely to adversely affect the financial position of the Bank.

(iii) Lending

The Bank in the normal course of business lends to customers and has a loan portfolio consisting of both secured and unsecured loans. The Bank has in place a risk management system which ensures that loans are properly evaluated and made in accordance with the law and the Bank's policies. Appropriate provisions are made for bad and doubtful debts in accordance with the Prudential Guidelines issued by the Central Bank of Kenya. A listing of the Loans is available in the Data Room subject to confidentiality provisions.

(iv) Material Contracts

The Bank is party to the Transfer Agreement pursuant to which it acquired business, assets and liabilities of Co-opholdings Co-operative Society Limited. Details of the Transfer Agreement are disclosed in Chapter 18 of the Information Memorandum, and a copy thereof is available for Inspection.

Other than the said Transfer Agreement, the Bank is not party to any material contracts except in the normal course of business. Contracts to which it is a party include contracts for supply, installation and maintenance of its information technology systems, correspondent banking contracts, security services contracts, security documents printing contracts and card agreements.

5. Reservations

(1) We express no opinion as to any document other than the material documents expressly referred to in Paragraph 1 above and the documents detailed in our Due Diligence Report.

(2) We express no opinion as to any law other than Kenyan law in force, and as interpreted, at the date of this Opinion.

(3) We express no opinion as to any matter which is not specifically stated herein.

Yours faithfully,

MBOYA & WANGONG'U

PETER M. WAIYAKI

APPENDIX 4: AUTHORISED SELLING AGENTS

Co-op Bank has appointed specific Authorised Selling Agents to this Offer and these Authorised Selling Agents have signed Agency Agreements with the Bank, which contain various terms and conditions that each Authorised Selling Agent is required to comply with. The Authorised Selling Agents are National Bank of Kenya Limited and Members of the NSE licensed by the CMA. The Authorised Selling Agents are set out below.

LICENSED INVESTMENT BANKS

Dyer & Blair Investment Bank Ltd
Head Office
10th Floor, Loita House, Loita Street
P O Box 45396 00100 Nairobi
Tel: 3240000
shares@dyerandblair.com

Faida Investment Bank Limited
1st Floor, Windsor House
University Way
P O Box 45236 00100 , Nairobi
Tel: 243811-13
info@faidastocks.com

Sterling Investment Bank Limited
11th Floor, Finance House, Loita Street
P O Box 45080 00100, Nairobi
Tel: 213914/ 244077
Fax: 218261
info@sterlingstocks.com

Afrika Investment Bank Limited
13th Floor, Finance House
Loita Street
P O Box 11019 00100, Nairobi
Tel: 212989/210178/343629/39
info@afrikainvestmentbank.com

Kestrel Capital Investment Bank
5th Floor, ICEA Building, Kenyatta Avenue
P O Box 40005 00100, Nairobi
Tel: 251758/ 251893/0722205897
info@kestrelcapital.com

Suntra Investment Bank Limited
7th & 10th Floor, Nation Centre, Kimathi Street
P O Box 74016 00200, Nairobi
Tel: 2870000/223329/30

Standard Investment Bank Limited
16th Floor, ICEA Building, Kenyatta Avenue
PO Box 13714 00800 Nairobi
Tel: 220225/227004/240296/252776
17th Floor, Hazina Tower
Tel: 213028
info@standardstocks.com

CFC Financial Services Limited
Head Office
2nd Floor, CFC Centre, Chiromo Road
P O Box 47198 00100, Nairobi
Tel: 3638900, 3755000; 0721371941

Apex Africa Investment Bank Limited
Head Office
4th Floor, Rehani House, Koinange Street
P O Box 43676 00100, Nairobi
Tel: 242170/ 220517

Drummond Investment Bank Limited
Hughes Building, 2nd Floor,
Kenyatta Avenue
P.O. Box 45465 - 00100, Nairobi
Tel. 318689/318690 Fax. 223061
info@francisdrummond.com

Renaissance Capital (Kenya) Ltd
Purshottam Place Suite 810, 7th Floor
Chiromo Road, Westland
P.O. Box 40560-00100 Nairobi
Tel: +254 20-3601822

LICENSED STOCKBROKERS

African Alliance Securities Kenya Limited
Kenya Re Towers, Ground Floor
Upper Hill, off Ragati Road
P O Box 27639 00506 Nairobi
Tel: 2718720/ 2712709/2710978/2735154
info@africanalliance.co.ke

Bob Mathews Stockbrokers Ltd
Nginyo Towers, 3rd Floor, Koinange Street
P.O. Box 73253 – 00200
Tel 311898/313492/310540
bobmathews@bobmathewstocks.com

Genghis Capital Limited
Prudential Building, 5th Floor
Wabera Street
P.O. Box 1670 – 00100 Nairobi
Tel: 2337535/36
info@gencap.co.ke

NIC Capital Securities Limited
1st Floor, Kimathi House, Kimathi Street
P O Box 63046 00200, Nairobi
Tel: 2016482/3 0724951703
sisl@solidkenya.com

Discount Securities Limited
International House, 4th Floor
Mama Ngina Street
P O Box 42489 00100, Nairobi
Tel: 2773000
discount@dsl.co.ke

Crossfield Securities Limited
5th Floor, IPS Building, Kimathi Street
P O Box 34137 00100 Nairobi
Tel: 246036/ 242534/35
crossfield@wananchi.com

Ngenye Kariuki and Company Limited
8th & 15th Floors, Corner House,
Kimathi Street
P.O. Box 12185 00400 Nairobi
Tel: 224333/ 220052/220141
ngenyekari@wananchi.com

Reliable Securities Limited
6th Floor, IPS Building, Kimathi Street
P O Box 50338 00200, Nairobi
Tel: 241350/4179
info@reliablesecurities.co.ke

APPENDIX 5: LICENSED AUTHORIZED DEPOSITORIES

African Banking Corporatiion Limited
ABC Bank House, Koinange Street
P.O. Box 45452 – 00100 Nairobi
Tel: 2223922
Fax: 2222437
headoffice@abcthebank.com

The Co-operative Bank of Kenya Limited
Co-operative House, Haile Selassie Avenue
P O Box 48231 – 00100 Nairobi
Tel: 3276000/3276100
Fax: 219831
bankhouse@co-opbank.co.ke

Dubai Bank Limited*
ICEA Building, Kenyatta Avenue
P.O. Box 11129 – 00400 Nairobi
Tel: 311109/14/24/32
Fax: 245242
info@dubaibank-kenya.com

Equity Bank Limited
NHIF Building, 14th floor
P.O.Box 75104-00200, Nairobi
Tel: 020-2736620/17/24
Cell: 0722209591/ 0733602500
Fax: 020-2737276
info@equitybank.co.ke

Kenya Commercial Bank Limited
Kencom House, Moi Avenue
P O Box 48400-00100 Nairobi
Tel: 3270000, 2852000 , 2851000,
Fax: 216405
kcbhq@kcb.co.ke

NIC Bank Limited
NIC Bank House, Upper Hill
P O Box 44599-00100, Nairobi
Tel: 2888000/2718200
Fax: 2888512/05
info@nic-bank.com

Barclays Bank of Kenya Limited
Barclays Plaza, Loita Street
P O Box 30120 - 00100, Nairobi
Tel: 332230
Fax: 213915
barclays.kenya@barclays.com

CFC Stanbic Bank
CFC Centre, Chiromo Road, Westlands
P.O. Box 72833-00200, Nairobi
Tel: +254-02-3638000
Fax: +254-02-3752905-7
enquiries@cfcbank.co.ke

Equatorial Commercial Bank Limited*
Equatorial Commercial Bank Centre, Nyerere Road
P.O. Box 52467 – 00200 Nairobi
Tel: 2710455
Fax: 240766

I&M Bank Limited
I&M Bank House, 2nd Ngong Ave,
P.O. Box 30238 - 00100 Nairobi
Tel: 254-020 2711994 - 8, 310105-7
Cell: 0722 202093, 0734 600178
Fax: 254-020 2713757, 2716372
invest@imbank.co.ke

National Bank of Kenya
National Bank Building, Harambee Avenue
P O Box 72866-00200, Nairobi
Tel: 226471/339690
Fax: 311444
info@nationalbank.co.ke

Prime Bank Limited
Prime Bank Building, Riverside Drive
P.O. Box 43825 – 00100 Nairobi
Tel: 4203000
Fax: 4451247
headoffice@primebank.co.ke

* Note - These authorized depositories have not been appointed by CDSC as Central Depository Agents

BRANCHES OF CO-OPERATIVE BANK OF KENYA LTD

Code	Location	Branch
002	Co-op Hse	Co-operative Bank Hse
003	Kisumu	Oginga Odinga Street
004	Mombasa	Nkrumah Rd
005	Meru	Co-op. Bank Hse
006	Nakuru	Geofrey Kamau Avenue
007	Industrial Area, Nairobi	Nanyuki Rd
008	Kisii	Magsons Plaza
009	Machakos	Syokimau Rd
010	Nyeri	Kenyatta Avenue
011	Ukulima	Ukulima Co-op Hse
012	Kerugoya	DCU Hse
013	Eldoret	Ronald Ngala Street
014	Moi Avenue	Biashara Plaza
017	Nyahururu	Nyeri Rd
018	Chuka	Chuka Hse
020	Eastleigh	1st Avenue, Yare Business Park
021	Kiambu	Mapa Hse Rd
022	Homabay	Sonyaco Plaza
023	Embu	Emco Hse
024	Kericho	Koineei Plaza
025	Bungoma	Moi Street
026	Murang'a	Uhuru Highway
027	Kayole	Kayole, Vicinity of Kayole PCEA, Spine
028	Karatina	Nyeri-Nairobi Highway
029	Ukunda	Diani Road
030	Mtwapa	Malindi Road
031	University Way, Nairobi	Posta Plaza Hse
032	Buru Buru	Buru Buru
033	Athi River	Athi River
034	Mumias	Mumias Municipality
035	Stima Plaza, Nairobi	Stima Plaza Bldg
039	Thika	Thika Town
040	Nacico	Nacico Plaza
041	Kariobangi	Kariobangi Light Industries
042	Kawangware	Muhu Kawangware
043	Makutano	Ntima Hse
044	Parliament Rd	Cannon Hse
045	Kimathi Street	Elite Arcade Bldg
046	Kitale	Nakami Bldg
047	Githurai	Thika Rd
048	Maua	Maua Plaza
049	City Hall Annex	City Hall Annex
050	Digo Rd	Digo Rd
051	Nairobi Business Centre	China Centre
052	Kakamega	Opposite Muliro Gardens
053	Migori	Migori
015	Naivasha	Naivasha

BRANCHES OF NATIONAL BANK OF KENYA LIMITED

Code	Branch
12001	Moi Avenue
12002	Kenyatta
12003	Harambee
12004	Hill Branch
12005	Busia
12006	Muhoroni
12007	Meru
12008	Karatina
12009	Narok
12010	Kisii
12012	Nyeri
12013	Kitale
12014	Kericho
12015	Nyamira
12016	Limuru
12017	Kitui
12018	Molo
12019	Bungoma
12020	Mombasa
12021	Kapsabet
12022	Awendo
12023	Portway Mombasa
12024	Corporate
12025	Hospital Branch
12026	Ruiru
12030	Nakuru
12040	Eldoret
12050	Kisumu
12098	Card Centre
12099	Head Office

APPENDIX 6: SAMPLE GUARANTEE FORM

The Co-operative Bank of Kenya Limited

P O Box 48231,

Nairobi – 00100

Date: [ ]

Dear Sirs,

GUARANTEE IN RESPECT OF PAYMENT FOR ALLOCATION OF SHARES TO [name of QII]

WHEREAS [name of QII] (hereinafter called "the Investor") has by an application form dated [date] applied for [number] ordinary shares ("the Sale Shares") in the Co-operative Bank of Kenya Limited being offered for sale by you as set out in the Information Memorandum dated [date] (hereinafter referred to as the Information Memorandum).

AND WHEREAS it has been stipulated by you in the Information Memorandum that the Investor shall furnish you with an irrevocable on demand guarantee for the full value of the price of the Sale Shares.

AND WHEREAS we [**name of Guarantor**] have agreed to give this Guarantee:

NOW at the request of the Investor and in consideration of your allocating to the Investor the Sale Shares or such lesser number as you shall in your absolute discretion determine, we hereby irrevocably undertake to pay you, promptly upon your first written demand declaring the Investor to be in default and without delay or argument, such sum as may be demanded by you up to a maximum sum of Kshs. [__**amount**_______] without your needing to prove or to show grounds or reasons for your demand or the sum specified therein.

This guarantee will remain in force up to and including the closure of business [**date**] and any demand in respect thereof should reach us not later than the above date and time. Upon expiry it automatically becomes NULL and VOID whether the original is returned to us for cancellation or not and any claim or statement received after expiry shall be ineffective.

This guarantee shall be governed and construed in accordance with the laws of Kenya.

IN WITNESS WHEREOF THIS LETTER OF GUARANTEE HAS BEEN EXECUTED BY US UNDER SEAL THIS DAY OF 2008.

Sealed with the Common Seal of)
)
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)
Director)
)
)
)
Director/Secretary)

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CO-OPERATIVE BANK OF KENYA
We are you