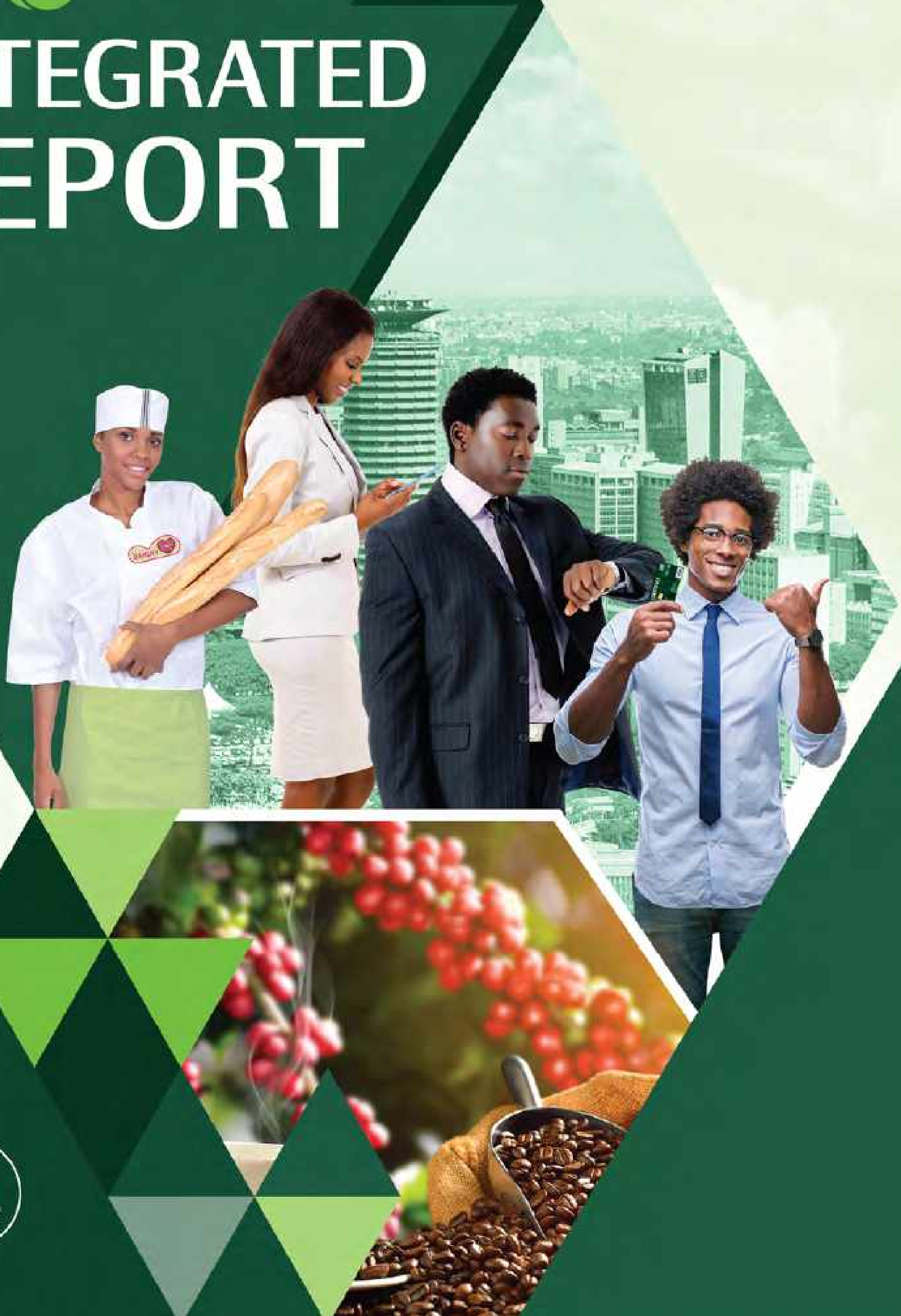
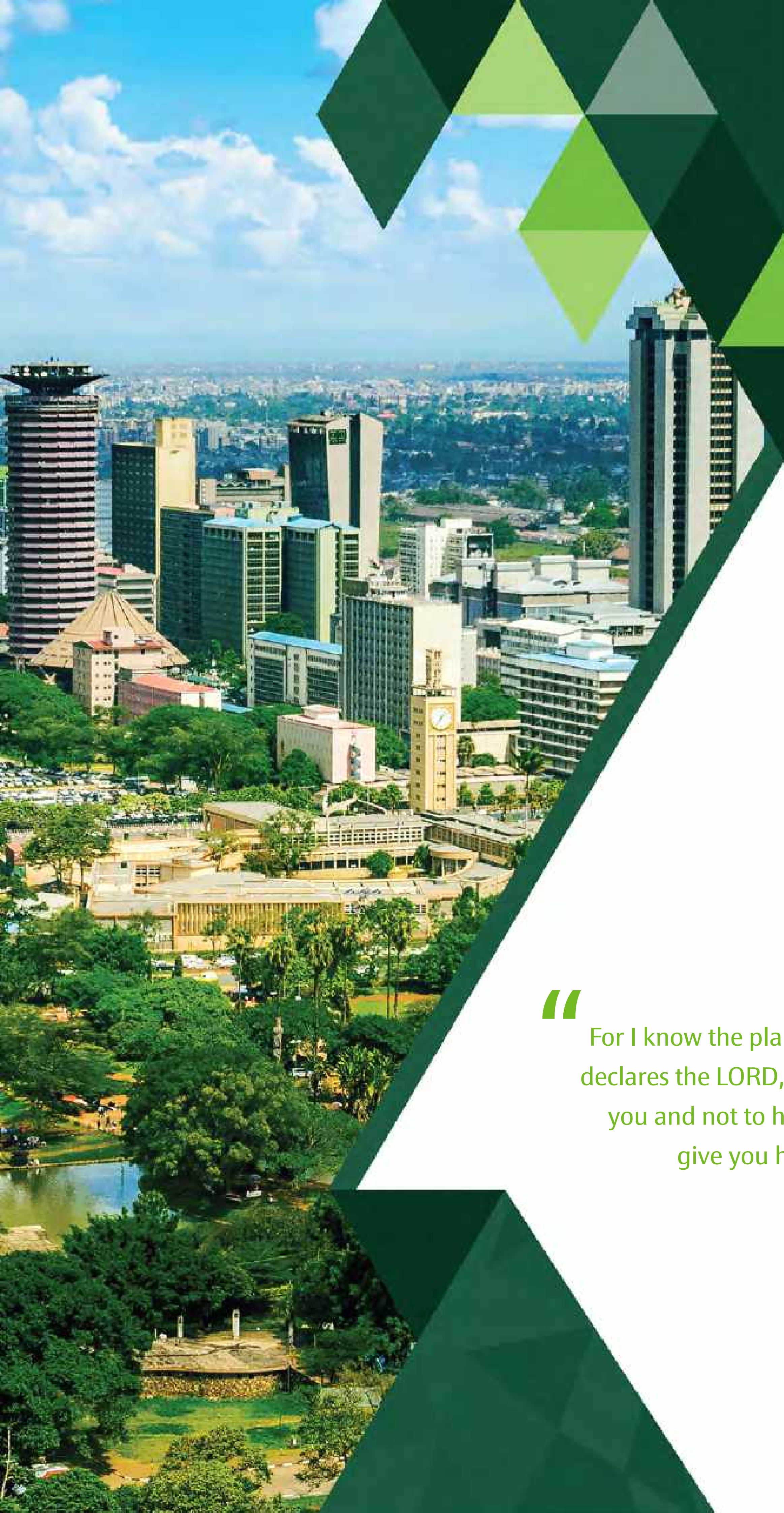
2019
INTEGRATED REPORT





"For I know the plans I have for you," declares the LORD, "plans to prosper you and not to harm you, plans to give you hope and a future."

Jeremiah 29:11

Integrated Reporting (IR) in Co-op Bank

About this Integrated Report

This report has been prepared as per the International Integrated Reporting Council (IIRC) framework. It shows how our sustainable business model has led to long-term value creation for all our stakeholders. The report assesses our strategic focus, key capital tradeoffs, and highlights material risks and opportunities that have arisen in our operating environment.

H.E. President Uhuru Kenyatta signs the Visitor's Book at the 2019 World Co-operatives Day 'Ushirika Day' Celebrations held at KICC Nairobi flanked by the Group CEO Co-operative Bank Gideon Muriuki, PS State Dept. for Co-operatives Ali Noor Ismail and the Cabinet Secretary for Industrialisation Peter Munya.

The scope of this report

This report covers the period from 01 January 2019 to 31 December 2019. We have referred to other periods for comparison purpose. The report covers Co-operative Bank of Kenya Ltd, Co-operative Bank of South Sudan Ltd, Co-op Consultancy and Insurance Agency Ltd, Co-op Trust Investment Services Ltd, Kingdom Securities Ltd and Co-op Bank Fleet Africa Leasing Limited. By extension, we have covered some areas of our associate company CIC Insurance Company Ltd.

We have included both financial and non-financial facets of our business in order to communicate how we create long-term stakeholder value.

The targeted readers of this report are our shareholders who need to make informed decisions about our stock for short, medium or long-term investment. This report is also meant for all our other stakeholders who include but are not limited to our customers, staff members, the co-operative movement, strategic partners, suppliers, regulators & policy makers, the media and the communities within which the Group operates in.

Framework and Guidelines

This report has been prepared as per the International Integrated Reporting Council (IIRC) framework. It has also been prepared in accordance with the requisite regulatory requirements as prescribed by the Central Bank of Kenya, the Capital Markets Authority and Nairobi Securities Exchange, Kenya Companies Act 2015, the Code of Corporate Governance 2015, and the Banking Act of Kenya. An assurance relating to the annual financial statements has been provided by the independent external auditor and is incorporated in this report.

Key concepts

- **Integrated approach:** At Co-op Bank we incorporate an integrated approach in all our decision making through the careful consideration of the relationship between our six capitals and all our units in the group in order to secure optimum value creation in the short, medium and long term.
- **Capitals:** These are our stocks of value which we use as inputs in our business model and are increased, decreased or transformed by our business activities to create output that eventually becomes economic, social and environmental outcome for our various stakeholders. We categorize our Capital as financial, human, manufactured, intellectual, social & relationship and natural capitals.
- **Material matters:** We consider matters that could substantively affect our ability to create value in the short, medium or long term. These matters are determined and managed through our material matters management process that is enterprise-wide.
- **Value Creation:** This is an integrated process that shows how we turn our 6 capital inputs into short, medium and long term value for our stakeholders through our business activities, the 'soaring eagle transformation initiatives as enablers, at the same time carrying out enterprise risk management.

How to navigate the report

This report tells the story of value creation at Co-op Bank in the short, medium and long term as here under:

- Overview of who we are.
- A description of our value creation process.
- A description of the strategic tradeoff that took place between our capitals as we undertook value creation.
- Analysis of matters that are material to us and how we are responding to them.
- Macro-economic environment analysis.
- Review of the Strategic Focus of the group.
- A Description of our key stakeholders, their expectations and how we are responding to those expectations.
- Economic value distribution.
- Creating sustainable value. A description of economic, social and environmental sustainability
- 5 Year Financial performance: Key Numbers.
- Integrated risk management review.
- Corporate governance.
- Financial statements.

For further reading and feedback our readers can engage us though our website; **www.co-opbank.co.ke**

Assurance

This integrated report was prepared in accordance with the requisite regulatory requirements as prescribed by the Central Bank of Kenya, The Capital Markets Authority and Nairobi Securities Exchange: Kenyan Companies Act 2015, the Code of Corporate Governance 2015, and The Banking Act of Kenya. An assurance relating to the annual financial statements has been provided by the independent external auditor and is incorporated in this report. We do our own quality assurance by way of integrated risk management, internal compliance reviews and internal audit reviews.

Responsibility of the Board on Integrated Report

This integrated report was approved by our Board of Directors on 18 March 2019.

Statement of the Co-operative Bank Board of Directors

The board acknowledges its responsibility to ensure professionalism, compliance and integrity of this report. The

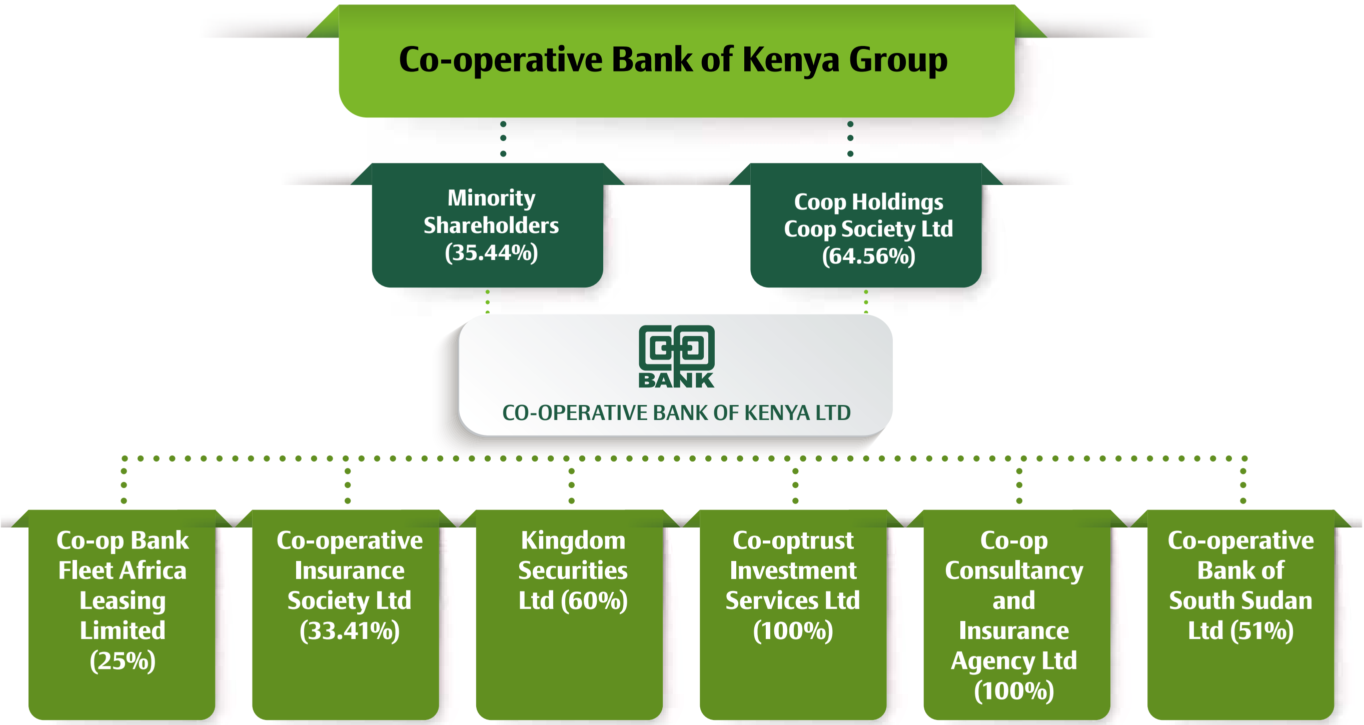
Board believes that the report fairly presents the Group's integrated performance and has been prepared according to the key regulatory requirements.

Mr. John Murugu, OGW
Bank Chairman

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

Contents

Group structure



Our Shareholders

TOP 10 SHAREHOLDERS AS 31 DECEMBER 2019		
Shareholder	**No. of shares**	**% shareholding**
Co-opholdings Co-operative Society Limited	3,787,715,404	64.56
Dr. Gideon Maina Muriuki, CBS, MBS	117,471,300	2.00
NIC Custodial Services A/C 077	46,904,143	0.80
Kenya Commercial Bank Nominees Limited A/C 915B	45,420,739	0.77
Stanbic Nominees Ltd A/C NR1030682	31,865,673	0.54
Kenya Commercial Bank Nominees Limited A/C 915A	27,380,400	0.47
Amarjeet Baloobhai Patel & Baloobhai Chhotabhai Patel	26,290,499	0.45
Old Mutual Life Assurance Company Ltd	19,100,391	0.33
Standard Chartered Nominees Resd A/C KE11401	19,087,800	0.33
Kenya Reinsurance Corporation Limited	18,404,024	0.31
Total	**4,139,640,373**	**70.56**
Other Shareholders	**1,727,539,730**	**29.44**
Total	**5,867,180,103**	**100.00**

CATEGORY SUMMARY OF SHAREHOLDERS AS AT 31 DECEMBER 2019			
Category	**No. of shareholders**	**No. of shares**	**% shareholding**
Foreign Companies	33	98,829,324	1.684
Foreign Individuals	178	4,287,453	0.073
Local Companies	3,001	4,787,144,178	81.592
Local Individuals	94,338	945,358,800	16.113
East African Companies	55	31,084,208	0.53
East African Investors	70	476,140	0.008
	97,675	**5,867,180,103**	**100.00**

SHAREHOLDER DISTRIBUTION AS AT 31 DECEMBER 2019

Shareholding	No. of shareholders	No. of shares	% shareholding
1-500	13,806	2,574,112	0.044
501-5,000	36,795	74,926,069	1.277
5,001-10,000	31,150	251,924,874	4.294
10,001-100,000	14,873	333,516,606	5.684
100,001-1,000,000	794	235,804,773	4.019
above 1,000,000	257	4,968,433,669	84.682
	97,675	**5,867,180,103**	**100.00**

Co-opholdings Co-operative Society Limited is the group's strategic investor. It is owned by co-operative societies within Kenya, who jointly hold 64.56% controlling stake of all company stock.

The Bank was listed at the Nairobi Securities Exchange in December 2008, and Shares previously held by 3,805 Co-operatives Societies and unions were ring-fenced under Co-opholdings Co-operative Society Limited in order to retain the critical cooperative identity of the bank.

As at end of December 2019, Co-opholdings had 3815 (2018-3833) individual co-operative society shareholders with a well-established Over-The-Counter (OTC) trading of shares held by them. Trading of these shares is only open to registered co-operative societies.

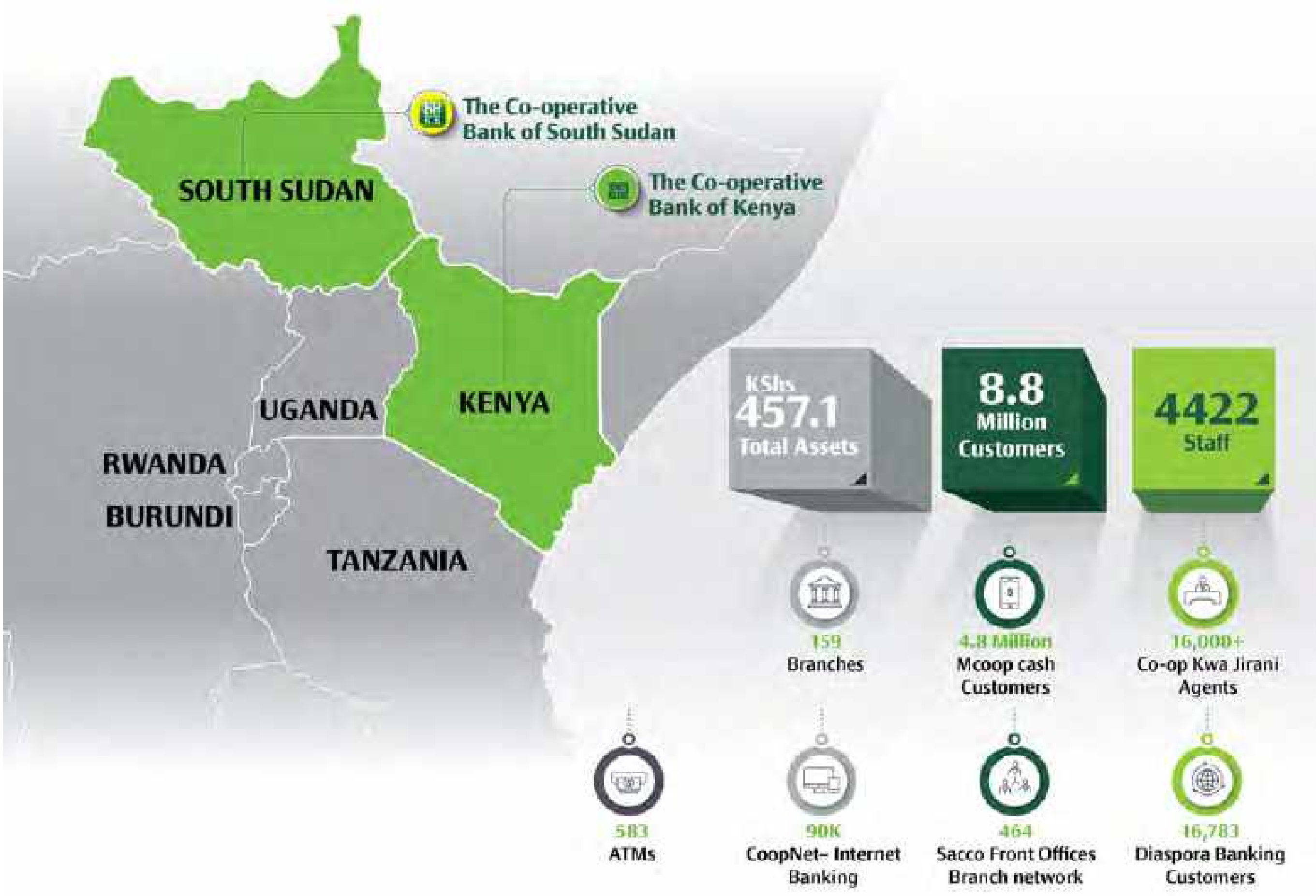
"It is our firm belief that the cooperatives are a strategic vehicle for sustainable delivery of banking services to the vast majority"

Dr. Gideon Muriuki, CBS, MBS, GMD & CEO Co-operative Bank of Kenya.

TOP 10 CO-OPHOLDING SHAREHOLDERS AS AT 31 DECEMBER 2019

Shareholding	No. of shares	% shareholding
Harambee Cooperative Savings & Credit Society Ltd	144,929,400	3.83
H & M Cooperative Savings & Credit Society Ltd	125,247,471	3.31
Kenya Police Sacco Society Ltd	119,885,226	3.17
Afya Cooperative Savings & Credit Society Ltd	111,395,592	2.94
Masaku Teachers Coop Savings & Credit Society Ltd	110,037,033	2.91
Kipsigis Teachers Coop Savings & Credit Society Ltd	101,495,520	2.68
Co-operative Bank Coop Savings & Credit Society Ltd	96,103,831	2.54
K-Unity Savings And Credit Co-Operative Society Limited	90,162,633	2.38
Telepost Co-operative Savings & Credit Society Limited	86,432,771	2.28
Nawiri Savings And Credit Co-operative Society Ltd	69,453,216	1.83
Total	**1,055,142,693**	**27.87**

Regional Presence



DEAL SIGN-OFF: (L-R) Co-operative Bank Chairman John Murugu and the Chief Executive, Fleet Africa Phillip Smith exchange documents following the sign-off the joint venture strategic partnership arrangement in leasing business, as the bank's Group Managing Director & CEO Dr. Gideon Muriuki applauds.

Strategic Focus

We operate in the Region using the co-operative model to ensure that we socially and economically transform our stakeholders by the innovative financial solutions that we offer and the positive engagements that we have.

Our Mission Statement

"To offer a wide range of innovative financial solutions leveraging on our heavy investment in multi channels, national and regional presence and with focus on excellent customer experience by a highly motivated and talented team"

Our Purpose

A Financial institution predominantly owned by the Kenyan Co-operative movement transforming lives.

Vision

"To be the dominant Bank in Kenya and in the Region riding on the unique Co-operative Model providing innovative financial solutions for distinctive customer experience."

Strategic Themes

Corporate Strategic Plan

- Aggressive deepening of our dominance in the Kenya Market.
- Dominant provider of financial services to the Co-operative Movement in Kenya and the region.
- Customer experience that is seamless across all our touch points.
- Operating efficiency driven by digitization, innovative products & Processes, efficient business models, and staff productivity.
- Optimal Enterprise Risk and Compliance in the dynamic environment.
- Operate as a good corporate citizen.

Our Values:

- Trustworthy
- Innovative and Agile
- Value our Customers/People
- Share and Collaborate
- Passion for Excellence
- Bold and courageous

"We are you"

We are all our stakeholders. We seek to meet the needs of all our stakeholders through our sustainable business model

Key enablers:

'Soaring Eagle' Transformation is an efficiency and growth project that we began in 2014 and it continues to be a key strategic enabler in every area of our Business. It is discussed in detail in the Strategic Focus Review section of this report.

Financial Capital

Total Assets
KShs 457.1B
(2018 KShs. 413.7B)

Customer Deposit
KShs 332.8B
(2018 KShs. 306.1B)

Borrowed funds
KShs 26.4B
(2018 KShs. 24B)

Profit Before Tax
KShs 20.71
(2018 KShs. 18.16B)

Retained earnings
KShs 62.4B
(2018 KShs. 54B)

Total Capital
KShs 64.7B
(2018 KShs. 59.4B)

Liquidity of
46.2%
(2018 41.1%)

Human Capital

4422
(2018-4251)
diverse staff members capable of meeting our present and future human capital needs.

Social & Relationship Capital

An optimal relationship with all our stakeholders to ensure long-term value addition. See Stakeholders Engagement section of this report.

Manufactured Capital

Efficient, innovative delivery channels and touchpoints that enable us to serve our 8.8 million customers optimally. Adequate ICT infrastructure to support all our strategic initiatives.

159
Branches

583
ATMs

Mcoop Cash
mobile banking platform
(4.8M)

Agency Banking
(15,783)

CoopNet
internet banking platform
(49,959)

Omnichannel
platform.

Core Banking System & other infrastructure.

Intellectual Capital

- The skills/knowledge of our staff.
- Our brand positioning and reputation.
- Dynamic polices and frameworks covering all areas of our business.
- Risk management framework.
- Good Governance and Corporate planning skills.
- Intellectual property.
- Dynamic IT capabilities.

Natural Capital

Contributing positively towards preserving the natural resources that we employ in our value creation process.

See Creating Sustainable Value section of this report.

Our Stakeholders

- Customers - Innovative universal banking model
- Shareholders - Optimal return on investment.
- Employees - Effective performance and reward mechanism
- Co-operative movement - Unique value proposition
- Strategic partners - Long term credit lines for specific purpose
- Regulators - Compliance to all regulation.
- Suppliers - Responsible engagement
- Community - Positive economic, social and environmental impact from our activities

Our Key Business

We enable our Customers to;

<table>
<tr><th></th><th>What we do</th><th>What we offer</th></tr>
<tr><td>• Retail and Business Banking Division</td><td>Providing financial solutions to individual customers, Micro, Small and Medium Enterprises</td><td rowspan="7">➢ Deposit/Instant Access accounts
➢ Savings Accounts
➢ Current accounts
➢ Fixed/Call deposit accounts
➢ Forex products
➢ Payment solutions
➢ M-Wallet loans
➢ Trade Finance
➢ MSME Loans
➢ Personal/Consumer Loans
➢ Working Capital Loans
➢ Asset Finance
➢ Insurance Premium Financing
➢ Mortgage Finance
➢ Investment services
➢ Banc Assurance
➢ Consultancy and capacity building
➢ Stock Brokerage</td></tr>
<tr><td>• Corporate and Institutional Banking Division</td><td>Providing financial solutions to;
• Corporates
• Institutions
• Government
• Parastatals
• Non- Governmental Institutions
• International Financial Institutions</td></tr>
<tr><td>• Co-operatives Division</td><td>Providing financial solutions to;
• Large Saccos
• Housing Saccos
• Agricultural and other Co-operatives
• PSV/ Transport Saccos
• Investment Saccos
• Housing Saccos</td></tr>
<tr><td>• Co-optrust Investment Services Ltd</td><td>Fund Management Services</td></tr>
<tr><td>• Coop Consultancy and Insurance Agency Ltd</td><td>• Banc Assurance Services
• Consultancy and capacity building services to Co-operative Societies</td></tr>
<tr><td>• Kingdom Securities Ltd</td><td>Stock Brokerage Services</td></tr>
<tr><td>• Co-op Bank Fleet Africa Leasing Limited</td><td>Leasing solutions</td></tr>
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Key Performance Highlights

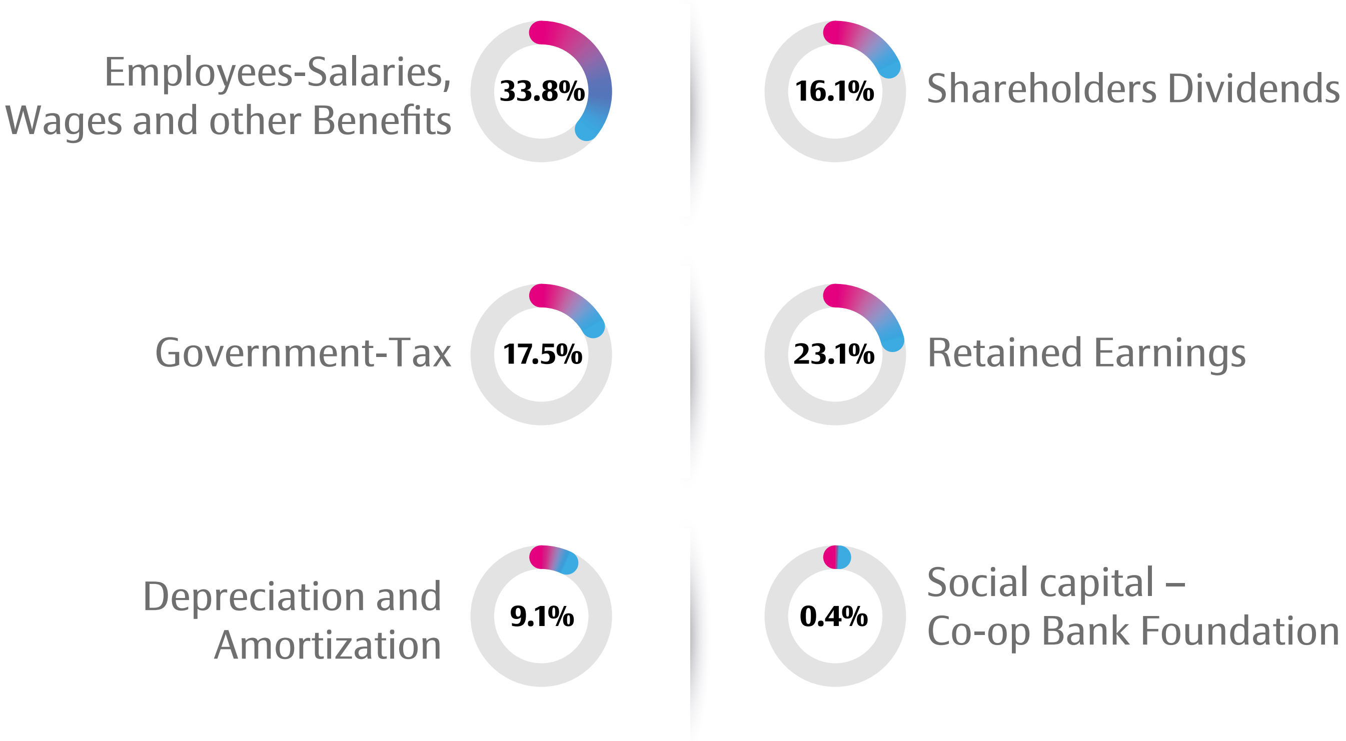
FINANCIAL (Kshs. B)	2019	2018	
Profit Before Tax	20.7	18.2	▲
Total Assets	457.1	413.7	▲
Loan Book	266.7	245.4	▲
Customer Deposit	332.8	306.1	▲
Non-Performing Loan (%)	9.9%	10.3%	▼
Dividend per share	1.00	1.00	●
Market Capitalization Kshs. B	95.5	83.3	▲
Average ROA	3.3%	3.2%	▲
Average ROE	18.9%	18.1%	▲
Cost to Income (CIR)	52%	55%	▼
Debt to Equity	33%	34%	▼
OTHER KEY INDICATORS			
Staff numbers	4422	4251	▲
Training spend Ksh. M	70	84	▼
Remuneration Kshs. B	12.4	11.5	▲
Sick leave (days)	14073	14293	▼
Female staff ratio	58%	60%	▼
Digital channel transactions (Million)	136	122	▲
Wide branch network	159	155	▲
Branches County presence	42	40	▲
ATMs	583	581	▲
Renewable energy lending Ksh. B	2.59	3.11	▼
CCIA consultancies	2800	2600	▲
Coop Foundation students to date	7657	7002	▲
Electricity cost (Million)	261	265	▼
Generator fuel cost (Million)	19	26	▼
Water cost (Million)	35	39	▼
Stationery (Million)	119	156	▼

Our Business Model.

A summary business model. For a detailed analysis refer to The Co-op Bank Model section of this report.

Wealth creation and distribution

Value Distribution KShs. 36.6B (2018 – KShs. 32B)



Our stakeholders

Historical timeline

1966/1968
The Co-operative Bank of Kenya is established and opens its doors in year 1968.

1994
Converts into a full-fledged Commercial Bank to bank other customers beyond Co-operatives including individuals, Corporates and other Institutions.

1998
The Bank's Head Office is hit by a terror attack aimed at the adjacent US Embassy.
Operations are moved to various hired premises in town.

2000
The Bank makes a huge loss of KShs. 2.3 Billion.

2002
Returns to profitability reporting KShs. 103 Million profit. The Bank re-occupies the renovated Cooperative House Building.

2005
Doubles its share capital from KShs. 1.2 Billion to KShs. 2.3 Billion through share capital injection of KShs. 1.1 Billion.

2007-2008
Records a complete turnaround by reporting a KShs. 2.3 Billion Profit Before Tax. Successfully listed in the Nairobi Securities Exchange in 2008.

2009-2013
The Bank undergoes its most rapid expansion by opening 77 branches. Customer accounts grow from 700,000 to 4.1 Million at the close of 2013.

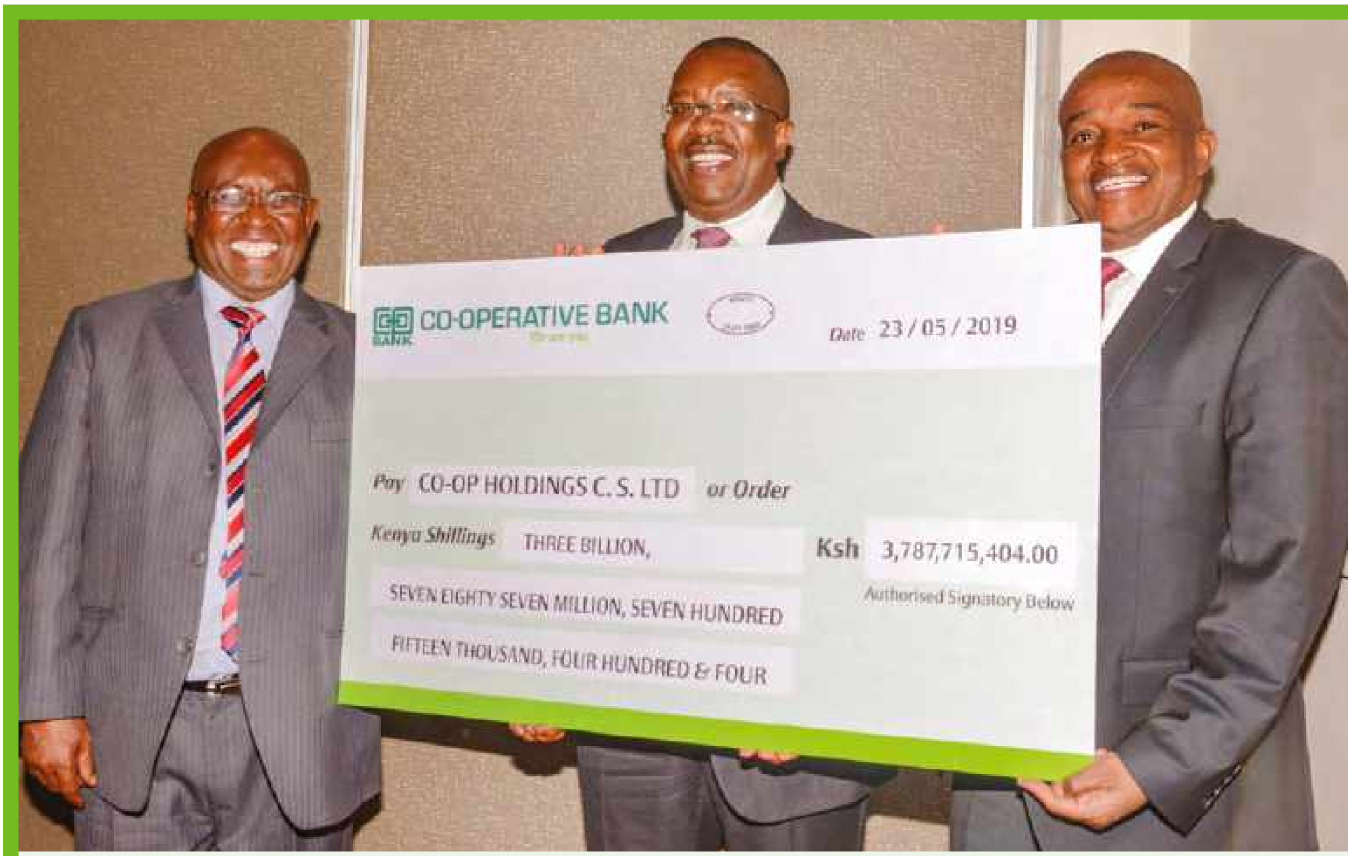
2014-2015
Embarks on the bold 'Soaring Eagle' Transformation Agenda to scale greater frontiers riding on over 5.9 Million account holders.

2016
Group registers continued growth with a PBT of KShs. 17.7 Billion and an asset base of over KShs. 351.8 Billion.

2017
The Group records a PBT of KShs. 16.4B a commendable performance against the backdrop of a tight operating environment; Interest rates capping and general economic slowdown.

2018
The Group continues to soar higher recording a PBT of KShs. 18.16 Billion, 11% higher than KShs. 16.4 Billion in 2017.

2019
The Group continues to perform well recording a PBT of KShs. 20.71 Billion, a 14% growth.
The Bank disburses KShs. 43B through E-Credit, a lending focus area.



Dividend Windfall: (L-R) Co-op Bank Chairman John Murugu and Group Group Managing Director & CEO Dr. Gideon Muriuki hand over a dummy cheque to the Chairman of Co-op Holdings Co-operative Society Macloud Malonza, representing the Sh 3.8 billion in dividends paid out to Sacco shareholders for their controlling 64.5% stake in the bank. The bank maintained a similar dividend payment for year 2019.

It's so much easier to access your money with Mco-opCash. Whether sending or shopping, Co-operative Bank has you sorted anywhere, anytime.

Mco-op Cash

Kwa mikono yako... unaweza

Chairman Statement

John K. Murugu, OGW
Chairman, Co-operative Bank

> **"Our balance sheet expanded by an impressive 10.5% to KShs. 457.1 Billion from KShs. 413.7 Billion. Profit after tax grew by 12.4% to KShs. 14.31Billion compared to KShs. 12.73 Billion the previous year."**

Dear Shareholders,

I am delighted to once again present to you our bank's Integrated Report for the year ended 31st December 2019.

Overview of the Operating Environment

Global growth this year recorded its weakest pace since the global financial crisis a decade ago. Rising trade barriers and the associated uncertainty weighed on business sentiment and activity globally. Growth on the African continent has shown a positive trajectory, but it remains a challenging environment to navigate.

The Kenyan economy remained resilient in 2019, with the World Bank projecting the country's GDP growth at 5.7%. This growth was supported by macroeconomic stability, growth of Micro, Small and Medium-sized Enterprises (MSMEs), and a robust services sector particularly hospitality, information and communications technology, and transport and warehousing.

Month-on-month overall inflation remained within the government target averaging 5.2% in 2019 compared to 4.7% in 2018, owing to largely stable food and energy prices. The foreign exchange market has remained stable, supported by the narrowing of the current account deficit and balanced flows. The current account deficit narrowed to an estimated 4.6% of GDP in 2019 from 5.0% in 2018. This was mainly due to lower imports (mainly of SGR-related equipment), resilient diaspora remittances and strong receipts from transport and tourism services. The current account deficit is projected to remain stable at 4.7% of GDP in 2020.

Private sector credit grew by 7.1% in the 12 months to December 2019 compared to 2.4% in December 2018. Growth in private sector credit is expected to increase gradually due to the deployment of innovative MSME credit products, the repeal of interest rate caps and the continued easing of monetary policy. The Monetary Policy Committee has lowered the Central Bank Rate (CBR) in two successive bi-monthly meetings to 8.25% in January 2020.

During the year, the Central Bank of Kenya successfully completed the issuance of New Generation banknotes that are consistent with the 2010 Constitution and the withdrawal (demonetization) of the older series KSh.1,000 notes. The demonetization exercise was aimed at addressing concerns of illicit financial flows, and the emerging risk of counterfeits.

Performance Overview

Our balance sheet expanded by an impressive 10.5% to KShs. 457.1 Billion from KShs. 413.7 Billion. Profit after tax grew by 12.4% to KShs. 14.31Billion compared to KShs. 12.73 Billion the previous year. This commendable performance against a background of challenging operating environment, reaffirms the success of the transformation agenda in equipping the business with a strategic agility and resilience to achieve its objectives even in difficult circumstances. The group will continue to leverage the 'soaring eagle' transformation agenda focused on improving operational efficiencies, salesforce effectiveness and innovative customer delivery channels to serve our growing customer base, which currently stands at over 8.8 million.

In the year 2019 we received accolades both locally and internationally. The bank was a big winner at the 2019 Kenya Bankers Association Sustainable Finance Catalyst Awards, emerging as the Overall Winner with awards in 6 categories as a result of entrenching sustainable finance initiatives in our operations and lending practices. The bank was also named Best Bank in Kenya in the EMEA African Banking Awards 2019. The awards re-affirm our co-operative banking model as the most sustainable model for inclusive growth.

Corporate Governance and the Board of Directors

The Board is responsible for corporate governance practices, and embraces its responsibilities to shareholders and other stakeholders and upholds the highest ethical standards and ensure that the Bank conducts its business in accordance with global best practice. The Board consists of thirteen directors, with one of them, the Managing Director as executive, and twelve non-executive. The Directors have a variety of skills, experience and competences in their relevant fields of expertise and is well placed to drive the bank's business forward. Having the appropriate governance mechanisms and pillars that support ethical behavior are foremost in our business.

Board Changes

During the year Mrs. Mary Mungai retired on 28th march and was replaced by Mr. Didacus O. Ityeng' who also retired on 2nd of August. Mr. Geoffrey Njang'ombe (Commissioner of Co-operatives) was appointed on 2nd August to replace Mr. Ityeng'.

Mr. Michael Muthigani was appointed on 20th May while Mrs. Margaret Karangatha was appointed on 24th September as board members. I thank the retiring directors for their devotion and selfless service and wish the incoming directors success and God's guidance in execution of duty in their new roles.

Dividend and the Annual General Meeting

The bank is committed to ensuring effective communication with the shareholders and has used the Annual General Meetings and Special General Meetings to fully engage shareholders on the bank's activities, strategy and performance. The Board of Directors has recommended to the Annual General Meeting (AGM) a dividend of Kes. 1 per every ordinary share held subject to the approval by the Capital Markets Authority.

The Eleventh Annual General Meeting of the Co-operative Bank of Kenya Limited will be held at a later date to be confirmed.

Looking Ahead

The year 2020 is likely to register reduced economic activity level due to the COVID-19 pandemic with GDP expected to expand by 2.3% (according to CBK'S May 2020 monetary policy briefing). However, growth is likely to be kept resilient by the recovery of the agricultural sector given a favorable weather forecast in 2020, the planned reduction in the fiscal deficit, settlement of pending bills by the counties and national government, sustained growth of MSMEs, continued implementation of the Big 4 agenda and a stable macroeconomic environment. Notably, the removal of interest rate caps coupled with the easing of the monetary policy stance is expected to boost credit uptake by the private sector.

That said, there still exists significant downside risks resulting mainly from disruptive rainfall and locust invasion in some parts of the country which could lead to post-harvest losses and exert moderate upward pressure on food prices.

Acknowledgement

On my own behalf and on behalf of the Board of Directors, I most sincerely thank the management team led by the Group Managing Director and CEO Dr. Gideon Muriuki, for delivering this great performance notwithstanding the challenging operating environment.

Finally, I would like to appreciate my fellow Board members for their service, loyalty and commitment to duty in serving the Bank with me.

Thank you and may God richly bless you all.

JOHN MURUGU, OGW

Chairman

Taarifa ya Mwenyekiti

John K. Murugu, OGW
Mwenyekiti, Co-operative Bank

> "Mizani yetu ya kifedha iliongezeka kwa kima cha kuridhisha cha 10.5% hadi kufikia KShs. Bilioni 457.1 kutoka KShs. Bilioni 413.7. Faida baada ya kulipa ushuru ilizidi kwa 12.4% na kufikia KShs. Bilioni 14.31 ikilinganishwa na KShs. Bilioni 12.73 katika mwaka uliotangulia."

Wapendwa Wamilikihisa,

Kwa mara nyingine tena niko na furaha tele kuwasilisha kwenu Ripoti Jumuishi ya benki yetu ya mwaka wa kifedha unaomalizikia tarehe 31 Disemba 2019.

Maelezo ya jumla ya Mazingira ya uendeshaji shughuli

Ukuaji ulimwenguni kote mwaka huu ulidhihirisha ukuaji duni zaidi tangu kuwepo hali ya wasiwasi katika sekta ya kifedha ulimwenguni kwa muongo mmoja uliopita. Kuzidi kuweko kwa vizuizi vya biashara na hali inayohusishwa na kutokuwa na uhakika kulizidisha kudorora kwa shughuli za biashara ulimwenguni. Ukuaji katika bara la Afrika umeonyesha mwelekeo mzuri, lakini bado mazingira ya uendeshaji shughuli ni magumu.

Uchumi wa Kenya ulizidi kuwa na ukakamavu katika 2019, Benki Kuu ya dunia ikitabiri ukuaji wa pato la nchi (GDP) wa kima cha 5.7%. Ukuaji huu ulisaidiwa na kuimarika kwa uchumi mkubwa, ukuaji wa Biashara ndogo sana, ndogo na za Kati (MSMEs), na kupata nguvu kwa sekta za utoaji huduma hasa za uhisani, teknolojia ya habari na mawasiliano, usafirishaji na uhifadhi.

Mfumko mzima wa bei wa mwezi kwa mwezi ulibaki kuwa ndani ya shabaha ya serikali ya wastani wa 5.2% katika mwaka wa 2019 ikilinganishwa na asilimia 4.7% ya mwaka wa 2018, kutokana haswa na bei kubwa ya chakula na nishati. Soko la fedha za kigeni lilizidi kuwa thabiti, hii ikisaidiwa na kupunguzwa kwa naksi ya akaunti ya sasa na mtiririko wa usawa. Upungufu wa akaunti ya Hundi ulikuwa kwa wastani wa 4.6% ya Pato la Taifa mwaka 2019 kutoka 5.0% katika 2018. Hii ilisababishwa zaidi na kupungua uagizaji nje (haswa wa vifaa vinavyohusishwa na SGR), kuzidi uletaji fedha na wananchi walio nje na mapato ya kuridhisha ya huduma za uchukuzi na utalii. Upungufu ulioko wa akaunti ya Hundi unakadiriwa kuimarika kwa asilimia 4.7% ya Pato la Taifa katika 2020.

Karadha ya sekta ya kibinafsi iliongezeka kwa kima cha 7.1% ndani ya miezi 12 hadi kufikia Disemba 2019 ikilinganishwa na 2.4% katika Disemba ya 2018. Ukuaji wa karadha katika sekta ya kibinafsi unatarajiwa kukuwa polepole sababu ya kutolewa kwa bidhaa bunifu za kikopo za MSME, kutanguliwa kwa kiwango cha riba na kuongezeka kwa sera ya fedha. Kamati ya Sera ya Fedha imepunguza Kiwango cha Benki Kuu (CBR) katika mikutano miwili inayofuatana ya kila mwezi hadi 8.25% mnamo Januari 2020.

Katika kipindi cha mwaka, Benki Kuu ya Kenya ilifanikiwa kukamilisha utoaji wa noti mpya za Kizazi kipya ambazo zinaambatana na Katiba ya 2010 na uondoaji (kuachwa kutumiwa kwa pesa za zamani) za msururu wa noti za zamani za KSh.1,000. Zoezi la uondoaji wa noti hizo za zamani lililenga kushughulikia wasiwasi wa mtiririko wa fedha haramu, na hatari inayoibuka ya pesa bandia.

Muhtasari wa Utendaji

Mizani yetu ya kifedha iliongezeka kwa kima cha kuridhisha cha 10.5% hadi kufikia KShs. Bilioni 457.1 kutoka KShs. Bilioni 413.7. Faida baada ya kulipa ushuru ilizidi kwa 12.4% na kufikia KShs. Bilioni 14.31 ikilinganishwa na KShs. Bilioni 12.73 katika mwaka uliotangulia. Utendaji huu wa kupendeza kukiwa na hali ya mazingira magumu ya kiutendaji, unathibitisha mafanikio ya ajenda ya mabadiliko ya kuandaa biashara na uwezeshaji wa kimkakati na ukakamavu wa kufikia malengo yake licha ya kuwepo hali ngumu. Kundi hili litaendelea kutumia kama nyenzo ajenda ya mabadiliko ya 'soaring eagle' yaani 'paa kama tai' inayozingatia kuboresha ufanisi wa kiutendaji, ufanisi wa mauzo na njia bora za ufikishaji huduma kwa wateja ili kusaidia wigo wetu wa wateja unaokua, ambao kwa sasa idadi yake ni zaidi ya milioni 8.8.

Mnamo mwaka wa 2019 tulipokea sifa kutoka humu ndani na nje ya nchi. Benki hii iliibuka na ushindi mkubwa katika tuzo za Chama cha Mabenki Endelevu ya Kifedha cha Kenya cha 2019, ikiibuka kama Mshindi wa Jumla na tuzo katika vikundi 6 kutokana na matokeo ya kuingiza mipango endelevu ya fedha katika shughuli zetu na njia za kukopesha. Benki hiyo pia ilitajwa kama benki bora Zaidi na Benki Kuu ya Kenya katika tuzo za EMEA za Benki za Afrika za 2019. Tuzo hizo zinathibitisha tena muundo wetu wa benki ya ushirika kuwa ni kielelezo endelevu zaidi cha ukuaji wa pamoja.

Usimamizi wa Shirika na Bodi ya Wakurugenzi

Bodi hii ina jukumu la utaratibu wa usimamizi wa shirika, na inachukua jukumu kwa wamilikihisa na washikadau wengine na inadumisha viwango vya juu zaidi vya maadili na kuhakikisha Benki inafanya biashara yake kulingana na njia za utendaji bora wa ulimwengu. Bodi inajumuisha wakurugenzi kumi na watatu, na mmoja wao, Mkurugenzi Mtendaji kama mtendaji, na kumi na wawili ambao sio watendaji. Wakurugenzi wana ustadi, uzoefu na uwezo tofauti tofauti katika nyanja zao za utaalamu na wako katika nafasi nzuri ya kuendesha mbele biashara ya benki hii. Kuwa na mifumo muafaka ya kiutawala na nguzo zinazounga mkono mwenendo wa maadili zinapewa kipaumbele katika biashara yetu.

Mabadiliko katika Bodi

Mwakani Bi. Mary Mungai alistaafu mnamo tarehe 28 mwezi wa Mechi na nafasi yake kuchukuliwa na Bw. Didacus O. Ityeng' ambaye pia alistaafu mnamo tarehe 2 Agosti. Bw. Geoffrey Njang'ombe (Kamishna wa Ushirika) aliteuliwa mnamo tarehe 2 Agosti kuchukua nafasi ya Bw. Ityeng'.

Bw. Michael Muthigani alitueliwa mnamo tarehe 20 Mei huku Bi. Margaret Karangatha aliteuliwa mnamo tarehe 24 Septemba kama mwanachama wa Bodi. Natoa shukrani zangu kwa wakurugenzi wanaostaafu kwa kujitolea kwao kuhudumu bila ubinafsi na nawatakia mafanikio wakurugenzi wapya wanaoingia na Mungu awape muongozo katika utekelezaji wa hatamu zao mpya.

Mgao wa Hisa na Mkutano Mkuu wa Mwaka

Benki hii inajitolea kuhakikisha kuna ufanisi wa mawasiliano kwa wamilikihisa na imekuwa ikitumia Mikutano Mikuu ya Mwaka na Mikutano Maalum kujadiliana kikamilifu na wamilikihisa juu ya shughuli, mikakati na utendaji wa benki. Bodi ya Wakurugenzi inapendekeza kwa Mkutano Mkuu wa Mwaka (AGM) mgao wa Kes. 1 kwa kila hisa ya kawaida inayomilikiwa ikitegemewa kutolewa idhini ya Mamlaka ya Masoko ya Mtaji.

Mkutano Mkuu wa Mwaka wa Kifedha wa Kumi na Moja wa Shirika la Co-operative Bank of Kenya utafanyika siku itakayotangazwa baadaye.

Kubuni Thamani Endelevu

Ajenda yetu ya uendelevu imeundwa juu ya dhamirio letu la kuongeza ujumuishaji wa kifedha kwa njia inayowajibika kwa kipindi kirefu na kwa hivyo imeunganishwa katika mfumo wetu wa biashara. Tunawawezesha watu, biashara na jamii kukua kwa njia ambayo ni endelevu kwa muda mrefu. Tunakusudia kusawazisha hatari za kijamii, kiuchumi na kimazingira na fursa kupitia utumiaji wa makusudi wa bidhaa na huduma zetu, kushirikiana na miungano, na kwa kudhibiti athari zetu ambazo ni pamoja na athari za uchumi wa ndani, ushauri wa ushirika wa 2800, wanafunzi werevu 7657 wa hali duni ya kifedha kupitia hazina ya ufadhili ya coop foundation, mfumo wa sera unaoendelea, shughuli za ushirika, utiifu wa sheria na mipango ya mazingira miongoni mwa mengine mengi.

Tukitazama mbele

Ukuaji wa uchumi unatarajiwa kuwa mdogo katika mwaka wa 2020 na Pato la Taifa (GDP) likitarajiwa kupanuka kwa 2.3% hii ikiungwa mkono na, miongoni mwa mengine, afueni katika sekta ya kilimo, kupungua kuliopangiwa kwa udoraraji wa hali ya kifedha, kulipwa kunakotarajiwa kwa madeni tunayodai Serikali za kaunti na ya kitaifa, ukuaji endelevu wa biashara ndogo na za Kati (MSMEs), kuendelea utekelezwaji wa Ajenda 4 Kubwa na mazingira ya uchumi thabiti. Kwa kweli, kuondolewa kwa kiwango cha riba pamoja na kulegezwa msimamo wa sera ya fedha kunatarajiwa kuongeza kuhitajika kwa mikopo na sekta binafsi.

Licha ya kusema haya, bado kuna hatari kubwa za chini zinazosababishwa hasa na ukosefu wa mvua na uvamizi wa nzige katika maeneo kadhaa ya humu nchini ambayo inaweza kusababisha kutokuwa na mavuno mazuri na kusababisha shinikizo zaidi kwa bei ya chakula.

Shukrani

Kwa niaba yangu binafsi na niaba ya Bodi ya Wakurugenzi, natoa shukrani zangu za dhati kwa timu ya wasimamizi wakiongozwa na Mkurugenzi Mkuu na Afisa Mkuu Mtendaji Dkt. Gideon Muriuki, kwa kuwasilisha utendaji huu ulio bora zaidi licha ya kuwepo mazingira magumu ya uendeshaji shughuli.

Mwishowe, ningependa kuwatambua Wanabodi wenzangu kwa huduma, uaminifu na kujitolea kwao kwa jukumu la kuitumikia Benki wakiwa nami.

Asanteni na Mungu awabariki zaidi nyote.

JOHN MURUGU, OGW

Mwenyekiti

The Board of Directors

All directors are non-executive except for the Group Managing Director & CEO

John Murugu, OGW, Chairman (69)

Joined the Board of Directors on 27th May 2015 and became Bank Chairman on 1 October 2017. He is a leading banker and public finance expert; served as the Director-Debt Management Ministry of Finance - Treasury. He has previously been an alternate director for the Permanent Secretary-Treasury, in Kenya Commercial Bank, Industrial Development Bank, and at Jomo Kenyatta University of Agriculture and Technology. He has over 25 years of banking experience at the Central Bank of Kenya notably as the Director Bank Supervision. He holds a Bachelor of Education Degree and Masters of Arts in Economics and is an Associate of the Chartered Institute of Bankers (ACIB).

Macloud Malonza, HSC, Vice Chairman (51)

Joined the Board of Directors in 2005 and became the Bank Vice Chairman on 1 October 2017. He is notably the Chairman of Co-opholdings Co-operative Society Ltd, the 65% strategic investor in the bank. He holds a Bachelor of Arts degree, a Masters in Organizational Change and Development, Master of Business administration, Post-graduate Diploma in Management and Information Systems, Certificate in Strategic Planning and Management and CPS 1. He has also attended Senior Management and Strategic Leadership Development Courses. He has served in various positions in the Civil Service and is Chairman of Harambee Co-operative Society Limited that serves employees of the various Government departments under the Office of the President.

Dr. Gideon Muriuki, CBS, MBS Group Managing Director & CEO (55)

Appointed Managing Director in 2001 and has presided over the Bank's turnaround from a massive loss position of KShs. 2.3 billion in the year 2000, to a profit before tax of KShs. 20.71 Billion In 2019. He joined the Bank in 1996 as a Senior Corporate Manager then became Director, Corporate and Institutional Banking in 1999 before his appointment as Managing Director in 2001 with a clear mandate to return the Bank into profitable trading. Holds a Bachelor of Science degree in Mathematics, is a Fellow of the Kenya Institute of Bankers and was awarded an Honorary Doctorate in Business Management in year 2011. He has over 31 years experience in banking and finance and he was voted CEO of the year Africa 2014 by the International Banker. He is Vice-President Africa – International Co-operative Banking Alliance (ICBA), former Chairman, Governing Council of the Africa International University and former Chairman, African Rural and Agricultural Credit Association (AFRACA). He was decorated in 2005 with the award of Order of the Grand Warrior (OGW), in 2011, award of the Moran of the Order of the Burning Spear (MBS), in 2017 with Chief of the Order of the Burning Spear first class (CBS) in recognition of his successful turnaround of the Bank and exemplary service to the nation. He is a recipient of a decoration of Chevalier de L'orde National du Burkina Faso by the President of Burkina Faso in recognition of his outstanding contribution to development of rural finance in Africa, 2016 Lion of Judah Award by Evangelical Alliance of Kenya and Mtumishi Bora Grand Award - 2016 by the Kenya Christian Professionals Forum for his great servant leadership as a committed Christian leader in the market place. In 2018, he was awarded Best Banking CEO Kenya by International Finance.

Patrick K. Githendu, Director (66)

Joined the board in 2017 having served in the Board of Co-optrust Investment Services Ltd since 1998 and the Board of Co-op Consultancy & Insurance Agency Ltd since 2009. He is a businessman, with vast experience particularly in the coffee industry. He is the Vice Chairman of Co-opholdings Co-operative Society Limited and Director of Kingdom Securities Limited. He is a Director in Kenya Co-operative Coffee Exporters (KCCE).

Rose Simani (Mrs.), Director, Independent (61)

Joined the Board of Directors on 29th May 2009. She is a Human Resource Consultant in the areas of organizational and leadership development, recruitment, selection and retention, design of performance management tools and competitive reward systems, developing and delivering training programs in the area of performance management, soft skills and culture change management and is the Managing Partner, Simcorp Human Resources Solutions. She has over 31 years of broad experience in human resources management and previously served as the Director of Human Resources at Housing Finance and also with British-American Tobacco (BAT) in senior positions in Manpower and Planning. She holds a Bachelor of Arts in Social Sciences, is a graduate of the FKE Female Future Program, a Fellow Member of the Institute of Human Resources and a CIC Nairobi Delegate, representing Cooperative Bank of Kenya. She has attended various local and international trainings. She is the Chairperson of the Board Audit Committee.

Lawrence Karissa, Director, Independent (64)

Joined the Board of Directors on 27th May 2015. He has over 25 years experience in banking having previously served in various senior positions in Co-operative Bank of Kenya. He has previously worked for PricewaterhouseCoopers. He holds a Bachelor of Commerce degree in Accounting and is a Certified Public Accountant of Kenya CPA (K). He is the Chairman of the Staff and Nomination Committee.

Julius Sitienei, Director (65)

Joined the Board of Directors in 2003. He is a businessman and an educationist with over 20 years experience in the teaching profession before he took leadership positions in the management of co-operative societies. He is a Director of Co-opholdings Co-operative Society Limited and the Chairman of Kingdom Securities Limited. He holds a Bachelor of Business Administration degree in Human Resources Management.

Benedict W. Simiyu, Director (58)

Joined the Board of Directors in 2014. He is an Educationist and holds a Diploma in Education Management. He has also attended various management courses. He is a nonexecutive Board member of Ng'arisha Sacco (Former Bungoma Teachers Sacco). He is a Director of Co-opholdings Co-operative Society Limited.

Richard L. Kimanthi, Director (63)

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

Wanyambura Mwambia, Principal Secretary - National Treasury appointee (64)

He was appointed a Director on 7th August 2013, as the alternate to the Principal Secretary - National Treasury. He is the Deputy Director Economic Affairs in charge of Tax and Administration and private Sector issues and holds a BA (Hons) in Economics and Sociology from the University of Nairobi and an MA in Development Economics from Dalhouse University Canada. He has had a successful career in the Civil service for a period of over 33 years in the Ministry of Foreign Affairs and Ministry of Finance & Planning. He has brought a wealth of experience in finance and management in the public sector Government departments under the Office of the President. He is the Chairman of the Board Risk Committee.

Wilfred Ongoro, HSC, Director (64)

Joined the Board of Directors in 2006. He is an educationist with over 20 years experience and has served the co-operative movement in various positions. He is a Director of Co-opholdings Co-operative Society Limited.

Margaret Karangatha (Mrs.), Director (59)

She was appointed as a director of the Bank on 24th September, 2019. She is the Executive Director of The Lead Consortium Ltd and has over the last 25 years been consulting in Kenya and many African countries. She is an Executive Coach and mentor, and a Facilitator/ Organizational Development Consultant in disciplines such as Health Care Industry, Publishing, Engineering, Real Estate, Educational Institutions, and Floriculture among others. She has served in several boards with the current being the outgoing Board Chairman of the Navigators Economic Transformation Facility and Regional Treasurer of Scripture Union Africa. She specializes in Organizational Planning, Leadership and Human Resources Management and Finance for Finance and Non-Finance Managers. She has worked as a Management Coordinator for United Bible Societies overseeing work in over 34 Countries in Africa for 15 years and is an Associate Consultant with AMREF, CORAT and Kenya Institute of Management (KIM).

Mrs. Karangatha holds a Bachelor's degree in Commerce (Accounting Option) from the University of Nairobi, a Master's degree in Business Administration (MBA, Strategic Management) from United States International University and is a Certified Public Accountant – Kenya (ICPAK). She is the Chairperson of the Board Credit Committee.

Samuel M. Kibugi, Company Secretary (43)

Has over 17 years experience as a lawyer and prior to joining Co-op Bank in 2008, he worked for a leading bank as a Legal Counsel. He is an Advocate of the High Court of Kenya, a member of the Institute of Certified Public Secretaries ICPS (K) and an Associate Member of the Chartered Institute of Arbitrators. As the Company Secretary of the Co-op Bank Group, he has responsibility for overall provision of legal counsel and company secretarial services, fraud prevention and investigations. He is also the Trust Secretary for the Co-operative Bank Foundation, a corporate social responsibility vehicle of the Bank.

Godfrey K. Mburia, Director (63)

Joined the Board of Directors in 2017, having served in the Subsidiaries Board since 2004. He is an Accountant by profession and served as Head of Finance, Meru Central Farmers Union. He is a Director of Co-opholdings Co-operative Society Limited and the Chairman of Kenya Co-operative Coffee Exporters (KCCE).

Francis Ngone, Director (65)

Appointed Director on 27th April 2018. He has extensive knowledge and experience in the Co-operative movement and is currently the Chairman of Muranga Farmers' Co-operative Union, one of the largest co-operative unions in Kenya and the Chairman of Gatunyu Kigio Farmers Co-operative Society Limited. He is the current Chairman of Catholic Men Association in the Catholic Diocese of Muranga and the General Secretary of Catholic Men Association in Kenya. He holds a Diploma in Business Management and CPA II. He has previously worked for Cotton Board of Kenya as a Branch Manager and Kenya Post & Telecommunication as an accountant for a period spanning over 20 years cumulatively.

David Muthigani Muriuki, Director (51)

Joined the boards of the subsidiaries in May 2014. He is a businessman and a coffee farmer, with vast experience in farm management and coffee production. He is the Chairman of Kibirigwi Farmers Co-op Society. He is a Director of Co-opholdings Co-operative Society Limited.

James N. Njiru, Director (52)

Joined the boards of the subsidiaries in May 2014. He is a businessman and an Educationist. He holds a Diploma in Business Management and has experience in co-operative movement. He is a Director of Co-opholdings Co-operative Society Limited. He is also a Director in CIC Insurance Group.

Scholastica Odhiambo (Mrs.), Director (60)

Joined the boards of Co-optrust Investment Services Ltd in 2005 and Co-op Consultancy & Insurance Agency Ltd in 2008. She has served at the Ministry of Finance and continues to work with the Kenya Revenue Authority as a Revenue Officer, where she has served for over 32 years. She holds a Bachelor of Business Administration and a Diploma in Corporate Governance from the KCA University. She is a Director of Co-opholdings Co-operative Society Limited.

Geoffrey N. Njang'ombe, Director (60)

He was appointed as a Director on 2nd August 2019. He is a seasoned career civil servant and has served in various positions in public service for over 35 years notably as a District Auditor, Deputy Director of Audit, Senior Deputy Commissioner for Co-operatives and is currently serving as Acting Commissioner for Co-operative Development.

He is also a serving Board member of Institute of Certified Public Secretaries and a Commissioner of Ethics Commission for Co-operative Societies (ECCOS). He has conducted several special audits, investigations, inquiries, compliance audits and liquidations of co-operative societies. He has participated in formulation of Key Policy Documents and Legislation Review Teams.

Mr. Njang'ombe holds a Bachelors of Commerce from the University of Jalbpul (India) and a Masters in Business Administration (Strategic Management) from Kenyatta University.

Geoffrey M'Nairobi, Director (64)

Appointed Director on 27th April 2018. He has extensive knowledge and experience in the Co-operative movement and is currently the General Manager of Meru South Farmers' Co-operative Union Limited, one of the largest co-operative unions in Kenya, with over 31 years' experience. He is also a member of the Board of Management of Muthambi Girls High School and Chief Mbogori Girls High School. He has attended various local and international courses on co-operatives with emphasis on dairy and coffee management sectors. He has a Diploma in Senior Co-operative Management.

Michael M. Muthigani, Director (50)

Mr. Michael Muriithi was appointed a Director on 26th April 2019. He has extensive knowledge and experience in finance and accounting matters and has held various senior positions with Kenya Accountants and Secretaries National Examination Board (KASNEB) since 1994;notably Revenue Officer, Account Assistant, Accountant and is currently the Senior Accountant. He has also diligently served in the KASNEB Sacco in various capacities including as a Treasurer for 8 years. Mr. Muriithi is currently pursuing a Bachelor's Degree at Moi University School of Business and is a Certified Public Accountant.

Mr. Muriithi is the current Vice Secretary of Saints Peter and Paul Catholic Church, Kiambu Town and a member of the Parish Pastoral Committee.

William Mayar Wol, Chairman (57)

He is a South Sudanese Citizen by birth and holds a Higher Diploma in Agriculture Economics from Agriculture College Sudan University of Science and Technology, a Bachelor of Science Degree from Agriculture Engineering College, University of Alexandria - Egypt. He has served in various capacities including acting Head Government Banking in Co-operative Bank South Sudan, field officer Ministry of Agriculture in Sudan, development and formation of Co-operatives in South Sudan's various states among others.

Elijah Wamalwa, Managing Director (46)

He has 20 years banking experience and is one of the pioneers of Co-operative Bank of South Sudan where he worked from 2013 as Head of Credit & Risk Management, in 2015 as Head of Retail and Operations before being appointed Managing Director in 2017. He has served in various other capacities at the Co-operative Bank of Kenya as a Portfolio Manager, Head of Credit Administration and later as Head of Credit-Core Banking Implementation Team. He holds a Master Of Science Degree in Governance attained at International Leadership University (Kenya) and a Bachelor of Arts Degree from Egerton University (Kenya). He has additional qualifications in accounting and project management.

Prof. Mathew Gordon Udo, Director (61)

He was appointed a director of Co-operative Bank of South Sudan on 23rd August 2012. He is South Sudanese citizen by birth and currently is Under Secretary in the Ministry of Agriculture, Forestry, Co-operatives and Rural Development in charge of Administrative Affairs, Planning and Forestry Development. He has a strong base and wide knowledge in different fields of agriculture and natural resource management and has served in various capacities in both the academic field and Civil service in South Sudan spanning a period of over 30 years. He holds a MSc. (Agric) Animal production from the Sokoine University of Agriculture Morogoro Tanzania and a B.A. SA (Hons) Agriculture (animal production) from Gezira University of Agriculture wad Medani Sudan. He was appointed Professor of animal genetics and animal breeding – CNRES University of Juba, a position he continues to hold.

Hon. Ocum Genes Karlos (62)

He was appointed director of Co-op Bank of South Sudan on 8th November, 2018. He is a South Sudan citizen and is currently Under Secretary for Planning in the Ministry of Finance & Economic Planning. He is a seasoned finance and planning technocrat with a decorated service on financial matters in South Sudan. He also has a vast international exposure having worked for over 12 years with various United Nations Agencies such as United Nations World Food Programme, United Nations Development Programme and Care International in Sudan. He is a holder of Bachelor of Science (B.Sc.) in Management from the University of Juba and a Masters of Science, Qualifying Certificate in Business Administration from the University of Khartoum.

Rosemary M. Githaiga, (Mrs.), Director (56)

Has over 27 years experience as a lawyer having worked in Co-operative Bank since 1996 to March 2017 and previously Hamilton Harrison & Mathews Advocates. As the Company Secretary of the Co-op Bank Group, she had responsibility for overall provision of legal counsel and company secretarial services, fraud prevention and investigations as well as Trust Secretary for the Co-operative Bank Foundation, a corporate social responsibility vehicle of the bank. She is an Advocate of the High Court of Kenya, a member of the Institute of Certified Public Secretaries CPS (K) and an Associate Member of the Chartered Institute of Arbitrators. She is also a Director of CIC Insurance Group Limited.

Group Managing Director & CEO Statement

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

> "The Bank was named Overall Winner of the Kenya Bankers Association 2019 Sustainable Finance Catalyst Awards for the second time in three years."

Dear shareholders,

I am delighted to present to you our Integrated Report for the year 2019. It is our joy to present this report every year as it offers us the opportunity to share with you key activities and achievements in the period and also a preview into our plans and vision for the future. 2019 was yet another phenomenal year as we exerted ourselves and prevailed to post a commendable performance in a difficult operating environment.

The banking industry is steadily picking momentum as it adjusts from the market shocks of 2015 – 2016, when some banks failed and the introduction of the Banking Amendment Act in 2016 that introduced interest rate caps. The banking industry is on a growth trajectory with outstanding loans as well as deposits registering a steady rise.

With the removal of interest caps in the second half of 2019, it is anticipated that private sector lending will expand thereby spur the growth of the overall economy as the banks are presently well-capitalized with liquidity being sufficient and well-distributed.

In the period under review, the Bank was recognized with notable accolades that we are honored to mention. The Bank was named Overall Winner of the Kenya Bankers Association 2019 Sustainable Finance Catalyst Awards for the second time in three years. The Awards recognize institutions that practice sustainable finance which has a direct positive impact on the financial sector, the economy, the environment and the society at large. The bank was also named Best Bank in Sustainable Finance in Kenya at the 2019 Energy Management Awards hosted by the Kenya Association of Manufacturers, and in addition emerged Overall Winner in Environmental Sustainability Reporting at the 2019 East African Financial Reporting (FiRe Awards) held in Nairobi. Externally, Co-op Bank was also named Best Bank in Kenya 2019 at the 2019 Europe, Middle East and Africa (EMEA) Finance Awards. The EMEA Awards recognize financial institutions which, through their client focus and sound leadership, continue to increase profitability, deliver affordable credit to the retail and wholesale markets, and support local and transnational corporations do business.

The awards are a reaffirmation of our business model, that as a bank that is predominantly-owned by the 15 million-member Co-operative Movement, we are inclusive by design, which not only delivers shared prosperity today but also helps us retain an awareness and prudence to avoid putting future generations in jeopardy.

Performance Overview

The group delivered a Profit before Tax of KShs. 20.71 Billion for the year ended 31 December 2019, a remarkable growth of 14 per cent compared to KShs. 18.16 Billion recorded in 2018. Our customer deposits increased to KShs. 332.8 Billion in 2019 from Kshs. 306.1 in 2018 while Loans and advances grew by KShs. 21.3 billion from KShs. 245.4 billion in 2018 to KShs. 266.7 billion in 2019, an 8.7 per cent growth. Our total operating income grew by 10.6 per cent to KShs. 48.2 Billion driven by a 43.3 per cent growth in fees and commission income. Net interest income increased slightly by 2.2% to KShs. 32 Billion due to a lower Central Bank Rate (CBR) in 2019, the benchmark against which lending rates were pegged. In January 2018 the CBR was 10% and by January 2019 had come down to 9%; consequently causing a downward revision of lending rates from 14% to 13% in the period.

Our business model provides sustainable business growth supported by proactive strategies, a strong balance sheet and talented teams all of which have enabled the Group to register commendable performance given the difficult operating environment.

Strategic Direction

In 2019 we successfully launched our Corporate Strategic Plan for the next five years 2020-2024. This Corporate Strategic Plan will guide the Group into new heights in terms of growth and efficiency. It will be our roadmap for the next five years leading us to achieve our strategic objectives defined therein. It will guide us in allocating resources to the best available investment opportunities, drive performance towards established expectations, structure our business units and manage their activities to improve our competitive position and ultimately increase our shareholder value. By implementing this plan we expect to maintain and grow our market share across all customer segments in all the markets that we operate in.

Since 2014 when we embarked on a growth and efficiency transformation journey, the intervening period has been marked by unparalleled transformation and growth. We re-organized our branch set up for better customer experience, End-to-end migration to alternative banking channels with 89% of our transaction being transacted on digital channels, Market launch of the MSME initiatives that is positioning us as the go-to bank for MSMEs, launch and enormous uptake of E-credit, and a customer-centric relationship model that has taken our customers experience to new heights. Through these measures we've leveraged on SFE and our huge customer base of 8.8 Million to grow our Market Share (Loans, Deposits and NFI) across all Segments, Products and Channels

The competitive banking landscape coupled with tightening regulatory regime and increased customer demand for convenient and efficient banking experiences have necessitated a deliberate re-look at how the bank can deliver a compelling and responsive digital value proposition. To this end the bank has invested in a robust digital platform through which we will deliver superior digital solutions to our customers. We have rolled out a new internet banking that is feature-rich, easy to use and comes with a mobile version that enables customers to view balances, initiate payments and approve transactions on the go. ICT remains a key strategic focus area as the dynamic environment demands agility to be able to compete effectively.

In addition to working hard on new products, processes and channels, in 2019 we made significant progress in changing our culture, implementing new ways of working that are more agile and proactive. We still continue to diligently pursue our other objectives including but not limited to; driving cost management initiatives to achieve even better cost and operational efficiencies, Operational excellence, ensuring optimal systems uptime, optimized operational processes and data systems security and Staff productivity and a culture of high performance and motivated teams. Continuously improving the customer experience is a strategy for us as a key differentiator in a market that has very similar products and services.

We opened 4 branches in 2019 across the country bringing our total number of branches in Kenya and South Sudan to 159. In all these places we are deploying new ways of working that are more collaborative and focused on teamwork.

Risk and compliance

We operate in a heavily regulated environment and we are required to comply with various rules, laws and regulations. The Co-operative Bank Group is cognizant of the enduring need to ensure that we adhere to sound local and global compliance practices. The Group has continued to set and implement effective systems and controls that help to detect, prevent and deter financial crime, corruption and bribery.

In 2019 the Bank engaged PriceWaterhouseCoopers (PWC) to carry out an Independent Review of the Bank's AML/CFT compliance program. The overall rating for the bank by the Independent auditor was largely compliant while some minor shortcomings noted are being addressed. The Central Bank of Kenya also carried out a target inspection on the Bank in September 2019 and noted that the Bank was compliant with CBK prudential guidelines.

The Group undertook a Money laundering Risk Assessment for year 2019 to assess the money laundering risk exposure it faces. This was approved by the Board Risk Committee and Submitted to CBK in December 2019. The overall risk rating for the bank was low. This was attributed to the improved controls on AML/CFT.

In 2019 a total of 3,750 staff were trained both onsite and offsite on AML/KYC matters. All the staff undertook compliance core briefs within their teams. The Board of Management and Board of Directors also undertook an AML/CFT training in the course of the year.

Credit risk in the Kenyan banking industry has persistently remained in the double digit over the past three years and this is feeding into the industry's risk-taking behavior. Even with the strength of capital adequacy, the industry is putting its recovery efforts centre and fore front. That is necessary, but good-faith move towards prompt settlement of delayed payments by government and private sector, and sustainably mitigating the challenges to households and enterprise that have weakened their ability to meet obligations with lenders. The banking industry's financial performance therefore is underlined by a delicate balance between careful asset growths amidst risk-returns trade-offs and cost management and efficiency enhancement.

Conclusion

As a purpose-driven and duty-bound bank, we play a critical role in society to safeguard depositors' money and transform the savings into investment opportunities and productive consumption, thereby facilitating economic growth as well as job and wealth creation. This is a key responsibility that we do not take lightly. If we falter in this, we lose our social licence to operate and more importantly, we could lose the trust and confidence of our stakeholders, including that of our depositors.

We are confident that good times lie ahead.

Acknowledgement

I wish to most sincerely thank the Group Chairman, Mr. John Murugu and the entire Board of Directors for their wise counsel in steering the bank. My thanks also go to the entire team serving in the Co-operative Bank Group for their hard work and commitment that saw us through 2019. Our challenge and shared purpose is to build on that good work through 2020 and beyond. I have every confidence we can do so.

May God richly bless you all.

Dr. Gideon Muriuki, CBS, MBS
Group Managing Director and CEO

Taarifa ya Mkurugenzi Mkuu na Afisa Mkuu Mtendaji wa Kundi

Dr. Gideon Muriuki, CBS, MBS
Mkurugenzi Mkuu na Afisa Mkuu Mtendaji wa Kundi

> **"Benki iliibuka Mshindi wa Jumla wa Chama cha Mabenki ya Kenya 2019 Tuzo la Kichocheo cha Fedha Endelevu kwa mara ya pili katika miaka mitatu."**

Enyi Wamilikihisa,

Nina furaha kuwasilisha kwenu Ripoti yetu Jumuishi ya Mwaka wa Kifedha wa 2019. Ni furaha yetu kutoa ripoti hii kila mwaka kwani inatupa fursa ya kuwajulisha shughuli muhimu na mafanikio katika mwaka unaokaririwa na hakiki ya mipango yetu na maono ya siku zijazo. Mwaka wa 2019 ulikuwa mwaka mwingine mzuri sana ambapo tulijitahidi wenyewe na kufanikiwa kuchapisha ripoti ya utendaji mzuri kukiwa na mazingira magumu ya utekelezaji shughuli.

Sekta ya benki inazidi kupata afueni kwa kasi huku ikijirekebisha kuchukua hali ilivyo kutokana na mshtuko wa soko katika 2015 - 2016, huku baadhi ya benki zingine zilishindwa na uanzishwaji wa Sheria ya Marekebisho ya Benki ya 2016 iliyozindua uwekaji wa viwango vya riba. Sekta ya benki iko kwenye mwelekeo wa ukuaji huku mikopo ya sasa ikiboreka pamoja na amana zote zikionyesha hali ya kustawika.

Kuondolewa kwa uwekaji wa viwango vya riba katika nusu ya pili ya mwaka wa 2019, kunakadiriwa kuwa mikopo ya sekta binafsi itapanuka hivyo basi kukuza uchumi kwa jumla kwani mabenki hivi sasa yana fursa nzuri na ukwasi wa kutosha uliosambazwa vizuri.

Katika kipindi tunachokariria, Benki hii ilitunukiwa na kupata tuzo tambulika ambazo twajivunia kutaja hapa. Benki iliibuka Mshindi wa Jumla wa Chama cha Mabenki ya Kenya 2019 Tuzo la Kichocheo cha Fedha Endelevu kwa mara ya pili katika miaka mitatu. Tuzo hii hutambua taasisi ambazo zinatekeleza mfumo endelevu ya fedha ambao una athari ya moja kwa moja kwa sekta ya fedha, uchumi, mazingira na jamii kwa jumla. Benki hii pia iliishinda tuzo ya Benki Bora kwa Fedha Endelevu nchini Kenya kwenye Tuzo za Usimamizi wa Nishati za mwaka wa 2019 zilizoandaliwa na Chama cha Watengenezaji Bidhaa cha Kenya, na isitoshe iliibuka Mshindi wa Kwanza katika Kuripoti Usimamiaji wa Mazingira kwenye hafla ya Kuripoti Fedha ya Afrika Mashariki ya 2019 (Tuzo za FiRe) zilizofanyika jijini Nairobi. Huko nje, Co-op Bank pia iliitajwa kama Benki Bora Zaidi nchini Kenya 2019 kwenye Tuzo za Fedha za 2019 Ulaya, Mashariki ya Kati na Afrika (EMEA). Tuzo za EMEA zinatambua taasisi za kifedha ambazo, kupitia uongozi wao bora wa wateja, huendelea kuongeza faida, kutoa mikopo ya bei nafuu kwa masoko ya rejareja na ya jumla, na kusaidia mashirika ya humu ndani na ya kimataifa kufanya biashara zao.

Tuzo hizo zote ni uthibitisho wa ubora wa mfumo wetu wa biashara, kwamba kama benki ambayo inamilikiwa pakubwa na Wanachama Milioni 15 wa Vyama vya Ushirika Ushirika, tunajumuisha kwa muundo, ambao sio tu unaowasilisha ustawi wa pamoja hivi leo lakini pia unaosaidia kuhifadhi hamasisho na busara ya kuzuia vizazi vijavyo kuwa katika mashaka.

Muhtasari wa Utendaji

Kundi liliwasilisha Faida kabla kulipa Ushuru ya KShs. Bilioni 20.71 katika mwaka unaomalizikia tarehe 31 Disemba 2019, ukiwa ni ukuaji mkubwa wa kima cha asilimia 14 ikilinganishwa na KShs. Bilioni 18.16 zilizorekodiwa katika 2018. Amana kutoka wateja wetu ilipanda hadi KShs. Bilioni 332.8 katika 2019 kutoka Kshs. Bilioni 306.1 katika 2018 huku Mikopo na Advansi ikipanda hadi KShs. Bilioni 21.3 kutoka KShs. Bilioni 245.4 katika 2018 hadi KShs. Bilioni 266.7 katika 2019, huu ukiwa ni ukuaji wa asilimia 8.7. Jumla ya faida yetu ilikua kwa asilimia 10.6 hadi KShs. Bilioni 48.2 ikichochewa na ukuaji wa asilimia 43.3 wa mapato kutokana na ada na malipo ya faida. Jumla ya faida kutokana na riba iliongezeka kidogo kwa 2.2% hadi KShs. Bilioni 32 kutokana na kuweko Kiwango cha chini cha Benki Kuu (CBR) katika 2019, kigezo ambacho juu yacho viwango vya mikopo huwekwa. Mnamo Januari 2018 CBR ilikuwa 10% na kufikia Januari 2019 ilikuwa imepungua hadi 9%; na hivyo basi kusababisha marekebisho ya chini ya viwango vya kukopesha kutoka 14% hadi 13% katika kipindi hicho.

Mfumo wetu wa utendaji hutoa ukuaji endelevu wa biashara ukiungwa mkono na mikakati ya kiutendaji, mizania sawa ya kifedha na timu zenye ujuzi muafaka, haya yote yamewezesha Kundi kusajili matokeo mazuri ya utendaji licha ya kuwepo mazingira magumu ya kiutendaji.

Muongozo wa Kimkakati

Katika 2019 tulifanikiwa kuzindua Mpango wa Mkakati wa Shirika kwa miaka mitano ijayo 2020-2024. Mpango huu wa Mkakati wa Shirika utaongoza shirika hili kwenye kina kipya katika suala la ukuaji na ufanisi. Itakuwa ramani yetu ya ukuaji wetu kwa miaka mitano ijayo inayotuongoza katika kufanikisha madhumuni ya mkakati wetu kama ulivyofafanuliwa humu. Utatuongoza katika ugawanyaji wa rasilimali kwa fursa bora za uwekezaji zinazopatikana, kutilia nguvu utendaji kwa matarajio yaliyowekwa, muundo wa vitengo vya biashara yetu na kusimamia shughuli zao ili kuboresha msimamo wetu wa ushindani na hatimaye kuongeza thamani kwa mmilikihisa wetu. Kwa kutekeleza mpango huu tunatarajia kudumisha na kukuza mgao wa kuweko kwetu sokoni katika vitengo vyote vya wateja ndani ya masoko yote ambamo tunaendesha shughuli zetu.

Tangu 2014 tulipoanza safari ya mabadiliko na ufanisi, kipindi cha kuingilia kimekuwa kimewekwa na mabadiliko na ukuaji usio na kifani. Tuliandaa tena muundo wa tawi letu ili kutoa uzoefu bora kwa wateja, Uhamiaji wa-hadi-mwisho kwa njia mbadala za benki na 89% ya shughuli zetu zikipitishwa kwenye njia za kidijitali, Uzinduzi wa kampeni za mauzo kwa Wafanya biashara wadogo (MSME) ambayo inatuweka kwa nafasi sawa kuwa benki teule kwa wateja hawa wa MSMEs, kuzindua na kukubalika kwa idadi kubwa kwa mikopo ya Kielektroniki, na muundo wa uhusiano wa wateja ambao umechukua kukidhi mahitaji ya wateja wetu kwenda kiwango kipya cha juu. Kupitia hatua hizi tumetumia kama nyenzo SFE na wateja wetu wengi wamsingi idadi ya milioni 8.8 kukuza uwepo wetu ndani ya Soko (Mikopo, Amana na NFI) katika Vitengo vyote, Huduma na Njia za utoaji.

Mazingira ya ushindani katika sekta ya mabenki pamoja na kuongezeka kwa sheria za kudhibiti kanuni na kuzidi kwa mahitaji ya wateja kurahishiwa huduma za benki kumesababisha kutazama upya kwa makusudi ya jinsi benki inaweza kutoa huduma za kuvutia zinazokidhi haja za wateja za kidijitali. Kwa ajili hii benki imewekeza katika jukwaa lenye uthabiti la dijitali kwa njia ambayo tutatoa suluhisho bora za kidijitali kwa wateja wetu. Tumeanzisha mfumo mpya wa huduma za benki kupitia mtandao ambazo ni za unyumbufu mwingi, rahisi kutumia na zinakuja na toleo la kutumia kupitia rununu ambayo inawawezesha wateja kutazama baki zao, kuanzisha malipo na kupitisha muamala wakiwa popote walipo. Teknolojia ya Mawasiliano (ICT) inabaki kuwa eneo la mkakati wa kuzingatiwa kwani mazingira ya nguvu yanahitaji unyumbufu wa kuweza kushindana vizuri.

Pamoja na kufanya kazi kwa bidii kutoa bidhaa, michakato na njia mpya, katika 2019 tulipiga hatua kubwa za kubadili mazoea yetu, tukatumia njia mpya za kufanya kazi ambazo zina natija nzuri zaidi. Bado tunaendelea kutekeleza malengo yetu kwa bidii ya ziada ikiwa ni pamoja na lakini bila kukomea hapo; Kuendesha mipango ya usimamizi wa gharama ya kufanikisha matumizi bora zaidi na ufanisi wa utendaji, utendakazi bora zaidi, kuhakikisha matumizi bora ya mifumo, michakato ya utendaji bora na usimamizi wa mifumo ya data na tija ya Wafanyikazi na utamaduni wa utendaji wa hali ya juu na timu zilizohimizwa kufuata ufanisi. Kuzidi kuboresha uzoefu bora wa wateja ni mkakati kwetu kama mpatanishi muhimu katika soko ambalo lina bidhaa na huduma zinazofanana.

Tulifungua matawi 4 katika 2019 kote nchini na kufanya idadi ya matawi yetu nchini Kenya na Sudani Kusini kuwa 159. Katika maeneo haya yote tunatumia njia mpya za kufanya kazi ambazo shirikizi zaidi na zinalenga kutekeleza kazi kwa pamoja.

Dhima na Utiifu wa Kanuni

Tunafanya shughuli ndani ya mazingira ya kudhibitiwa mno na kanuni na tunahitajika kufuata sheria na kanuni mbali mbali. Kundi la Co-operative Bank linatambua umuhimu wa hitaji la kudumu la kuhakikisha tunafuata maadili mazuri ya kufuata kanuni za hapa nchini na za kimataifa. Kundi limeendelea kuweka na kutekeleza mifumo na udhibiti mzuri ambao unasaidia kugundua, kuzuia na kusitisha uhalifu wa kifedha, ufisadi na rushwa.

Katika mwaka wa 2019 Benki iliajiri shirika la PriceWaterhouseCoopers (PWC) kufanya kazi ya Ukaguzi huru wa mpango ya kufuatwa na Benki ya AML / CFT. Matokeo ya ukadriaji huu wa Benki kwa ujumla kutoka kwa Mkaguzi huyu Huru yalizingatia kwa kiasi kikubwa katika mapungufu kadhaa madogo ambayo yaliyotambuliwa na tayari yanashughulikiwa. Benki Kuu ya Kenya (CBK) pia ilifanya ukaguzi wa kulenga kwenye Benki hiyo mnamo Septemba, 2019 na ilibaini kuwa Benki hii inatii miongozo ya busara kutoka CBK.

Kundi hili lilichukua Tathmini ya Dhima ya usafishaji pesa haramu katika mwaka wa 2019 ili kutathmini hatari inayoikabili ya Dhima ya usafishaji pesa haramu. Hii iliidhinishwa na Kamati ya Dhima ya Bodi na kuwasilishwa kwa CBK mnamo Desemba 2019. Kiwango cha jumla cha hatari kwa benki hii kiilikuwa chini. Hii ilitokana na udhibiti ulioboreshwa kwenye AML / CFT.

Katika 2019 jumla ya wafanyikazi 3,750 walipata mafunzo ndani ya eneo na nje ya eneo juu ya masuala ya AML/KYC. Wafanyikazi wote walipitia vifungu vya msingi vya ukubalifu kamili ndani ya timu zao. Bodi ya Usimamizi na Bodi ya Wakurugenzi pia ilipitia mafunzo ya AML / CFT katika kipindi cha mwaka huu tunaouzungumzia.

Hatari ya kutolipwa kwa mkopo katika tasnia ya benki ya Kenya imezidi kubaki katika nambari ya dijiti mbili ndani ya kipindi cha miaka mitatu iliyopita na hii inazidisha tasnia ya hatari hiyo. Hata kukiwa na nguvu ya utoshelevu wa mtaji, tasnia hii inaweka juhudi zake za kusitisha katikati na mbele. Hiyo ni muhimu, lakini hali ya kuaminiana inaelekea kwenye utatuzi wa malipo yaliocheleweshwa na serikali na sekta za kibinafsi, na kupunguza vizuizi kwa changamoto vifaa vya nyumbani na kwa biashara ambazo zimepunguza uwezo wao wa kukidhi majukumu ya wakopeshaji. Utendaji wa kifedha wa sekta hii ya benki kwa hivyo unasisitizwa na urari dhaifu baina ya kuwa na uangalifu juu ya ukuaji wa mali kukiwa na mapato yanayorudisha hatari ya biashara na usimamizi wa gharama na uimarishaji wa ufanisi

Kutamatisha

Kama benki inayoendeshwa na madhumuni na jukumu, tunatekeleza jukumu muhimu katika jamii la kulinda pesa za waekaji amana na kugeuza akiba hiyo kuwa fursa za uwekezaji na utumiaji wenye tija, na hivyo kuwezesha ukuaji wa uchumi na vile vile ajira na uundaji wa njia za utajiri. Hili ni jukumu muhimu ambalo hatulichukui kwa urahisi. Ikiwa hatufaulu katika kutekeleza hili, tunapoteza idhini yetu ya kijamii ya kufanya kazi na muhimu zaidi, tunaweza kupoteza uaminifu na matumaini ya wadau wetu, pamoja na ile ya wawekaji amana wetu.

Tuna matumaini kuwa kuna nyakati nzuri zinazokuja huko mbele.

Shukrani

Napenda kutoa shukrani zangu za dhati kwa Mwenyekiti wa Kundi, Bw. John Murugu na Bodi yote ya Wakurugenzi kwa ushauri wao wa busara katika kuendesha shughuli za benki. Ahsante yangu pia iwaendee timu nzima inayohudumu katika Shirika zima la Co-operative Bank kwa bidii na kujitolea kwao kuliotupelekea kufanikiwa katika mwaka wa 2019. Changamoto yetu na dhamira ya pamoja ni kuzidi kufanikisha kazi hiyo nzuri mwakani wote wa 2020 na zaidi. Nina imani tunaweza kutekeleza hilo.

Mungu awabariki zaidi nyote.

Dr. Gideon Muriuki, CBS, MBS
Mkurugenzi Mkuu na Afisa Mkuu Mtendaji wa Kundi

Top Management Team

Dr. Gideon Muriuki, CBS, MBS
Group Managing Director & CEO (55)

He was appointed Managing Director in 2001. Joined the bank in 1996 as a Senior Corporate Manager then Director, Corporate and Institutional Banking in 1999. He holds a Bachelor of Science degree in Mathematics, is a Fellow of the Kenya Institute of Bankers and was awarded an Honorary Doctorate in Business Management. He has over 31 years experience in banking and finance. He is Vice-President Africa – International Co-operative Banking Alliance (ICBA), former Chairman, Governing Council of the Africa International University and former Chairman, African Rural and Agricultural Credit Association (AFRACA). He was decorated in 2005 with the award of Order of the Grand Warrior (OGW), in 2011 with the award of the Moran of the Order of the Burning Spear (MBS) and in 2017 with Chief of the Order of the Burning Spear first class (CBS) in recognition of his successful turnaround of the Bank and exemplary service to the nation. He was voted the CEO of the year Africa 2014 by the International Banker, 2016 Lion of Judah Award by Evangelical Alliance of Kenya and Mtumishi Bora Award - 2016 by the Kenya Christian Professionals Forum. In 2018, awarded Best Banking CEO Kenya by International Finance.

Anthony Mburu, Director, Credit Management (54)

He is a leading credit specialist in the banking industry with over 26 years of banking experience both in Kenya and the region. Most of these years were spent in the line of Credit and Risk Management and previously with Standard Chartered Bank. He holds a Bachelor's degree in Commerce and has attended various proprietary and international Credit courses. He is also a director of Kingdom Securities Ltd.

Samuel Birech, Director Human Resource & Administration (56)

He joined the bank in 2002. He is a career banker with over 24 years experience in local and international banks. He has previously held various senior positions including Chief Operating Officer and Director, Retail Banking for 8 years where he presided over the transformation of the Retail and SME business at the Bank. He holds a Bachelor of Commerce degree from the University of Nairobi and has attended various local and international courses. He is a Board Member at Pan Africa Christian University.

Patrick Nyaga, Director Finance & Strategy Division (52)

He joined the Bank in 2004 and has over 26 years experience mainly in banking and auditing. Previously worked at KPMG (EA), with the main focus being audit offinancial institutions and especially banks in Kenya and the region. He then joined main-line banking where he has worked for over 16 years. He holds an MBA from Strathmore Business School, a Bachelor of Commerce degree in Accounting, is a Certified Public Accountant (K) and a member of ICPAK. He is also a Director of CIC General Insurance Limited.

Charles Washika, Director, ICT &Innovations Division (43)

He joined the bank in 2015 and brings extensive experience in providing leadership in ICT, Innovation, Project Management and Change management of mission critical Financial Systems. He is responsible for Cooperative Bank's Strategic technological direction, championing the use of Information and communication Technology to meet the Bank's Strategic objectives and providing strategic leadership to align investments in ICT with the Bank's strategy. He has managed the Implementation of Core Banking systems around Africa and Asia including Uganda, South Africa, Cote d'Ivoire, Senegal, Zambia, Tanzania, Kenya, India and Sri Lanka. He Holds a Bachelor of Education Degree, is a member of the Project Management Institute and has attained various Technology Certifications.

Lydia Rono, Director Operations Division (54)

She has held many senior positions in the Bank and has over 33 years banking experience. She has played a critical role in driving business growth in the Corporate and Institutional Banking Division over the years and is currently responsible for driving key operations and efficiency functions of the Group.

She holds a Bachelor's Degree in Commerce and an MBA from University of Nairobi and has attended various courses.

William Ndumia, Director Retail & Business Banking Division (46)

He joined the bank in 2006. He is responsible for the Retail and Business Banking Division, focusing specifically on growing consumer banking, MSME business as well as optimal delivery of the expansive branch network and other bank channels. He has been in the bank for over 14 years previously as Director Transformation, Director IT & Innovation, Director Operations and Head Business Change management. He is an experienced banking operations expert having previously worked for international banks in various technical, controls and compliance roles. He holds a Bachelor of Science Degree in Mechanical Engineering and has attended various courses on project management and risk management both locally and internationally. He has overseen execution of the growth and efficiency Transformation project, various technical projects including the implementation of the core banking system, card management system and a global review of all bank processes among others.

Jacquelyne Waithaka, Ag. Director Corporate & Institutional Banking Division (43)

A career Corporate Banker with over 18 years experience having worked with various commercial Banks. She joined the Bank in 2005 and was appointed Head Corporate Banking in 2015 to oversee the growth of the Bank's Corporate portfolio. She was appointed Director, Corporate & Institutional Banking Division in Feb 2020 to drive business growth in this key segment of the Group.

She holds a Bachelor of Laws degree and a Bachelor of Business Administration degree. She also holds a diploma in Banking; advanced diploma Credit Management by Omega of UK and Culhane of South Africa. She is a Certified Engagement and Productivity Coach CEPC (ICF) and has attended various courses including executive leadership at Strathmore Business School and Harvard Kennedy School Executive Education on adaptive leadership for Africa.

Vincent Marangu, Director Co-operatives Banking Division (40)

He joined the bank in 2003 and has wide experience in business and financial advisory working with cooperatives and rural finance sectors as Head of Co-op Consultancy and Insurance Agency Ltd. Vincent has key competencies in corporate finance, strategic planning, business planning, organizational development and business operations review. He has consulted for co-operatives in Kenya and East Africa region and implemented many donor projects with international agencies. He holds a Bachelor's Degree in Economics and Business Studies and is a graduate of the School of African Microfinance. He is a member of the Association of Professional Co-operators (APC), Kenya.

Samuel M. Kibugi, Company Secretary (43)

He has over 17 years experience as a lawyer and prior to joining Co-op Bank in 2008, worked for a leading bank as a Legal Counsel. He is an Advocate of the High Court of Kenya, a member of the Institute of Certified Public Secretaries ICPS (K) and an Associate Member of the Chartered Institute of Arbitrators. As the Company Secretary of the Co-op Bank Group, he has responsibility for overall provision of legal counsel and company secretarial services, fraud prevention and investigations. He is also the Trust Secretary for the Co-operative Bank Foundation, a corporate social responsibility vehicle of the Bank.

Andrew Wanjau, Head Transformation (38)

He Joined the bank in 2011. He has extensive experience in Change Management, Business Analysis, Project Management and Enterprise-wide Transformation programs management. He is responsible for the Co-operative Bank's "Soaring Eagle" transformation in the Transformation Office, which provides leadership in delivery of the Bank's Transformation initiatives. He has extensive experience in Organizational change having worked with Big 4 Consultancy firms to deliver ICT Projects and Process reengineering. He holds a B.Sc. in Computer Science and Engineering, Project Management and Business Analysis Certifications among them CISA, ITIL, CBAP and Prince2. He is also a graduate of Harvard Kennedy School Leadership programme, The Aga Khan University and is a Certified Engagement and Productivity Coach.

Robert Morris Aloo, Treasurer (41)

He joined the bank in 2013. He has over 14 years experience in Treasury management. He is responsible for the banks Treasury management and growth objectives. Prior to joining Co-operative Bank of Kenya, he worked as Head of Treasury in KCB Bank Uganda Ltd. He holds an MBA in Finance from USIU Africa and a Bachelors of Arts Degree in Land Economics from the University of Nairobi. He is a Certified Public Accountant (K) and a member of ICPAK. He is also a member of the Financial Markets Association of Kenya (ACI Kenya).

Arthur Muchangi, Chief Risk Officer (50)

He joined the Bank in 2003. He is responsible for enterprise risk management. He has over 25 years banking experience, spanning extensively across both corporate and retail banking. He holds a Bachelor of Arts Degree in Economics and has attended a number of courses both locally and internationally.

Joseph Gatuni, Chief Internal Auditor (48)

He is responsible for the Internal Audit function that evaluates the effectiveness of risk management, control and governance processes of the bank, its subsidiaries and related companies. He is an experienced professional in internal/external audits, consultancy and risk management. He holds a bachelor of Commerce Degree, Certified Public Secretaries CPS (K), Certified Internal Auditor (CIA) and Certified public accountants CPA (K). He has also attended various audit and Risk management training both locally and internationally. He is member of the Institute of Public Accountants of Kenya (ICPAK) and the Institute of Internal Auditors.

Henry Karanja, Head of Compliance (43)

He is responsible for the AML/CFT compliance function for the bank, its subsidiaries and related companies. He is an experienced professional in Risk, compliance and Anti-money Laundering. He holds a bachelor degree in Business Management, Certified Public Accountants of Kenya CPA (K), Certified Information Systems Auditor (CISA), and Certified Public Secretary (CPS). He has attended various AML/CFT training both Locally and internationally. He is a member of the Institute of Public Accountants of Kenya (ICPAK).

The Co-op Bank model

How we create value using the model.

Our Stocks of Capital at the beginning of 2019

OUR INPUTS

Stocks of value which we use as inputs in our business model and are increased, decreased or transformed by our business activities to create output

Financial Capital
- Total Assets KShs. 413.7 Billion
- Total Regulatory Capital- KShs.59.4 Billion : Dynamic, up to date ICAAP
- Liquidity- 41.1%
- KShs. 54 Billion in retained earnings
- External Rating- B2 (stable outlook)

Human Capital
- 4251 empowered staff members
- High Performance Management and Reward culture
- High-impact leadership culture
- Strong Employer Value Proposition

Manufactured Capital
- Branches 155
- Digital Channels- Mcoop Cash, CoopNet, Coop kwa Jirani (Agency)
- Shared Services -support departments (KShs. 6.6 Billion in Property and equipment)
- Efficient ICT infrastructure (Core Banking, OPICS, ERP, CRM etc.)

Intellectual Capital
- Dynamic ICT capabilities
- Strong Brand Positioning- 'Co-opBank'
- Tacit Co-op Bank Knowledge and specialized talent
- Integrated Enterprise Risk Management & Corporate planning
- Progressive Lending, Investing, procurement and Corporate Governance practices

Social & Relationship Capital
- Active and optimal stakeholders engagement
- Strategic partnerships - Long term funding of upto KShs. 24 Billion
- Socio – economic - Environmental Sustainability Initiatives supported by our Environmental and Social Management Policy and the Enterprise Risk Management Framework policies. See Creating Sustainable Value section of this report

Natural Capital
- Energy: Electricity
- Water
- Paper / stationery
- Eco-social and eco-environmental lending. KShs 3.1 Billion in special environmental credit lines

Our Capital Stocks

OUR VALUE ADDING ACTIVITIES

Activities that transform our Input Capitals into value for all our stakeholders. These activities are impacted by external factors in our operating Environment in Kenya, South Sudan and are also affected by the global economic environment. Integrated Planning ensures proper scanning and optimal performance given the operating environment.

To carry out our activities optimally we carry out;

1. Comprehensive Corporate Governance
2. Integrated Enterprise Risk management
3. Integrated Corporate Strategic Planning

In order to create value for our stakeholders;

We ensure that the Group is adequately capitalized to meet regulatory requirements, Capital targets set by the Board, support our Risk Appetite as set out in our ICAAP, Support Business strategic goals and take care of shareholders interests;

We employ the best skills. We ensure that we have the right talent to offer the best experience for our stakeholders by ensuring we hire and retain the best.

We provide channels and infrastructure. We have invested heavily in 159 Branches, Mcoop Cash, CoopNet, Coop kwa Jirani Agency to ensure our customers are able to access banking services anytime and from any device. We provide adequate and safe ICT infrastructure for our stakeholders to access our services.

We employ our intellectual capabilities. We ensure that we are proactive in Enterprise Risk management, Management of material matters, adequate Policy Framework to guide all our activities, we monitor our brand positioning and we are actively upgrading our specialized talent. We have a wide array of innovative products and services that meet our customers needs. We have Sales and Service advisors in all our branches.

We maintain our relationships with our key stakeholders by ensuring that we engage them sufficiently, adequately address their expectations and appropriately respond to these expectations.

We make optimal use of the Natural resources. We engage in initiatives aimed at reducing the direct and indirect impacts of our operations. We do this through our operations digitization (Less paper, electricity, Diesel, Air Travel), supplier selection criteria and our lending practices.

"Soaring Eagle" Transformation initiatives as enablers

KEY OUTPUTS

- Lending products
- Deposit taking products
- Optimal Customer experience
- Funds access across all our channels
- Transactional services
- Payment solutions
- Foreign Exchange
- Banc assurance
- Trade finance
- Leasing product
- Investment services
- Custodial services
- Advisory services
- Staff Performance and reward Management
- Staff Training programs
- Regulatory engagement
- Compliance and risk management
- Stakeholder engagement
- Investor relations
- Corporate strategy
- Shared and other support services
- Proactive policy frameworks

THE OUTCOMES OF OUR VALUE ADDING ACTIVITIES

KEY IMPACT ON OUR KEY STAKEHOLDERS:
>>Economic >>Social >>Environmental

Our Stocks of Capital at the end of 2019

Financial Capital
- Total Assets KShs. 457.1 Billion
- Total Capital - KShs. 64.7 Billion : Dynamic, up to date ICAAP
- Liquidity - 46.2%
- KShs. 62.4 Billion in retained earnings
- External Rating- B2 (stable outlook)

Human Capital
- 4422 empowered staff members
- High Performance Management and Reward culture
- High-impact leadership culture
- Strong Employer Value Proposition

Manufactured Capital
- Branches 159
- Digital Channels- Mcoop Cash, CoopNet, Coop kwa Jirani (Agency)
- Shared Services -support departments (KShs. 6.5Billion in Property and equipment)
- Efficient ICT infrastructure (Omnichannel, Core Banking, OPICS, ERP, CRM etc.)

Intellectual Capital
- Dynamic ICT capabilities
- Strong Brand Positioning- 'Co-opBank'
- Tacit Co-op Bank Knowledge and specialized talent
- Integrated Enterprise Risk Management and corporate planning
- Progressive Lending, Investing, procurement and Corporate Governance practices

Social & Relationship Capital
- Our engagement with all our stakeholders has been active and optimal
- Strategic partnerships has seen us grow our Long term funding to KShs. 26.4 Billion
- Socio – economic - Environmental Sustainability Initiatives as described in the Creating Sustainable Value section of this report

Natural Capital
- We consumed Energy, Water and paper (Stationery)
- Eco-social and eco-environmental lending Book. KShs. 2.58 Billion in special environmental credit lines

Shareholders

Dividend of KShs. 1 per share held, Strong balance sheet KShs. 457.1B, Quarterly investor briefing on performance and strategy

Customers

Deposit taken – Over KShs. 332.8 Billion, Loans extended- Over KShs. 266.7 Billion, Increased Channel transactions (Over 153 Million), Digitalized and ethical processes and products.

Employees

Salary and Bonus paid – Over KShs. 12.4 Billion, Jobs created – Total Staff 4422, Training spend- KShs. 70 Million.

Co-operative Movement

Dedicated co-operative banking division, Specialized Co-operatives products, 19 dedicated consultants, 2800 consultancies since inception.

Strategic Partners

Over KShs. 26.4 Billion in Long term funding from our Partners: IFAD, EIB, AFD, IFC, D.E.G -(K.F.W). This funding has gone into MSME, Food Security, Renewable energy, Mortgages, Agribusiness, Corporate Banking.

Regulators

Compliance to all laws, IFRS 9 compliance, Tax compliance, AML/KYC compliance, Interest capping compliance, Banking Sector Charter, Data protection.

Suppliers

Overs KShs. 11 Billion paid to suppliers. 91% to local suppliers. ERP system implemented for faster payments processing Vendor Propositions improved through Vendor relations office and Sourcing Department

Community

2800 Co-op consultancies done, 7657 Students supported by Co-op Foundation, KShs. 6.4 Billion in taxes to improve community, promoting economic social and environmental sustainability.

Our Products, services and by-products. Results of our value adding activities that will translate to outcomes for our stakeholders

Value creation for all our stakeholders as intended by our strategic focus

Our Capitals

Financial Capital

This Capital enables us to deliver sustainable funding of our business activities and our loan book. The bank has mobilized a sufficient and diverse mix of financial resources to run its core activities. Our balance sheet has recorded a steady growth over the years to KShs. 457.1 Billion as at end of year 2019. The group has pursued a balanced funding strategy with an attractive dividend payout ratio (Averaging 39% over the last 5 years) that enables it to reward shareholders while at the same time reserving sufficient funds to fuel its growth strategy. This has seen shareholders' funds grow steadily to KShs. 80.4Billion. Apart from the retained earnings most of the banks funding comes from customer deposits which make up approximately 93% of our funding liabilities. Borrowed funds comprise 7% of our funding liabilities mainly from our development partners.

The group has robust internal capital and liquidity management policies that not only meet the regulatory requirements but also ensure all its obligations to stakeholders are met on a timely basis and that the maximum return is achieved from these investments. We have a robust ICAAP (Internal Capital Adequacy Assessment Process) that enables us to ensure optimum risk return. While investing, appropriate risks analysis is done and investments are done in accordance with the board's prescribed risk guidelines and appetite.

On our transformation initiatives, the bank has pursued various strategies aimed at cost optimization. This has seen our cost to income ratio drop to 52% in 2019 from 59% in 2014 when our Transformation Project started.

Human Capital

The selection, management and development of our teams. We have made tremendous progress in ensuring that our human capital is able to cater for our present and future needs.

The Creating sustainable value section of this report covers the following Human Capital focus in detail.

1. Employee Diversity
2. Employee Welfare
3. Attracting and Retaining Talent
4. Skills Development and Career Progression
5. Labor standards
6. Health, Safety & Wellness Programme
7. HR Policy framework

Manufactured Capital

This comprises of our tangible and intangible infrastructure that is used in the activities that lead to value creation.

The group has up to Kshs. 6.6 Billion in property, plant and equipment to ensure all our customers and other stakeholders are adequately catered for. Our delivery channels are key;

Our Channels:

Mco-op cash:

MCo-op cash is our all-Telco, all products, mobile banking service that enables customers to enjoy access to a variety of banking services, money transfer and payment services. It is a virtual account with a simple menu where the customer's cell phone number acts as the account number and can be opened and operated end to end from the phone without having to visit the branch. Mco-op cash has continued to reach many customers who would have remained unbanked. Mcoop cash has over 4.8 Million customers who did over 50 Million transactions in 2019.

Agency Banking & Point of Sale (POS)

The Bank is at the forefront in implementation of agency banking model, currently working with over 16783 agents countrywide. Our agents who include co-operative societies, supermarkets, ordinary shops, petrol stations among other outlets enable

customers to access banking services including making withdrawals and deposits beyond official banking hours. Due to the greater geographical area covered by agents, customers also enjoy better convenience as services come closer to their most accessible location. Over 46.7 Million transactions were carried out through our agents in 2019.

Sacco-Link & FOSA Partnerships

The bank in partnership with various Saccos offers retail banking and related products through front-office service points (FOSAs) located at Sacco's premises and to date 175 licensed Saccos have over 479 FOSA branches in operation. The bank has also invested in the SaccoLink Switch which has integrated the bank's and Saccos' systems, thereby enabling Sacco members access to ATMs, mobile banking, point of sale (POS) channels and internet banking. In this partnership, we offer wholesale banking services to cooperative societies who then provide to their members retail services complete with full technological capabilities. To date, over 164 SACCOs are enlisted in this partnership and over 1.18 million ATM cards have been issued to co-operative members.

Internet Banking: CoopNet

This is the bank's internet-banking solution. With its high internet speeds and enhanced security features, it has contributed to growth in our customer base especially for Kenyans in the Diaspora and already serves over 89959 clients. CoopNet enables customers to do full end to-end banking through a web based channel.

In 2019, we rolled out a new Internet Banking (Co-op Online) on our new digital platform (omnichannel). It is feature-rich, easy-to-use and is a great improvement.

Branch Network and ATMs:

This is our footprint across the region consisting 159 branches. In our branches our customers can access much more than banking services to include those offered by our subsidiaries. In Kenya, we have 155 branches spread in over 40 counties while 4 are in South Sudan. We also have 583 ATMS supporting our channels and distributed all over the country. Services accessed by customers in our ATMs include cash withdraws and deposits, Balance inquiry, utility bill payment, Mpesa withdrawal and Mco-opcash registration & withdrawal.

ICT infrastructure:

The Bank has invested heavily in ICT to ensure customer experience is top notch. To this end, we have the following infrastructure among many others;

1. Omnichannel: A robust digital platform that enables us to offer enhanced digital experiences to our customers. It guarantees a unified digital experience for both mobile and internet across the key customer segments (Corporate, Co-operatives, MSME, Consumer, Diaspora, and High Net Worth). In 2019, we rolled out new Internet Banking (Co-op Online) on the digital platform which is feature-rich, easy-to-use and is a great improvement from the current one.
2. Core banking Systems (BFUB, BankMaster – South Sudan, Loan Track and Credit Desk).
3. Customer Relationship Management (CRM)
4. Treasury systems
5. Channels:
   a) Mco-op cash
   b) Point of Sale
   c) Internet banking
   d) Queue Management System
   e) Teller Portal
   f) Avaya Call center
   g) Branchpower
6. Enterprise Resource Planning (ERP)
7. Debt management system
8. Business Process Management & Workflows
9. Data integration, quality and visualization
10. Risk Management system
11. Shared Services Service Desk Request System
12. Enterprise Service Bus - Service Oriented Architecture
13. Wealth Management System

Key ICT Infrastructure enhancements in 2019

- Core Network and Security Upgrade
- Infrastructure Rationalization & Consolidation
- Omni-Channel Digital Banking Platform
- Multi-Currency solution for merchants
- Online portal for MSME
- BFUB API'S - Development of Micro services on the core banking system to enable the bank to deliver self service capability to the channels
- API Platform for Open Banking
- ERP Sourcing & Finance CRs -IFRS 16
- OPICS (treasury system) Upgrade
- E-Credit Enhancements
- Coffee DSS Trading portal
- Cash Deposit Machines
- MVisa Dynamic QR code and Alias Project
- Integration with E-citizen for payments
- Safaricom Host to Host Integration

Key ICT Infrastructure enhancements in 2019

- Sacco credit API Development
- VISA Payment Gateway - E-commerce
- HELB Portal
- E-Collect Enhancements
- Antivirus & Endpoint Protection & Encryption
- Web Application Firewall
- SIEM Disaster Recovery
- Card Chip upgrade

Intellectual Capital

The knowledge of our staff, our brand positioning, our reputation, our enterprise risk management policy and intellectual property. We have dynamic IT capabilities that are able to support us in this period of transformation and to support value creation into the long term.

The Co-op Bank brand has become a household name hence it has become easier for us to market our products to existing and potential customers hence create more value. The brand is supported by marketing effort, investor relations, and our well trained teams and most importantly by our customers' word of mouth. We are geared to ensuring that we create positive customer experiences at every touch point. To this end, we have invested in a 24hour contact Centre which is currently handling over 1,700,000 customer engagements, trained our teams on positive customer experience delivery (Distinctive Customer Experience) and other customer centric systems such as the Customer Relationship Management (CRM).

Enterprise risk management is at the core of all decision making hence forming an important part of our strategic focus and business model. We have a vibrant Enterprise Risk Management Framework that is detailed later in this report. We have a dynamic framework for Compliance that ensures compliance to all the set laws, rules and regulations. This has enabled us to see and exploit opportunities that exist in compliance in order to create more value for our stakeholders.

Co-op Bank has an internal strategic capability building for areas that need specialized talent. To this end we have hired specialists in Data Analytics, ICT, CRM, Data Strategy & Governance, Data Architecture, Enterprise Architecture, Data Engineering, Data Quality, Revenue Assurance, System Development, Vendor Relationship Management, and Business Intelligence.

We have clearly defined lending practices that are geared towards ensuring economic, social and environmental value creation as spelt out in our Environment and Social Management Policy detailed in the Creating Sustainable Value section of this report.

The Bank's overall investment management guidelines are provided by the Board of Directors under the Banks Investment Policy. The broad guidelines within the policy allow the management to invest in investments that are geared towards optimization of the investments the bank chooses to invest in with a view of having overall liquidity and marketability of assets in case of changes in market dynamics and continued focus on a balanced mix of assets.

We have clear Sourcing and ICT policies as detailed below;

Sourcing Policy

The objective of the Sourcing & Facilities Management department is to enhance the group's sourcing strategy and ensure cost efficiency, value creation and a transparent environment in the sourcing process. The Bank's Sourcing and Facilities Management department will own and drive the sourcing and acquisition of all non-human resources for the Bank. In execution of its key mandate, Sourcing & Facilities management department encompassing management of space and contracts, facilities management, projects, all forms of non-human resource procurement, inventory management, transport and insurance; shall employ the following objectives to form the basis for implementation of the aforementioned Sourcing strategies.

- Develop guidelines to include approval levels for purchase of new equipment and replacement of existing/obsolete equipment.
- Develop guidelines to review approval limits on recurrent expenditures items to ensure that the Bank's authority levels are appropriate.
- The Bank shall have centralized Sourcing so as to enjoy economies of scale from consolidated procurement. As the Bank expands to the region, Sourcing and Facilities management will be decentralized into different countries.
- A procure-to-pay system to ensure more effective and efficient ways of managing procurement, inventory, leases, contracts, land rates & rents and licensing.

Our Procurement process is based on a sustainable model: suppliers must meet certain minimum sustainability requirements of economic, social and environmental reliability as set out in our environmental policy. They are selected according to the standards set out in law and must have no known cases of contravening the provisions of the International Labor Organization relating to fundamental human rights, child labor, freedom of association, working conditions, equal pay, health, safety and business ethics. Further, we select suppliers on the basis of legal and ethical integrity, technical and professional suitability, reliability and commercial competitiveness.

ICT Policy

The ICT policy defines the Governance aspect in support of the Co-operative Bank of Kenya's ICT vision, its strategic objectives and the boundaries within which the Bank can obtain them.

The ICT strategy has been shaped in reference to the Cooperative Bank Business Strategic plan and is envisioned to model the ICT department into the vehicle on which the business shall drive its initiatives towards actualizing the bank's mission and vision. ICT governance principles and practices have been identified that have guided the formulation of ICT strategic objectives and subsequent action items that are to be implemented, managed and monitored to deliver the ICT vision. The Bank has identified dimensions of management of ICT through which it applies best practices and develops strategic activities, namely:

- Architecture
- Software (Application) Management
- Resource Management
- IT Infrastructure Management
- IT Change Management
- Contracting and Outsourcing
- Incident & Problem Management
- Project Portfolio Management
- IT Performance Measurement
- Information Security & Compliance
- Business Continuity Planning
- Financial Management
- ICT Organization Structure
- Skills upgrading, training and exposure

ICT Strategy focuses on integrating effective ICT Governance and fostering an environment that facilitates for innovation in delivering quality solutions and functionalities that the business leverages on to create value.

(L-R) Central Bank Governor Dr. Patrick Njoroge and Co-op Bank Group Managing Director & CEO Dr. Gideon Muriuki listen to a bank customer at his workshop business in Kondele, Kisumu when the Governor led bank CEOs on a countrywide roadshow to launch STAWI loan product for SMEs.

Social & Relationship Capital

The relationship we have with all our stakeholders to ensure long-term sustainability of the value we add. Our Stakeholders' Engagement and Creating Sustainable Value sections of this integrated report shows in detail how we engage various stakeholder to ensure that this capital stock is able to sustain us into the future. The areas covered include;

- Environment and Social Management System and policy
- Tax responsibility
- Business Ethics
- Co-op bank foundation
- Co-op Consultancy & Insurance Agency Ltd
- Community Dialogue
- Labor standards compliance
- Responsible competition
- Responsible supply chain and supplier relations
- Responsible marketing and advertisement
- Responsible Product Stewardship

Natural Capital

The natural resources that we employ in our value creation to our stakeholders. This is done in a way that will minimize negative impact on the resources

Creating Sustainable Value section of this integrated report shows in detail how we ensure that we contribute positively towards preserving natural resources. Areas covered in that section include;

- Environment and Social Management System and policy
- Resource Efficiency
- Life -cycle analysis
- Global Climate Change
- Local environment Impact
- Resource Management
- Waste Minimization
- Emissions Reduction
- Regulatory Compliance
- Ecosystem Services
- Biodiversity

Some of our Key green, environmental-friendly projects financed by the bank include:

- Solar system at our Leadership and Training Centre in Karen (heats upto 3000litres of water daily, we have disconnected all instant showers.)
- A 600kW solar power project at Strathmore University.
- Two rivers Mall generating their own solar power.
- Gura Hydro Power project - A 6MW project that will supply power to 5 KTDA tea factories and to the national grid.
- Regen Terem Hydro Project - A 5.2Mw project that has provided livelihoods to the rural community, which provided human labor to the project and expected to supply the power to the national grid.
- All ongoing projects have solar power as an alternative source of power.

The First Lady H.E. Mrs. Margaret Kenyatta (Left) receives a dummy cheque from the Group Managing Director & CEO Co-operative Bank Dr. Gideon Muriuki (Right) representing the Sh20 million donation by the Bank to the First Lady's Initiative on 18th February 2020 at State House, Nairobi. Co-operative Bank retains a strong partnership with the First Lady's Beyond Zero initiative on the promotion of child and maternal health, as part of the Bank's Corporate Social Investment in Kenya.

Capital Trade offs

To achieve our strategic objectives we make decisions on how to allocate our six (6) capitals optimally. To do this we consider the key strategic enablers and the six (6) strategy focus areas. We make tradeoffs whereby strategic decisions are made depending on the impact of the capital stock on strategic achievement, how available the capital is and also the stability of our long term and short term goals. The decision to employ one capital to increase another is a tough one and hence we carefully prioritize. The group holds an annual senior leader's strategy forum whereby the strategic focus and hence strategic capital allocation is decided. The illustration below shows how key capital tradeoffs were made and the impact (increase/decrease) on our capital stocks.

Strategic Focus	Capitals Trade off (Increase/Decrease)	Key Trade off Indicators				
		FINANCIAL	2019	2018		
Aggressive deepening of our dominance in the Kenya Market. Most impacted stakeholder	**To grow our marketshare in Kenya and give a competitive return to our shareholders.** **Increase** **Financial Capital:** • Funded and non-funded revenue. • Growth in Customer Deposit. • Retained earnings as a result of growth in PBT. **Intellectual Capital** • Corporate Governance, Planning and Enterprise risk in terms of making the right strategic decisions for market dominance. **Manufactured Capital** • Increase in the quality and quantity of the infrastructure required to adequately meet the needs of our customers. **Social and Relationship Capital** • Enhanced returns for our shareholders. • Enhanced customer value propositions and product stewardship. **Human Capital** • An optimal, well trained, motivated number of staff to serve our customers. **Decrease** **Financial Capital** • Capital outlay to cater for the growth in marketshare. • People, process and technology investment. **Manufactured Capital** • Depreciation, Amortization **Natural Capital** • In order to grow our marketshare natural resources were consumed as indicated in the Creating Sustainable Value section of this report.	Profit Before Tax	20.71	18.16	▲	Financial Capital
		Total assets	457.1	413.7	▲	
		Loan Book	266.7	245.4	▲	
		Customer Deposit	332.8	306.1	▲	
		Total Income	48.2	43.6	▲	
		Retained Earnings	62.4	54.0	▲	
		Non-Performing Loan Book	9.94%	10.27%	▼	
		Dividend per share	1.00	1.00	●	
Dominant provider of financial services to the Co-operative Movement in Kenya and the region Most impacted stakeholder	**To be the leading provider of financial services to the Co-operative Movement in Kenya and the region through provision of value-added services and maintain over 95% of total assets and liabilities of the movement.** **Increase** **Financial Capital:** • Funded and non-funded revenue from the co-operatives. **Manufactured Capital** • Digital co-operatives initiative under our Transformation project leading to service satisfaction. **Human Capital** • Increase in the tacit knowledge by our staff on co-operatives banking. **Decrease** **Financial Capital** • Capital outlay to cater for the co-operative movement current and future needs. **Manufactured Capital** • Depreciation, Amortization **Natural Capital** • In order to serve the co-operative movement, natural resources were consumed as indicated in the Creating Sustainable Value section of this report	Debt to Equity	33%	34%	▼	
		Depreciation	2.7B	1.8B	▲	
		Amortization	0.60B	0.56B	▲	

		NON FINANCIAL	2019	2018		
Customer experience that is seamless across all our touch points. Most impacted stakeholder	**To enhance our overall customer experience by maintaining a high level of customer satisfaction and brand visibility, seamless and timely customer experience in all our delivery channels and communications to all stakeholders.** **Increase** **Financial Capital:** • Income and deposit growth from satisfied growing customer numbers. **Human Capital** • An optimal, well trained and motivated number of staff to serve our customers. **Intellectual Capital** • A proactive customer experience strategy • Well trained and knowledgeable staff • A stronger Brand • Banking Sector Charter implementation **Manufactured Capital** • We strategically increased our branches and made several channel and platforms enhancements to reach our customers better. • Enhanced customer products and services **Social & Relationship Capital** • Our customer is a key stakeholder hence if the customer is satisfied the value we create is long term. • Enhanced relationship with our regulators: Our full commitment to implement the Kenya Banking Industry charter, AML/KYC strict adherence. **Natural Capital** • In efficiently serving our customers, we saw a reduction in stationery, electricity, water and diesel. **Decrease** **Financial Capital** • People, process and technology expense to ensure seamless services. • Local and international training expense for our staff. • Training expense for our customers. We have been holding regional forums whereby we guide our MSME customers on best practice business management. **Manufactured Capital** • Depreciation, Amortization **Natural Capital** • In order to serve our customers natural resources were consumed as indicated in the Creating Sustainable Value section of this report.	Staff numbers	4422	4251	▲	Human Capital
		Training spend Ksh. M	70	84	▼	
		Remuneration Kshs. B	12.4B	11.5B	▲	
		Female staff ratio	58	60	▼	
Operating efficiency driven by digitization, innovative products & Processes, efficient business models, and staff productivity. Most impacted stakeholder: ALL	**Digitization. Innovation. Efficiency. Staff productivity** **Increase** **Financial Capital:** • Income, deposit book, loan book and customer growth • Optimal cost management (CIR- 52%, 2014 59%) **Human Capital** • An optimal number of knowledgeable staff, a performance management system that encourages productivity. Staff whose welfare has been taken care of. Our staff value proposition led to high staff loyalty and conduct. **Intellectual Capital** • Well trained and knowledgeable staff • A stronger Brand through innovative financial solutions. • Optimal number of specialized talent in key digitization areas (ICT, Business Intelligence, ICT Risk) • ICT Supplier relations through the specialized vendor relations office • Policy frameworks guiding all operations of the group. **Manufactured Capital** • Well trained and knowledgeable staff • Branch opening in strategic areas • Channel and ICT platform enhancements • Ongoing Core Banking Project • Omnichannel rolled out in 2019 **Social & Relationship Capital** • In our pursuit of growth, efficiency, digitization, innovation and staff productivity, we maintained good relationships with all our stakeholders in order to create value in the long term. • Regulatory compliance is key in all our decision making: AML/KYC, Kenya Banking Charter, CBK Prudential guidelines, 2019 Demonetization guidelines, Data security etc. • We have consulted widely with our strategic partners. Key consultations with IFC (See Transformation section of this report). • We maintain an optimal relationship with our ICT and other suppliers who are key to the achievement of this objective **Natural Capital** • Reduction in stationery, electricity, water and diesel consumption. See Creating Sustainable Value section of this report. **Decrease** **Financial Capital** • People, process and technology expense to ensure efficiency, digitization, innovation and staff productivity. **Manufactured Capital** • Depreciation, Amortization **Natural Capital** • In order to ensure operating efficiency natural resources were consumed as indicated in the Creating Sustainable Value section of this report.	Digital channel transactions (Million)	136	122	▲	Manufactured Capital
		Wide branch network	159	155	▲	
		Branches County presence	42	40	▲	

Optimal Enterprise Risk and Compliance in the dynamic environment Most impacted stakeholder	**Enterprise Risk Management. Compliance** **Increase** **Financial Capital:** • Capital adequacy that is necessary for growth and risk management • Risk management has a direct link to the increase of this capital **Human Capital** • Adequately resourced control departments **Intellectual Capital** • Internal capital adequacy process that was conducted by knowledgeable staff to ensure we have adequate capital for all our risks and opportunities • Optimal number of specialized talent in key control areas: Internal Audit, Compliance and risk management departments. **Manufactured Capital** • Adequate infrastructure to ensure all our assets and staff are safe. **Social and Relationship Capital** • Ensured optimal risk management with our stakeholders. • Cordial relationship with our regulators. **Natural Capital** • Optimal selection of how and to whom we lend to preserve natural capital. We have a well-documented exclusion list. **Decrease** **Financial Capital** • People, process and technology expense to ensure proper risk management in the Group • Expenses related to the management of our Non-performing loan book. • Lower interest income as we comply with the CBK interest rates guidance. **Manufactured Capital** • Depreciation, Amortization **Natural Capital** • In order to ensure optimal enterprise risk management natural resources were consumed as indicated in the Creating Sustainable Value section of this report.	Ongoing; • Corporate Governance • Corporate strategy • Enterprise risk management • Transformation initiatives • Brand growth • Proactive frameworks, policies and procedures • ICT Projects • ICT Enhancements • Application of staff skills				Intellectual Capital
		CCIA consultancies	2800	2600	▲	Social & Relationship Capital
		Coop Foundation students to date	7657	7002	▲	
Operate as a good corporate citizen. Most impacted stakeholder	To ensure that the group operates as a responsible corporate citizen by investing in the communities, engaging in sustainable programs particularly on education, agriculture and environment, and financial deepening in the co-operative sector. In order to operate as a good corporate citizen all our capitals were employed which in turn enabled us to increase all our other capital stocks. In the Creating Sustainable Value section of this report this strategic tradeoff is discussed in great detail.	Electricity cost (Million)	261	265	▼	Natural Capital
		Generator fuel cost (Million)	19	26	▼	
		Water cost (Million)	35	39	▼	
		Stationery (Million)	119	156	▼	
		Renewable energy lending Ksh. B	2.58	3.11	▼	

Material Matters Management

Matters that have the most impact on our long term value creation to our stakeholders

IDENTIFICATION

We identify all material issues that could impact on our strategic ability to create long term value for all our stakeholder.

We do this by engaging the entire Co-op Bank Group throughout the exercise.

This gives us all material matters from all our stakeholders covering Economic, Environmental and Social aspects as embedded in our Sustainability undertaking.

PRIORITIZATION

We rank all identified issues from the ones with the most impact to the least.

INTEGRATION

We integrate the material issues that have the most impact into our strategic focus to ensure sustainable value creation in the Short term, Medium term and Long term.

The integration is embedded into our KPI performance management System.

MONITORING

We monitor the material matters periodically to ensure that our strategy will deliver sustainable value to all our stakeholders.

Strategic Focus	Material Matters	Risks	Opportunities	Our Response
Aggressive deepening of our dominance in the Kenya Market	• Macro-economic indicators ◦ Kenyan economy remained resilient. Real (GDP) growth is estimated at 5.4% to 6.0% in 2019. ◦ Interest rates- regulated for most of 2019 ◦ Fairly stable money market ◦ credit growth was in households, manufacturers, transport and communication and traders ◦ Stable overall inflation ◦ Kenya shilling was relatively stable ◦ Market capitalization improved ◦ Tighter tax demands on banks • Growth and sustainability of shareholder returns. • Enhanced regulatory environment and government policy.	• Reduced earning margins from a tough regulatory environment. • Increased competition from Bank and Non- Bank competitors.	• Growth in business volumes. • Opportunity to increase non-funded income from increased business volumes. • Opportunity to deepen the use of our alternative delivery channels. • Lower costs due to efficiency. • Opportunity to invest in government projects through partnership	• Ongoing transformation initiatives which are key enablers in market dominance. We are constantly optimizing our business models. (see Strategic Focus Review section of this report)
Dominant provider of financial services to the Co-operative Movement in Kenya and the region	• Continued strategic partnership with the co-operative movement. • Continuous digitization and innovation of co-operative products, services and processes.	• Normal risks that come with serving the strategic shareholder and customer of the Bank.	• Increased value creation through being the primary banker for the co-operative movement. (Co-operative movement value chain optimization)	• We have a dedicated co-operatives division. • In partnership with IFC we started a Co-operatives sector focus initiative in May 2018. • Implementation of data driven campaigns leveraging on the Relationship managers. • Relationship managers upskilling to enhance customer engagement • Implementation of the Digital strategy for Cooperatives • Co-op consultancy- consulting for the cooperative movement. So far 2800 consultancies have been carried out.

Strategic Focus	Material Matters	Risks	Opportunities	Our Response
Customer experience that is seamless across all our touch points.	• Customer Centricity. • High expectations on quality service across all touch points (Distinctive Customer Experience). • Demand for innovative, convenient and affordable digital solutions.90% of the population is financially included. • Confidentiality and data safety. • Cyber security. • Effective communication and complaints resolution mechanism.	• Customers may switch to competition due to poor service experience or lack of innovative products and services. • Increased digital penetration comes with information security challenges. • Poor handling of customer complaints could lead to customer loss to competition.	• Offer a wide array of innovative products across our delivery channels leading to increased customer numbers, satisfaction and loyalty. • Opportunity to deepen our brand visibility, attract and retain more customers.	• Sustained Customer Centricity • Implementation of the Kenya Banking Sector Charter is on course. • 159 branches spread in 42 counties. • Mobile, Internet and Agent banking channels to reach our customers in the most convenient and low cost way. • Heavy investment in customer experience infrastructure such as CRM, 24-hour contact Centre, a customer centric business model and secure systems (SIEM application). • A dedicated ICT Risk Unit. • Proactive resolution of system exceptions. • Optimum systems availability (over 98%) • The bank trained over 243 staff on Distinctive Customer Experience (DCE). • Queue time of less than 15 minutes. • A dedicated social media resource to respond to customer queries and complaints on social media.
Operating efficiency driven by digitization, innovative products & Processes, efficient business models, and staff productivity.	• Digitization and innovation focus for growth and efficiency. • Continuous Banking disruption. • Data analytics and strategic partnerships especially Fintechs. • Demand for specialized skills in some areas. • Staff productivity, training, retention and welfare. • Cost rationalization/ optimization.	• Continuous changes in ICT is costly. • Competition for specialized skills In ICT and data analytics. • Information security and cyber security challenges. • Competition for specialized skills.	• Optimize the bank's huge investment in digital channels to deepen our penetration in the market. • Growth in business volumes as we can now price in credit risk. • Increased non-funded income from increased business volumes and enhanced products and services. • Opportunity to enhance operating, process and overall cost efficiency. • Leveraging on data analytics to grow business in focus area such as E-credit, E-collect and data driven campaigns. • Competitive Employee value Proposition enabling retention of specialized skills.	• Transformation initiatives that continue to enhance growth and efficiency. (see Strategic Focus Review section of this report) • ICT infrastructure that supports growth and efficiency. We have an ICT strategy that guides us on optimal ICT Investment. • Adequate skills to meet current and future needs. • Core Banking System upgrading project. • Business Process Management System for enhanced efficiency. • Rolled out Omnichannel: A robust digital platform that enables us to offer enhanced digital experiences to our customers. • (Co-op online/internet banking for corporates and MSMEs with enhanced features) • Channels and system service availability and uptime of over 98%. • Over 89% of our transactions were done on alternative channels in 2019. • Continued leveraging on data analytics and Business Intelligence. • E- Credit uptake, over Kshs. 43B disbursed. • Fintech engagement framework • The Bank has in place a cybersecurity strategy that drives its Cybersecurity program. The strategy along with the ICT Risk and Control policy framework governs the direction of its cybersecurity initiatives. The Bank has implemented a Security Operations Centre (SOC) to provide 24-hour security monitoring capability, event notification, and incident management • Optimization of the SAP Enterprise Resource Planning (ERP) solution • Performance rigor & rhythms (DILO activation) to enhance staff productivity. • Over 95% of team leaders having performance coaching conversations with their teams from goal setting, execution and quarterly reviews.

Strategic Focus	Material Matters	Risks	Opportunities	Our Response
Optimal Enterprise Risk and Compliance in the dynamic environment.	• Proactive enterprise risk management framework that is capable of managing the risks in our enterprise risk universe. • Enhanced regulatory and compliance environment- AML/KYC, Demonetization • Large Cash Transactions Restrictions by Kenya Bankers Association • Credit risk- Non-Performing Loans. • IFRS 9 Implementation • Interest rates capping • Well trained and knowledgeable staff on risk and compliance issues. • Demand for specialized skills • Data protection and cyber security. • Digital disruption.	• Pillar I and Pillar II risks detailed in the Integrated Risk Management Review section of this report.	• Value preservation in ensuring minimal financial and non-financial loss due to manageable risks. • Higher value created as opportunities that arise in risk management are taken up. E.g training MSMEs on how to run sustainable businesses thereby gaining more customers and minimizing MSME credit risk. • Staff productivity through enhanced training. • Increased social and relationship capital in engaging and implementing regulations and guidelines.	• We have in place a proactive enterprise risk management framework as detailed in the Integrated Risk Management Review section of this report. • Enterprise risk management at the core of our business models. • Proactive NPL management is a key focus area in Transformation • Demonetization as per the guidelines. • Strict enforcement - AML/KYC, Large cash transactions. 3750 staff trained on AML/KYC • We implemented IFRS9 • We complied with the Interest rates capping which was effective for the most part of 2019. With the removal of the caps there is opportunity to price in risk and achieve a higher growth. • Continuous staff training and engagement on risk and compliance issues. • Well-resourced Internal Audit, Compliance, Risk management and ICT Risk departments in place. • Proactive Data protection • Departmental risk champions actively engaged in risk processes. • We have maintained good relations with our regulators and implemented guidelines and regulations. • Compliance to regulatory requirements is a key focus. • Reviewed Bank Policies and Procedures to ensure compliance

Co-opBank team lead by Director Credit Anthony Mburu (third from right) receives the Overall Winner Award at the 2019 Kenya Bankers Association Sustainable Finance Catalyst Awards held at Serena Hotel on Friday 15 November 2019, from the Governor Central Bank of Kenya Dr. Patrick Njoroge (second right) and Chief Executive Kenya Bankers' Association Dr. Habil Olaka (left).

Strategic Focus	Material Matters	Risks	Opportunities	Our Response
Operate as a good corporate citizen.	Economic, Social and Environmental issues discussed in detail in the Creating Sustainable Value section of this report under the following focus areas; • Sustained Economic growth, socio-economic empowerment and Economic Resource efficiency. • Sustainable Social Responsibility towards our staff, customers, community and all our other stakeholders. • Positive environmental impact	• Tough economic environment directly impacts returns/margins and hence the economic resources available for economic, social and environmental investment. • Social and Environmental challenges (Climate Change) that require a concerted effort by both private and public enterprises in terms of policy and financial investment.	• Partner with various stakeholders and adopt strategies geared towards addressing economic, social and environmental challenges and emerging areas for long term value creation. E.g; • Big 4 Agenda that seeks to accelerate vision 2030 for the prosperity of our country. • Long term International Funding partners for specific credit lines • Kenya Bankers Sustainable Finance Initiatives adoption • United Nations Sustainable Development Goals • International finance institutions that seek to impart best practice for sustainable business models. E.g. IFC • Cost savings associated with resource-efficient business models, compliance with regulations, staff welfare and initiatives geared towards environmental resource efficiency.	• Sustained financial performance (PBT Kshs. 20.71B) and inclusive products and services through good governance, proactive strategies and optimal enterprise risk management. Over Kshs. 266.7B in lending and Kshs. 332.8B in deposits supporting key sectors. • Kshs. 36.6 Billion Economic Value added and distributed in 2019. • Adoption of KBA sustainable financing initiatives in totality • Taxes paid- Kshs. 6.4 Billion in 2019. • Employment to 4422 well trained, motivated and diverse staff members. Staff welfare program is a key priority. • 71,464 MSMEs onboarded on our new offering that seeks to support MSMEs to have resilient businesses through financial and non-financial services. • Sales Force Effectiveness (Co-operatives and Corporate Division) to be in line with the Big 4 Agenda. • Co-op foundation support to bright but needy students (7657 since inception). • Capacity building of the co-operative movement (2800 consultancies) • Recycle, reuse, reduce model for resource efficiency. Solar powered water heating introduced, we are also using less paper, electricity, water and diesel. • We follow the IFC exclusion list in all our lending. • Green lending book of over kes 2.5 Billion in 2019. • Engagement in social initiatives. Over kes 119Million towards charity, sponsorship and donations-Beyond Zero campaign (Kshs. 20 Million), Saracen-Afcon sponsorship amongst others in 2019. • Responsible Business practices and compliance to set rules and regulations • We publish a Sustainability and integrated report annually on our website.

(L-R) Dr. Mohamed Kheir and Abdiaziz Yussuf giving medical attention to Abdirahman Mahat at the Garissa County Referral Hospital in April 2019. Abdiaziz is a 4th Year Bachelor of Medicine and Surgery student at Moi University sponsored by Co-opBank Foundation, and volunteers at Garissa County Referral Hospital during college vacations. The Co-op Bank Foundation has supported over 7,000 gifted but needy students from all over Kenya with full academic scholarships for secondary and university education.

Operating environment: Macroeconomic commentary

Economic Growth

The Kenyan economy remained resilient in 2019 supported by favorable weather which was positive for the agriculture sector and a strong growth in the services sub-sectors. These services sub-sectors held up aggregate demand, boosted by household consumption which remained high. Real Gross Domestic Product (GDP) growth is estimated at 5.4% to 6.0% in 2019.

The quarterly Real Gross Domestic Product (GDP) rate in 2019 is shown in the table below;

Quarterly Gross Domestic Product (GDP) Growth Rate

	QUARTERLY – 2018				QUARTERLY – 2019		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Agriculture	7.5	6.5	6.9	4	5.3	4.2	3.2
Industry	4.9	5.4	5.7	5.5	4.2	5.3	4.5
Mining & Quarrying	2.4	2.9	3.3	2.7	2.2	5.7	4.3
Manufacturing	3.8	4.7	4.6	3.7	3.2	4.2	3.1
Construction	6.5	8.4	7.8	8.7	6.1	5.6	4.9
Electricity & Water Supply	6.6	5.4	7	7.3	5.6	7.2	6.6
Services	7	6.7	6.8	7.3	6.4	6.6	6.2
Wholesale and Retail Trade, Repairs	5.9	6.2	6.5	6.6	5.5	6	4.7
Accomodation & Restaurants	13.1	15.4	25.7	21.3	10.1	10.6	9
Transport & Storage	8.5	8.4	9	9.3	6.7	7.2	7.1
Information & Communication	12.5	11.1	9.8	11.8	10.4	11.3	8.4
Financial & Insurance	5.2	4.5	5.3	7.2	5.5	7.2	5.6
Public Administration	6.2	5.9	6.1	6.4	6.5	6	5.8
Proffesional, Admin & Support Services	6.1	7.5	6.7	3.6	6.3	5	5
Real Estate	5.3	4.6	3.8	2.8	4.2	5.4	4.9
Education	5.3	5.8	5.9	6.4	5.4	6	5.7
Health	4.6	4.1	5.5	4	4	5.2	4.8
Other Services	4.2	5.1	4.9	5.3	3.2	2.3	2.2
FISM	0.2	0.1	1.7	2.3	-2.8	4.6	-4.5
Real GDP growth rate	6.6	6.3	6.4	6	5.7	5.6	5.1

Interest Rate

Lending interest rates were regulated for most of the year 2019 until November 2019 when the Banking (Amendment) Act 2016 was repealed. The existing loan portfolio that was priced at Central Bank Rate (CBR) + 4% will remain so until the loans run their full course or the existing contract is amended. Going forward into the year 2020, commercial banks are now able to price in credit risk for the various market segments.

The money market remained fairly stable in the twelve months to December 2019. The yields on short term primary government paper were fairly stable during 2019. Interest rate on 91-days, 182-days and 364-days Treasury bills closed the year at 7.2%, 8.2% and 9.9%, respectively compared to 7.3%, 9% and 9.9%, respectively at the close of 2018. The interbank rate declined to 5.9% in December 2019 from 8.2% in December 2018 due to enhanced liquidity in the money market.

In 2019, most of the commercial bank credit growth was in households, manufacturers, transport and communication and traders. We project that private sector credit flow will on average remain and will mostly be channeled towards these same sectors in 2020.

Inflation

Overall inflation rate was stable in 2019 at an average 5.2% compared to 4.7% in 2018. Food prices in 2019 went up slightly, especially maize and maize meal. We project overall rate of inflation to remain stable in the range of 5% to 8% in 2020.

The year starts off with favorable weather forecast and thus the country will generally remain food secure for most of the year.

Crude oil price is forecast to be fairly stable for most of 2020 given low demand for oil globally. However, oil production is highly susceptible to geo-political events which are not easy to forecast.

Exchange Rate

The Kenya Shilling (KES) exchange rate was relatively stable in 2019, exchanging at an average of KES 101.4 in December 2019 from KES 102.3 in December 2018. This strength in the KES exchange rate was driven by a rise in diaspora remittances and tourism receipts, continued tea and horticultural exports, slower growth in imports and the stability in international oil prices.

The current account balance narrowed by 4.0% of GDP in the year to October 2019 compared to 5.1% of GDP in the year to October 2018. This reflects resilient performance of exports particularly horticulture and manufactured goods, strong diaspora remittances, higher receipt from tourism and lower imports.

Capital Markets

Activity in the capital market picked up in December 2019 compared to December 2018, with equity share prices rising as shown by the NSE 20 Share Index. The NSE 20 Share Index was at 2,654.4 points by end of December, 2019 compared to 2,383.8 points by end December, 2018. On the other hand, market capitalization improved from KES 2,102.0 billion to KES 2,540.0 billion over the same period.

The Year Ahead

In 2020, the economic growth path is still quite uncertain. This has meant that GDP forecasts by the Central Bank of Kenya is now down to 2.3%. There is uncertainty related to duration and severity of the pandemic, re-emergence of the virus, when a vaccine will be available to enable mass movement across the globe, extent of supply chain disruption, how fast can consumer confidence and consumption patterns resume, sufficiency of economic stimulus and medium-term economic spill overs.

Global Economic Developments

In 2020, the global economy is projected to fall into a recession due to COVID-19 shocks. Industries have closed operations, global production and transport chains are being disrupted, and consumer demand has fallen substantially. Global growth projection for 2020, which prior to the crisis was 2.5% has now been revised downwards to a contraction of 3.0% (IMF April 2020 World Economic Outlook). There is extreme uncertainty around the pandemic which includes; the pathway of the pandemic, the intensity and efficacy of containment efforts, the extent of supply disruptions, the economic repercussions of the global financial market conditions and shifts in spending patterns, by both firms and consumers.

Monetary policy response by several central banks in recent weeks include monetary stimulus and liquidity facilities to reduce systemic stress. These actions have supported confidence and contribute to limiting the amplification of the shock, thus ensuring that the economy is better placed to recover.

The fiscal response by the Ministries of Finance in most countries have been swift and sizable (such as Australia, France, Germany, Italy, Japan, Spain, the United Kingdom, and the United States). Many emerging market and developing economies (such as South Africa) have also begun providing or announcing significant fiscal support to heavily impacted sectors and workers. These fiscal and monetary measures will not directly prevent the outbreak, but are meant to help the economies bounce back after the pandemic passes. For example, monetary policy cannot repair supply chains or get the masses to go out shopping. It helps limit the extent of spill overs.

Policy makers are targeting response to 3 critical areas;

1. Ensure credit continues to flow to the enterprises.
2. Firms – To help companies bear fixed and labor costs during down time.
3. Workers – The main objective is to prevent layoffs and fall in incomes.

The East African Community (EAC) countries have adopted various strategies of containing the spread of COVID-19 including a ban on international flights, closure of schools, barring large gatherings, nightly curfews, and outright lockdowns. Tanzania has imposed the least stringent measures of social distancing, while Rwanda and Uganda have introduced the most restrictive containment measures, including complete lockdowns.

Strategic Focus Review

Our strategic focus is key to our short, medium and long term ability to create value for all our stakeholders. The 'soaring eagle' Transformation initiatives have been a key enabler helping us to stay on a growth and efficiency trajectory.

In implementing our strategy the capitals we employ go through a trade off as shown in the Capitals and Tradeoff section of this report. Creating Sustainable Value and The co-op bank model sections of this report show in detail how we create sustainable value.

In all our strategic decisions, enterprise risk management takes an important position to ensure that we are taking on optimum risk as we pursue all the opportunities available to us (see Integrated risk management review section). Matters that are material to us are identified, prioritized and managed within the enterprise risk management framework and incorporated into strategic decision making (see Material Matters Management section).

2020-2024 Corporate Strategic Plan

The Banking environment has become very dynamic in regulation, business models and competitor landscape with Telecommunication Companies (Telcos) and Financial Technology companies (Fintechs) eroding the Traditional Banks market share.

Technology continues to play a key role in the dynamic environment, presenting new opportunities to generate revenue and improve efficiency but also an increase in cyber risk. We continue to leverage on our digital transformation and innovation to ensure that we compete effectively.

This Corporate Strategic Plan enables us to affirm our strategic direction, providing objectives and goals that will be pursued for growth and progress across the group. It enables us to be proactive, by better understanding opportunities and threats that are in the horizon, and efficient deployment of resources. It will increase our operational efficiency, help us to increase market share and profitability, and make the overall business more sustainable in the long term. Our focus will thus be on;

- World class Customer experience to ensure complete customer loyalty.
- New Frontiers in growing Liability and Non Funded Income leveraging on Sales Force Effectiveness, our strong customer base of 8.8 Million and the ongoing MSME Transformation thus increasing sales.
- Enhanced leasing business supported by the joint venture with Super Group.
- Cost optimization- Critical focus on lowering our overall cost to income ratio through increased efficiencies.
- Operational excellence ensuring optimal systems uptime, optimized operational processes and data security.
- Digital Transformation to take the Bank into the new frontier of digitalization.
- Collaboration with Fintechs to synergize their innovative capabilities.
- Quality loan Book growth in the IFRS 9 environment leveraging on Sales Force Effectiveness and proactive credit management.
- Proactive Regulatory compliance
- Staff productivity and a culture of high performance
- Sustained Enterprise risk management
- Synergized subsidiary business that will generate new revenue streams.

Kenya Highlands Sacco based in Kericho is recognised at the Coop Holdings AGM of April 2019 for holding Highest Deposits with Co-op Bank among Rift Valley Region Saccos. The Sacco CEO Mrs Alice Kosgei and Board Member Isaac Ng'etich (second left) receive the trophy from Co-op Bank Group Managing Director & CEO Dr. Gideon Muriuki (left) and Chairman Co-op Holdings Macloud Malonza (right).

Given the situation analysis that we considered in designing this plan, the implementation of the 5 year strategic plan will be guided by the Key Strategic Objectives approved by the board of directors as shown by the strategic themes hereunder;

Strategic Themes	Key Strategic Performance Indicator	Key achievement

Aggressive deepening of our dominance in the Kenya Market	• Return on Average Assets (ROAA)
	• Return on Average Equity (ROAE)
	• Dividend per share
	• Market share by asset size
	• Market share by Deposit Book.
	• Market share by Loan Book.
	• Market Capitalization (Kshs. B)
	• Market share for all business segments, product houses and Channels.
	• Transformation Project Initiatives Implementation.
		• ROAA 3.3% (2018 3.2%)
		• ROAE 18.9% (2018 18.1%)
		• Dividend per share Kshs.1.00
		• Marketshare top ten Banks ;
		  • Asset Size 2019 11%
		  • Customer Deposit 2019 11%
		  • Net Loans 2019 12%
		• Market Capitalization Kshs. 95.5B (2018 83.3B)
		• Our Market share for all business segments, product houses and Channels maintained a positive outlook.
		• Most sustainable Bank (Kenya Bankers Catalyst Awards 2019)
		• We continued with Transformation, an efficiency and growth project that we began in 2014 and it continues to be a key strategic enabler in every area of our Business. See the section below for a details.

Dominant provider of financial services to the Co-operative Movement in Kenya and the region	• Successful implementation of the Digital Co-operatives project. • Co-operatives deposit growth • Co-operatives Loan book growth • Co-operative Bank of South Sudan performance.	• Implementation of the Digital strategy for Cooperatives is on track. We had specific focus on co-operatives as detailed in the section below on our Transformation Project. • The Cooperatives deposits and loan book grew in 2019 • Cooperative Bank of South Sudan PBT Kshs. (-344.71M loss) (2018 loss Kshs. 16.42M)
Customer experience that is seamless across all our touch points.	• Digitization of customer journeys. • Staff training on DCE (Distinctive Customer Experience) • Customer Centric Model	• We continued implementing key customer journey digitization journeys to meet customer expectations (89% of transactions were on digital channels). Key customer project rolled out was the Omnichannel (Discussed in the Capitals Section of this report) • Staff trained at our Leadership and management Centre (LMC) 243 of them were trained on Distinctive Customer Experience. • We sustained our focus on customer centricity in our business model.

Operating efficiency driven by digitization, innovative products & Processes, efficient business models, and staff productivity.	• Competitive Cost to Income ratio • System and Channels service availability and Uptime of 100% • % of transactions in digital channels • Product innovation/development • Digitization as per the roadmaps • Cost to be within the budget • At least 90% of staff meeting and exceeding targets • Increased uptake of corporate wellness and staff welfare interventions	Digitization, operational efficiency, Proactive Risk management has led to cost management, revenue generation and optimal risk uptake. • Our cost to income ratio has fallen to 52% from 59% in 2014. • System and Channels service availability and Uptime - Averaged 98.66% • 89% (2018 89%) of our transactions were performed on digital channels • E- Credit deployed to support Business growth. Disbursement of Kshs. 43B in 2019. • Digitization progressing as per the roadmap. Key digitization projects are; Omnichannel and Core banking. • Our costs were within the budget • 88% of staff meeting and exceeding targets • Corporate Wellness plan for 2019 key focus was on mental health and financial wellness. (Detailed in the Creating Sustainable Value section of this Integrated Report.)

Optimal Enterprise Risk and Compliance in the dynamic environment.	• Optimal NPL management
	• Audit rating of at least Satisfactory
	• Compliance rating of at least Satisfactory
	• KPI of key control functions: Compliance, Internal Audit & Risk Management Departments.
	• Timely and accurate reporting to all regulatory bodies including;
	  • Central Bank of Kenya
	  • Capital Markets Authority
	  • Nairobi Securities Exchange
	  • Insurance Regulatory Authority
	  • External Funding Partners
	  • Bank of South Sudan
	• Compliance to regulatory requirements
	• Review of Bank Policies and Procedures to ensure compliance
		• NPL of 9.9% (2018 10.3%). We continue to carry out optimal NPL management. See the Transformation Section below for details.
		• Audit rating - Satisfactory
		• Compliance rating - Satisfactory
		• KPI of key control functions: Compliance, Internal Audit & Risk Management Departments. All departments achieved their objectives.
		• Timely and accurate reporting to all regulatory bodies
		• Compliance to regulatory requirements continues to be a key focus.
		• Bank Policies and Procedures reviewed to ensure compliance

Operate as a good corporate citizen.	• As detailed in the Bank's Sustainability document **SOCIAL** • Co-op Foundation- supporting education of needy, bright students • Co-op Consultancy and Insurance Agency-Capacity building of the Co-operative Movement • Employer of choice- Reward, Gender Parity, skilling, resourcing. Effective performance and consequence management platform • Corporate Social responsibility initiatives • Social responsibility initiatives by individual staff teams **ECONOMIC** • Sustained good Financial Performance • Economic benefit through lending to MSMEs and Commercial Clientele leading to employment and development in line with Vision 2030 and the Big Four Agenda. • Responsible Business practices and compliance to set rules and regulations **ENVIRONMENTAL** • Green lending • Recycle, Reuse and Reduce • Direct involvement in environmental management	We continue to operate as a responsible corporate citizen as detailed in the Creating Sustainable Value section of this Integrated Report. Key achievements for 2019 are also highlighted therein. Our focus is Economic, Social and Environmental Sustainability We publish an annual sustainability report on our website

Transformation

In 2014, to sustain the growth momentum and put the group on a new growth trajectory, the Board of Directors appointed McKinsey & Co. for a growth and efficiency review. It is with this background in mind that we designed the 2015 – 2019 Corporate Strategic Plan that has come to a conclusion. The period has been marked by unparalleled transformation and growth and we have reaped many benefits including;

- Set up of a Transformation office that has been key in follow up and seamless implementation of all the transformation initiatives.
- Re-organized branch set up for better customer experience, and drastically reduced branch customer wait-time to less than 15 min.
- End to end Migration to alternative banking channels with 89% of our transaction being in Alternative Banking Channels and only 11% in branches.
- MSME – Successful Market launch for the MSME initiatives on 23rd Aug 2018, 71464 Clients on boarded by FY2019.
- E-credit growth focus – Kshs 43 Billion disbursed by FY2019.
- Implemented a customer centric relationship model: One RM, One Customer, Many products;
  - Re-organized our relationship management model for Corporate Banking
  - Re-tooled our Co-operatives banking teams
  - Our tellers are now Sales and Service advisors.
- Centralized operations support and Digitization through shared services.
  - Omni-channel/seamless digital offering Implementation
  - CRM 365 implementation as single source of sales information. Fully adopted across the bank.
  - Business Process Management System (BPMS) system implementation.
  - E-commerce business growth through secure online payments through Verified By Visa enablement
  - Money Transfer Organizations partnerships to drive international remittances
  - Innovations and partnerships framework of engagement with fintechs developed
  - Business to Business (B2B) integration developed.
- Significant improvement on cost to income ratio from a high of 59% in Dec 2014 to 52% in Dec 2019
- Proactive NPL management post IFRS9
- Data analytics. Improved access to information throughout the organization.
- An effective performance and consequence management platform.

We are confident that the 'soaring eagle' transformation initiatives will continue to offer key strategic support in the achievement of the Group's goals over the next 5 years under the following programs and enablers;

1. **Branch Transformation (MSME & Retail Sales Force Effectiveness)**
   - Micro, Small and Medium Enterprises (MSME) Transformation. To leverage and unlock the huge and lucrative potential of the MSME segment.
   - Retail SFE. To leverage and unlock the 159 branch network potential for Asset, deposit and NFI growth by segments and product houses.
   - Leverage on Channels for Sales (Alternative Banking Transformation).
2. **Sales Force Effectiveness for Corporate and Wholesale Banking**
3. **Sales Force Effectiveness for Co-operatives Banking including implementation of the Digital strategy for Cooperative**
4. **NPL Management- to reduce bank's provisions and manage NPL ratio to below 5%**
   - Sustained customer engagement at both pre and post-delinquency using various channels: sms, calls, e-mails, letters and visits.
   - Continued analysis of early warning signs -Revamped analysis of portfolio trends (sector/Industry) and assessment of individual clients.
   - Offering a range of solutions/cures (Analysis of root causes and identification of possible treatment based on nature of the anomaly) to customers already in distress.
   - Revamped realization process and aggressive marketing of realized collaterals.
   - Continuous involvement of all stakeholders in remedial initiatives with clear action plans.
   - Continuous improvement of debt recovery through innovative solutions and campaigns
5. **Operational Efficiency**
   a. Distinctive Customer Experience initiatives
   b. Process automation – focusing on top 20 customer journeys for automation through Business Process Management System (BPMS) and continuous process improvement
   c. Ensure implementation of Compliance, Risk and Anti money Laundering (AML) initiatives to meet all regulatory guidelines
   d. Data governance
   e. Continuous review of 8 types of Waste across structure, processes and policy i.e. Intellectual, motion, rework, overproduction, unnecessary processing, transportation, inventory and waiting to free up time for sales at branch and head office units
6. **Digitization and innovation**

   Drive implementation and full benefit realization of the ongoing 8 Digital initiatives in partnership with IFC;

   a. Omni-channel
   b. Digital Hub and Innovation Framework
   c. Digital Technology Capability Review
   d. Core Banking System
   e. Product Rationalization
   f. Open Banking
   g. CRM & BPM (Automation) Support
   h. Digital Co-operatives
7. **Key enablers;**

   These cut across segments, product houses, support functions and our subsidiaries

   - Data Analytics and BI -Enhance data driven sales (hit lists and e-credit scoring), frontline accountability, proactive credit management, AML and Compliance.
   - Key ICT capability and reliability & Shared Services strategy
   - Transformation Office providing Accountability, Tracking and Communication
   - Staff productivity. Performance Management, Dialogues and Rhythms
   - Agile culture and practice.

Stakeholder Engagement

- Shareholders
- Customers
- Employees
- Co-operative movement
- Strategic partners
- Regulators
- Suppliers
- Community

We maintain an ongoing dialogue with our stakeholders to inform our business strategy, identify new opportunities, manage risks and ensure our products and services meet their needs.

Customers

How we engage our customers

Co-op Bank has 8.8 million customers ranging from Individuals to Micro, Small and medium enterprises, Co-operative Societies, Corporates, Institutions and Government.

Our customer engagement is underpinned by our customer centric model that is also deeply entrenched in our strategic focus and the ongoing 'Soaring Eagle' transformation project.

Our universal banking model has allowed us to ensure financial inclusion in Kenya and South Sudan hence widening our customer engagement.

We engage our customers through; Face to face interactions, Telephone Calls, Emails, Surveys, Social media interactions, Contact center, Service feedback surveys/questionnaires, through our agent feedback, letters, Participation in client and Communal activities –e.g. Training Workshops, Launches and Exhibitions.

Key Expectations

The key expectations of our customers are as follows;

1. Exceptional customer experience. Our customers want to have a positive experience across all our channels/ touchpoints, across all our products and with all our staff at all times.
2. Convenient and safe access to banking services around the clock.
3. Value added banking that is competitive and transparent in pricing.
4. End-to-end banking solutions and innovative digital banking solutions.

Medics attend to patients during the Free Cancer screening camp organised by the Beth Mugo Cancer Foundation in collaboration with Co-op Bank at Lumakanda Primary School, Lugari Kakamega County on Friday 27 September 2019.

How we respond to the key expectations

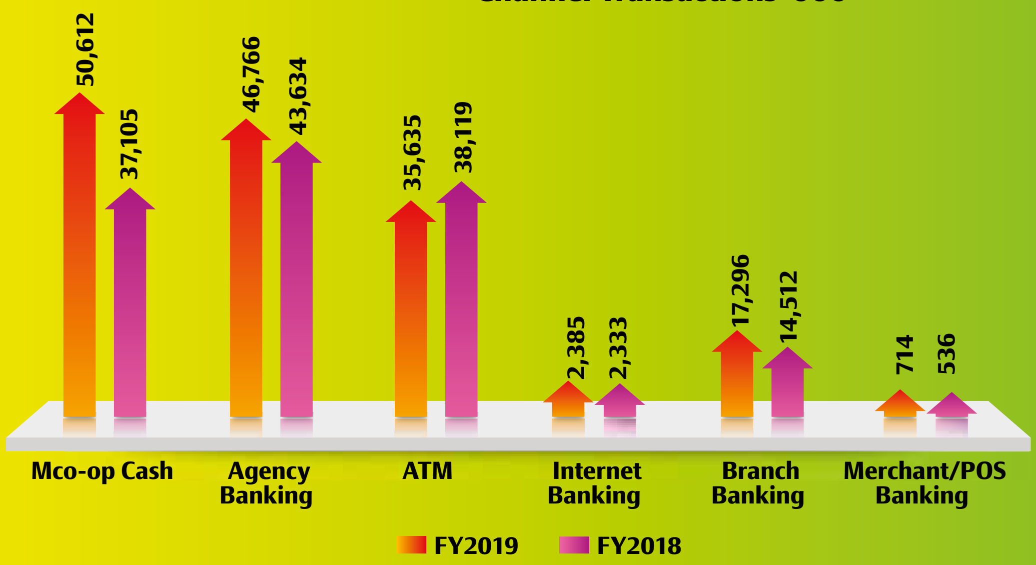
1. To effectively engage all our customers, we have the following channels;

Innovative Customer Delivery Platforms

Our channels	Our customers
159 Branches	8.8 Million growing direct account holders
Mcoop cash mobile banking (All telco, all products)	Over 4.8 Million Mcoop Cash Customers
Co-op Kwa Jirani – Over 16,783 agents	Over 89,959 Internet banking Customers
Over 583 ATMs, leading debit card issuer	Over 1.18 Million Saccolink Customers
CoopNet – Internet Banking (Corporate & Retail)	Over 16,500 Diaspora Banking Customers
24 Hour Contact Centre	Over 1.6 million Facebook followers
Self service Kiosks in all our branches	Over 370,000 Twitter followers
Dedicates Diaspora Banking Department	Instagram followers
464 FOSAs	You Tube subscribers
Subsidiaries offering advisory and investment services	Telegram self service customers
Social Media Banking	

Growing Digital Channels

Channel Transactions '000'



89% of our Transactions are on alternative Channels

E-Credit is a key focus area, KShs. 43B disbursed in 2019

2. To ensure all our customers have been well engaged and financially included, our product and service offering includes;

	Retail and Business Banking	Corporate and Institutional Banking	Co-operatives Banking	Co-op Consultancy and Insurance Agency Ltd	Co-op Trust Investment Services Ltd	Kingdom Securities Ltd	Co-op Bank Fleet Africa Leasing Ltd
Deposit/ Instant Access accounts	✓						
Savings Accounts	✓		✓				
Current accounts	✓	✓	✓				
Fixed/Call deposit accounts	✓	✓	✓				
Foreign Exchange	✓	✓	✓				
Payment solutions	✓	✓	✓				
Mobile Banking Loans (E-Credit)	✓						
Trade Finance	✓	✓	✓				
MSME Loans	✓	✓	✓				
Personal/Consumer Loans	✓						
Working Capital Loans	✓	✓	✓				
Asset Finance	✓	✓	✓				
Insurance Premium Financing	✓	✓	✓				
Mortgage Finance	✓	✓	✓				
Banc Assurance	✓	✓	✓	✓			
Consultancy and Capacity Building			✓	✓			
Investment services	✓	✓	✓	✓	✓		
Stock Brokerage	✓	✓	✓	✓		✓	
Leasing	✓	✓	✓				✓

Eighty three 4th Year Bachelor of Information Technology Degree students of Taita Taveta University, led by their lecturers Mwakio Mwagandi and Patrick Mutua Kimaku on a Study Tour of the ICT Department of the Co-operative Bank on Thursday 7 March 2019. The tour was hosted by the bank's Chief Information Officer Dr. Peter Njuguna (seen in white shirt) and enabled the students to appreciate how information and communication technologies are integral to banking.

3. We are currently implementing branch transformation that will see our customers get more value added products through innovative products and bundling.
4. Over 600 Sales and Service Advisors who engage in Branch service and operations support, Business growth and development.
5. Processes improvement for increased efficiency and hence enhanced customer experience.
6. Proactive and fair dispute resolution.
7. Proactive cyber security management to ensure customer information security. To this end, we have the SIEM (Security information and event management) system. We also have a dedicated ICT information security department with specialized skills to ensure optimal safeguard of our customers.
8. Kenya Banking Sector Charter

   We are committed to implementation of the charter which seeks to entrench a responsible and disciplined banking sector conscious of, and responsive to, the unique socio-economic realities of the Kenyan people. To this end we have an inter Divisional team responsible in ensuring the implementation as envisioned by the Charter;

   1a) Internal Rating Models: Consumer Scorecard and Business Scorecard

   1b) CRB Scores in Digital lending to consumers and MSMEs

   1c) Risk based pricing

   1d) Key Facts Statement (KFS)

   1e) Complaints Handling

   2a) Charges Uploaded on Websites

   2b) Banking Services Pricing Index

   2c) Cost of Credit Disclosures

   3a) Technical Assistance for MSMEs

   3b) Financial Literacy to MSMEs

   4a) Business models and Channels

   4b) Customer Inclusion in Product Development

   4c) Credit Enhancement to MSMEs

   5a) Approval of Implementation Plan

   5b) Reporting

Shareholders

How we engage our shareholders

We seek to provide relevant and up to date information about our strategy and performance to existing and potential shareholders.

Key Expectations

1. Regular information.
2. Accurate information.
3. Timely information.
4. To be able to discuss the performance and strategy of the bank.

How we respond to the key expectations

We have a dedicated Investor Relations and Strategy department and to respond to our investors' expectations we have engaged as follows;

1. Annual general meetings.
2. Four international conferences and roadshows where we met various existing and potential shareholders.
3. Six local conferences with our investment professionals.
4. Quarterly investor briefings.
5. Over 500 local and foreign investors engaged.
6. Over 260 one on one meetings with the investment professionals.
7. Information on our website that regards to our performance and strategy.
8. Press briefings released every quarter.
9. Analyst Research notes published on our website.

Our Staff

How we engage our Staff

At Coop, we are in constant communication with our staff to ensure their concerns are well addressed and we maintain our position as the employer of choice as per our strategic focus.

We engage our staff in the following ways;

1. We have dedicated Human resource business partners who support our staff through focus on driving performance discussions, embedding new ways of working, coaching support & productivity measures enhancements on a continuous basis.
2. We also communicate with our staff through the following methods;
   - Face-to-Face meetings at the staff place of work or at our HR offices.
   - Telephone discussions on issues of concern.
   - Email communications.
   - Regular departmental meetings.
   - Training sessions, conferences and summits.
   - Online staff engagement surveys.
   - Circulars on key issues and Core briefs to all staff.

Key Expectations

Our staff have the following expectations;

1. An effective performance management and reward system.
2. A conducive, safe environment for work-life integration.
3. Skills development and career progression.
4. A conducive culture for productivity.
5. Professionalism and integrity.
6. Equal opportunities for all staff.
7. Upheld labor standards.

How we respond to the key expectations

The Bank responds to the diverse employee expectations in a proactive manner as detailed in the Creating sustainable value section of this integrated report. In summary, we ensure that we;

- Drive enhanced staff productivity across the whole bank for sustained profitability of the bank.
- Embed high performance culture.
- Build high impact leadership and organizational culture to impact business.
- Achieve optimal resourcing and mobility to ensure seamless execution of strategy.
- Implement customer centric organizational structures that support strategy execution hence increased staff productivity.
- Corporate Wellness plan for 2019 key focus was on mental health and financial wellness. (Within the year we facilitated 52 talks)
- Achieve coaching and learning excellence to build strategic capabilities.
- Deploy talent management strategies and implement appropriate career development interventions.
- Strengthen the Coop Bank Employer Brand by ensuring we drive a compelling employer value proposition internally and externally.
- Inspiring employee experience journeys and employee engagement.
- Reward differentiated performance and recognition.
- Diversity, inclusivity and corporate wellness.
- An innovative, positive and inspiring work environment.
- Proactive regulatory compliance on staff matters.
- Maintain cordial relations with the staff union.
- We continue to foster partnership to ensure that staff interests are addressed timeously.
- We have a proactive policy framework on HR issues as detailed in the sustainability section of this report.

Co-operative Movement

How we engage the Co-operative movement

Our key engagement with the Co-operative movement is with the Co-operatives themselves (Saccos, Agri cooperatives, Transport, Housing, and Investment Co-operatives), State Department of Co-operatives, County Co-operatives offices, Sacco Societies Regulatory Authority (SASRA), AFA-Coffee Directorate and Ministry of Industrialization and Enterprise development.

We have a dedicated Co-operatives Banking Division to engage our Co-operatives who are the backbone of our organization and have become a key financial inclusion vehicle.

Through the years, our engagement has been enhanced and we have ensured that our value proposition to the Co-operatives is relevant and value adding. To this end our engagement is through;

1. Face to face discussions with our dedicated Co-operatives relationship managers.
2. Face to face discussions with our Business Bankers in all our 159 Branches.
3. Visits to their offices.
4. Discussions and engagement through our consultants in the Co-op Consultancy & Insurance Agency subsidiary.
5. Telephone discussions.
6. Participation in their meetings and events.
7. E-mail correspondence.
8. Through our 24 hour contact center.
9. Service feedback questionnaire.

Key Expectations

1. Optimal Return on Investment
2. Excellent customer experience.
3. Innovative banking products/solutions/services.
4. Convenient access to banking.
5. Responsible banking.
6. Value banking that is competitive and transparent in pricing.
7. Fair treatment and trusted financial partner.
8. Consultancy services.

How we respond to the key expectations

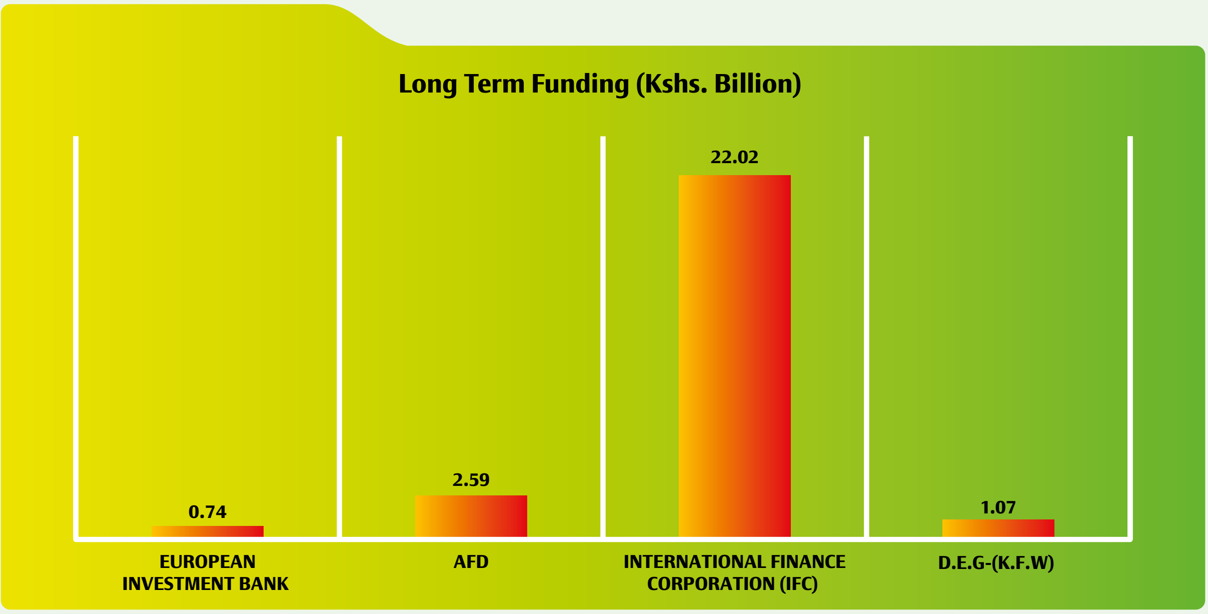
We have shifted our approach from product centric to be customer centric in order to effectively and wholesomely serve our Cooperatives. This has involved gauging their needs appropriately in order to tailor appropriate products and solutions. We continue to be the preferred and trusted partner of the co-operative movement in all the markets that we operate in.

We also ensure that we;

- Offer excellent customer experiences
- Leverage on digital transformation to add more value to our propositions.
- Engage in strategic partnerships to strengthen our Co-operatives engagement.
- Avail continuous capacity building and training through Co-op Consultancy.
- Attend Regular forums for cooperative leaders.

Strategic Partners

The Bank has collaborated with the following strategic partners in provision of long term funding aimed at specific credit lines;



How we engage our Strategic Partners

- Meetings.
- Email.
- Telephone.
- Teleconferencing and video conferencing.
- Annual and quarterly Reports.

Key Expectations:

1. Use of the facilities exclusively for the purpose set out in the contractual agreements.
2. Timely provision of reports and documents as agreed in the contract.
3. Timely payments of all amounts due.
4. Compliance with all laws and regulations pertaining the project for which the funds have been provided; environmental protection, social responsibility safety, labor, AML/CTF, Sanctions list.

How we respond to the key expectations:

1. By honoring all the terms and conditions of the facilities.
2. By timely provision of information requested through the various means of communication.

Regulators and Policy makers

How we engage our regulators and policy makers

We develop and maintain strong relationships with governments, regulators, industry bodies and other public policy agencies. We engage our regulators through meetings and consultations and provide data to help support decision making and ensure financial stability.

Our regulators include but not limited to; The Central Bank of Kenya, Capital markets Authority, Nairobi Securities Exchange, Kenya Revenue Authority, Retirements Benefits Authority, Insurance Regulatory Authority, Competition Authority, Bank of South Sudan, Unclaimed Financial Assets Authority, National Environmental Management Authority, Betting Control and Licensing Board Authority and The Government of Kenya.

Key Expectations

Our regulators and policy makers expect the following from us;

1. Compliance to all the set laws rules and regulations.
2. Timely feedback.
3. Accurate feedback.

How we respond to the key expectations

We maintain an open, honest and transparent relationships with the regulators and ensure compliance with all legal and regulatory requirements in order to ensure regulatory compliance. As one of Kenya's largest banks we understand our responsibility in constantly engaging regulators in order to promote the required soundness and stability.

Suppliers

In our Cost rationalization bid, our critical focus is on lowering our overall operating costs, particularly on re-designing of our procurement policies and processes for overall optimal cost outlay and efficiencies; in doing so, we are careful to engage our suppliers in a responsible manner.

We have 1420 Local suppliers and 52 foreign suppliers. In 2019, we paid over Kshs 12 Billion to our suppliers. Of this amount, 91% was paid to local suppliers.

Sourcing and Facilities management is anchored on the following;

1. Sourcing and Facilities management Manual.
2. Sourcing and Facilities Management Policy.
3. ICT Sourcing Policy.

In dealing with our suppliers we do due diligence as detailed in the Creating Sustainable Value section of this Integrated Report.

How we engage our suppliers

We engage our suppliers through Newspapers, Meetings, telephone calls, teleconferencing, emails and SRM (Supplier Relationship management portal on our website)

Supplier relationship engagement takes the following two forms;

1. Through the ICT Vendor Relations Office- Manages specifically ICT supplier relationships due to the technical nature of the services provided.
2. Through Sourcing and Facilities Management office- Manages all other suppliers in the group.

We ensure that our suppliers are well informed on issues to do with our strategy, market aspirations and growth to enhance our competitive edge. This is done through monthly meetings with the business teams, quarterly meetings with technical teams and business and half-yearly meeting with our senior level executives.

Key Expectations

Our suppliers expect;

1. To be paid on time and as per the schedule.
2. To be regularly informed on matters pertaining to the engagement.
3. To be accorded a good experience in dealing with us at all times.
4. Fair and responsible negotiation for services and products.
5. Knowledgeable staff with whom to negotiate and close contracts with.
6. Where possible and with the emergence of Fintechs provide opportunities for collaboration.

How we respond to the key expectations

1. Digitization. We implemented an SAP- ERP (Enterprise Resource Planning) system that has ensured optimal procure-to-Pay practices.
2. We are careful to abide by the contracts agreed with our suppliers.
3. We are in constant communication with our suppliers to ensure that they are informed accurately and on time.
4. We have a strong policy framework on Sourcing as detailed in Our Capitals section of this report.
5. Responsible negotiation of contracts.
6. Responsible tendering practice.
7. We have specialized talent in legal, ICT and Sourcing departments to carry out contracting.
8. We collaborate with various Fintechs and aggregators.

The Community

How we engage the community

We are determined to do the right thing by our communities and the planet: that is how we have become one of the leading financial institution in Kenya and the Region. We engage the community through various ways to ensure that our business plays a role in betterment of the communities in which we operate through;

- Economic sustainability.
- Social sustainability.
- Environmental stewardship.

We have a very detailed Creating sustainable value section in this report that shows our deep engagement with the community.

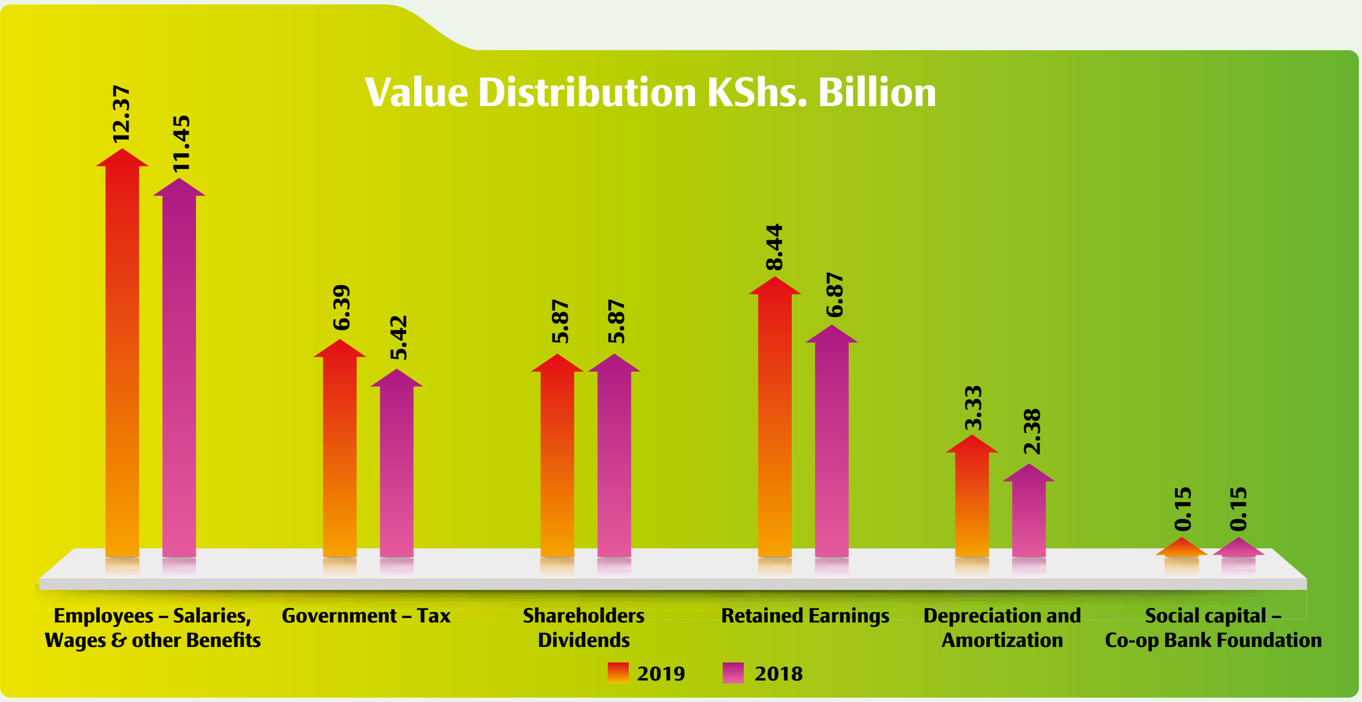
Key Expectations

1. Accessibility of our consultancy and advisory services.
2. Accessibility of our Co-op foundation support.
3. Accessibility and affordability of our products and services.
4. Maintenance of the environment in areas where we operate in.
5. Positive contribution to resolution of key concerns such as global warming, poverty eradication etc.
6. Financial sustainability and therefore long-term contribution to the community welfare.

How we respond to the key expectations

1. Accessible and affordable product offering through numerous channels and the co-operative movement.
2. 2800 consultancies done at concessionary rates.
3. 7657 bright and needy students supported through our fully funded co-op foundation.
4. Financing green initiatives. Renewable energy lending Kshs. 2.59B.
5. Efficiently Managing company resources both financial and non-financial.
6. Protecting Kenya's forest cover through tree planting initiatives.
7. Supporting employee CSR activities that positively impact the environment.
8. Credit is the fuel of economic engine; over the last 5 years our net loans and advances to customers has grown to over 266.7Billion (2018 245.4 Billion).
9. We contribute to the creation of prosperity and to the stability of our country through paying taxes. In 2019, the Group paid 6.4 Billion Kenya Shillings in corporate taxes.
10. As part of the wider community in which we operate, the bank collaborates with various stakeholders involved in poverty eradication, advancement of education, inadequate access to health services and financial services and various other activities addressing local challenges.
11. In an effort to improve the use of modern agricultural technology in the Coconut Sector, we collaborated with Amiran Kenya. To extend the quality of health services offered to citizenry, the bank collaborated with the Kenya Diabetes Management and Information Centre as well as the Kenya Psychological Association. The bank takes part in activities of national importance and we supported the Kenya National Assembly Prayer Day. We partnered with First Lady's Half Marathon (Kshs. 20 Million)

Value Distribution



Value Added Statement

	2019	2018
Value Added:	**KShs. B**	**KShs. B**
Interest Income, Fees, Commission and Other Revenues	60.82	55.92
Net impairment losses on loans and advances	(2.54)	(1.84)
Interest Paid to Depositors and Cost of Other Services	(20.09)	(20.76)
Interest paid on borrowings	(1.68)	(1.35)
Share of profit in associate	0.04	0.17
Wealth Created	**36.56**	**32.14**

Distribution of Wealth:		
Employees-Salaries, Wages and other Benefits	12.37	11.45
Government-Tax	6.39	5.42
Shareholders Dividends	5.87	5.87
Retained Earnings	8.44	6.87
Depreciation and Amortization	3.33	2.38
Social capital - Co-op Bank Foundation	0.15	0.15
Wealth Distributed	**36.56**	**32.14**

Creating sustainable value

Sustainable Banking Model

As a financial services firm, our sustainability agenda is founded on our aim to enhance financial inclusion and help millions achieve their ambitions by fulfilling their financial services needs in a responsible and sustainable manner.

We enable people, businesses and society to grow in a way that is sustainable in the long-term. Our stakeholders expect the bank to demonstrate its social and ecological impact. We do this by continually engaging our stakeholders and finding out what we could do to ensure that our operations are tailor-made for mutual benefit without infringing on the ecological integrity.

Sustainability strategy is integrated in our business model and consists of a three-pronged approach;

- Economic sustainability,
- Social sustainability and
- Environmental stewardship.

Our sustainability approach aims to balance social, economic and environmental risks and opportunities through the deliberate use of our products and services, collaboration and partnership, and by managing our own impact. In the Material Matters Management section of this report we analyze broad issues that guide our Economic, Social and Environmental sustainability priorities.

Our environmental and social management policy approved at the board level fully integrates the Kenya Bankers Association Sustainable Finance Guiding Principles. It governs and guides the Bank on Social, Economic and Environmental issues. The Policy is applied in conjunction with all Bank Policies and Risk Management Framework.

Sustainability through Policy and Governance in Co-op Bank is deep rooted in our commitment to contribute sustainably to the achievement of the following;

1. Kenya Bankers Association Sustainable Finance Initiatives guidelines
2. IFC Sustainable Development Goals
3. Kenya's Vision 2030 and the Big Four Agenda (accelerates Vision 2030)
4. Our Corporate Strategic Plan (2015-2019 and the new 2020-2024 plan)

   At the end of this Creating Sustainable Value section of the report we illustrate how these four are integrated in our sustainability strategy.

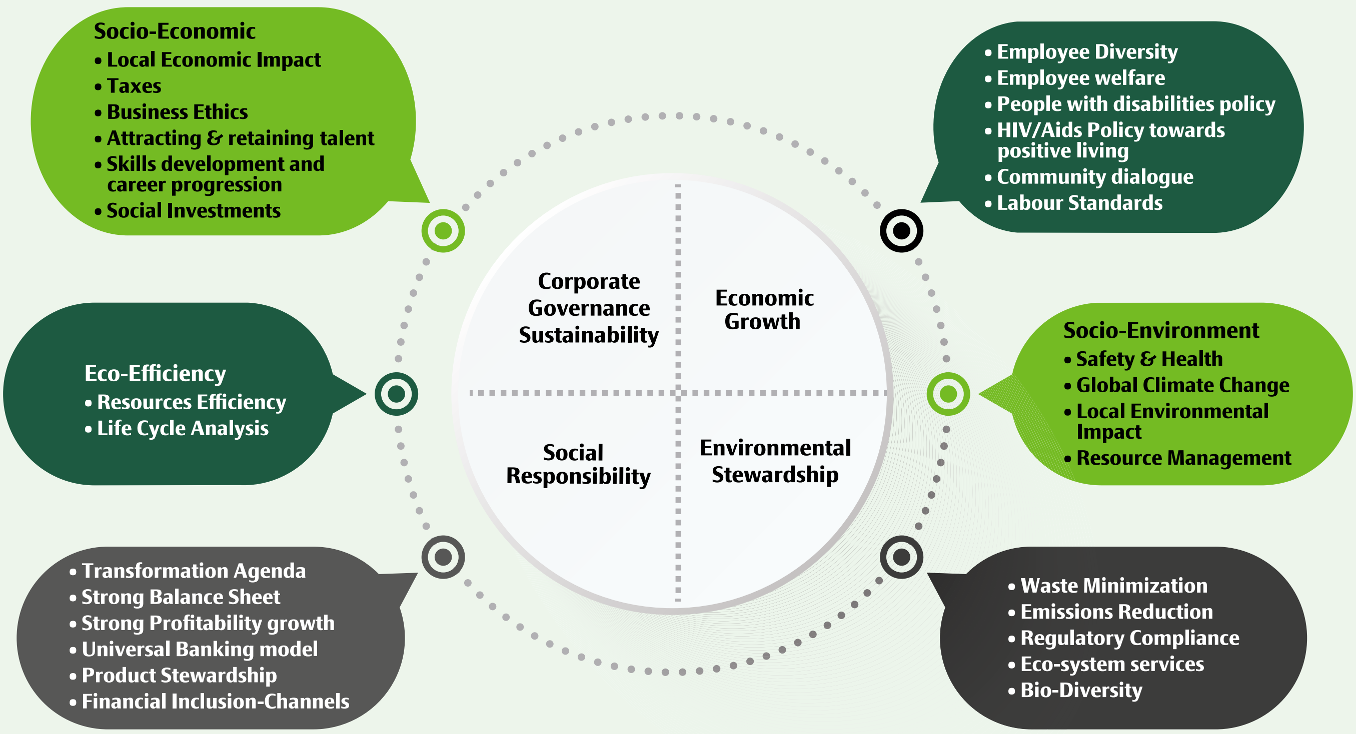
The policy incorporates best practice by ensuring:

1. We have an Environment and Social Management System (ESMS) that is integrated in our day to day activities.
2. We have a formal Environmental & Social (E&S) Policy that guides us in our day to day functions.
3. We apply the E&S policy in conjunction with other policies within our enterprise risk management framework hence assuring of a holistic approach to risk.
4. The Environmental and Social (E&S) Policy and Environmental and Social Management System (ESMS) are governed and owned right from the Board of Directors level hence in line with our strategic objectives, mission and vision.
5. We have referred to the guidelines provided by the International Finance Corporation (IFC) in developing our policy, which we have customized based on our view of our portfolio, structure and responsibilities.
6. Our ESMS includes application of the IFC exclusion list for all our lending.
7. We have adopted the Kenya Bankers Association Sustainable Finance guiding principles and minimum standards in totality.
8. We invest directly on E&S by partnering with development financial institutions (upto Kshs. 26.4B in December 2019) to provide special credit lines that promote E&S sustainability.
9. We ensure continuous training for all our staff to ensure best practice.
10. We have leveraged on technology to ensure that all the covenants reached in the projects we lend are tracked electronically hence making sure they are all achieved.
11. We conduct our own activities with regard to the environment and the communities within which we operate.

Co-operative Bank Staff Party held at the Carnivore Grounds

The following are our sustainability priority areas:

OUR APPROACH TO SUSTAINABILITY



Sustainability in summary:

The following summary highlights our sustainability priority areas;

1. ECONOMIC

1.1. SOCIO-ECONOMIC

- Local Economic Impact
- Taxes
- Business Ethics
- Economic contribution through employment
- Social Investments:
- Co-op Bank foundation
- Co-op Consultancy & Insurance Agency Ltd
- Coop Bank Staff welfare Teams

1.2. ECO-EFFICIENCY

- Resource Efficiency, Less Paper, Less Electricity, Less Fuel
- Product Life -cycle analysis

2. SOCIAL SUSTAINABILITY INITIATIVES

- Employee Diversity
- Employee Welfare
- HR Policy Framework
- Whistle-blowing policy
- People with Disabilities Policy
- Attracting and Retaining Talent
- Skills Development and Career Progression
- Community Dialogue
- Labor standards
- Responsible competition
- Responsible supply chain and supplier relations
- Responsible marketing and advertisement
- Product Stewardship

3. SOCIO-ENVIRONMENTAL

- Staff Health, Safety & Wellness Programme
- Global Climate Change
- Local environment Impact

4. ENVIRONMENTAL

- Waste Minimization/ resource management
- Emissions Reduction
- Regulatory Compliance
- Ecosystem Services
- Biodiversity

Sustainability in detail:

This section discussed our sustainability priority areas in detail.

1. ECONOMIC

As significant players in a wide economic ecosystem, we know our actions impact the wider economy. We run our business in a way that ensures that our growth is sustainable in the long run and leaves minimal adverse impact on natural resources and the environment for the future generations. We have distributed over Kshs. 36.6Billion in economic value as detailed in the Value distribution section of this integrated report.

1.1. SOCIO-ECONOMIC

Our Social economic initiatives are meant to address pressing societal challenges in a participative way.

Local Economic Impact

- We recognize that for there to be economic growth we have to offer sustainable financial intermediation in the economy by connecting the surplus (Deposits) and the deficit (Loans). We are an agent of economic growth.
- Credit is the fuel of economic engine; over the last 5 years our net loans and advances to customers have grown at a compound annual rate of 5%. As at December 2019, Kes.266.7 Billion was outstanding as loans and advances to public and private enterprises.
- As one of Kenya's top corporations we contribute to the country's economic growth through provision of responsible, innovative banking products and services through our various channels.
- Corporate & Co-operatives Banking – supported by IFC, we started a sector focus initiative in May 2018. The over Kshs. 100 Billion Book is approximately distributed as follows;
  - Agri Business, Manufacturing & Trade 29%
  - Education, Health & Financial Services 26%
  - Energy & Natural Resources 29%
  - ICT, Infrastructure, Construction & Services 16%
- MSME Banking - Supported by IFC, we launched an MSME transformation on 23rd August 2018. So far, 71464 Clients have been onboarded, 153,600 mobile unsecured business loans disbursed and 4000 trained.
- The Government also borrows from us in order to realize the achievement of sustainable development projects.
- We have spurred economic growth through our strong balance sheet growth over the years as detailed in the financial performance section of this report.
- We have been feted for our sustainability efforts;
  - The Kenya Bankers association, in its 2019 Catalyst Awards recognizing catalytic finance that impacts industry, economy and society declared us the most sustainable Bank and awarded us;
    - Overall Winner
    - Winner - Client case study, Financing SMEs
    - **1st** runner up - Best in sustainable finance
    - **1st** runner up - Bank case study, Bank operations
    - **1st** runner up - Financing the informal sector
    - **2nd** runner up - client case study, commercial
    - **2nd** runner up - Most innovative bank
  - Best Bank in Sustainable Finance in Kenya – 2019 by Kenya association of manufacturers
  - Winner: Environmental Sustainability Reporting by ICPAK financial reporting awards
  - Product innovation of the year by global SME finance awards 2019
  - Best Bank in Kenya by EMEA Finance African banking Awards 2019.
- We have 1420 Local suppliers and 52 foreign suppliers. In 2019, we paid over Kshs 12 Billion to our suppliers. Of this amount, 91% was paid to local suppliers. Sourcing and Facilities management is anchored on the following; Sourcing and Facilities management Manual, Sourcing and Facilities Management Policy and ICT Sourcing Policy.
- Co-operative Bank today represents the number one point of financial intermediation contact for Kenya's over 15 million member strong Co-operative movement with mobilized members' savings and deposits in excess of Kshs. 732 billion, an asset base of approx. Kshs. 1 trillion and hold a loan portfolio of KShs 700 billion. Directly and indirectly, Co-operatives account for 45% of Kenya's Gross Domestic Product and 30% of national savings and deposits.

Through Partnerships:

- Development finance is required for long-term investment and economic growth. We had long term borrowing of up to Kshs 26.4Billion.

Taxes

- We contribute to the creation of prosperity and to the stability of our country through paying taxes. Taxes provide essential public revenues for governments to meet economic and social objectives. We view taxation as an essential part of our corporate social responsibility.
- In 2019 the bank paid Kshs. 6.4 Billion in Corporate taxes and Kshs. 2.64 Billion in employee Payroll taxes to the Kenyan tax authorities.
- The bank is also a Kenya Revenue Authority (KRA) appointed agent to assist the taxman in collection of various taxes across the country.
- The bank also directly invests in government securities as well as lending to various public entities.

Business Ethics

- At Co-op Bank we strongly believe that ethics are the heart of any strong organization. In being ethical we have managed to foster employee morale, boost brand reputation, encourage loyalty in all our stakeholders, and improve our bottom line.
- We're determined to do the right thing for our stakeholders and the planet: that's how we have become one of the leading financial institution in Kenya and the Region.

Through employment

- Co-operative Bank has employed 4,422 staff members, a young and energetic team with over 83% being under 40 years. This has provided a livelihood to thousands of families and positive contribution to our economy. The staff contributed Kshs. 2.64 Billion in employee Payroll taxes to the Kenyan tax authorities.

Social Investments

- The bank makes immeasurable social investments directly through two of its subsidiaries; Co-op Bank foundation and Co-op Consultancy & Insurance Agency Ltd (CCIA).

Co-op Bank foundation

- In 2007, in recognition of the need to enhance the existing Corporate Social Investment (CSI) initiatives by the bank, the Co-operative bank foundation was established to complement public effort's to increase access to education for the young people both at secondary school and university level. The bank also offers mentorship and internship programmes to the beneficiaries to provide them with the necessary exposure to work environment. The secondary scholarship program has grown from an initial sponsorship of 30 students per region, to 60 students per region and another 5 students per county. Since inception the foundation has spent Ksh.1.18 Billion to support a total of 7657 learners in high school, universities, colleges and vocational institutions. In 2019, the foundation spent Kes.151.2 Million to support 2,834 students in various stages of their education; 2,680 in Secondary school education, 150 in university and 4 in Co-operative University College. The bank pays the learner's full school fees plus a monthly stipend for out of pocket expenses.

Co-op Consultancy & Insurance Agency Ltd

- CCIA was formed in 2002 as a specialist subsidiary of the Bank to provide capacity building (Consultancy and financial advisory) services mostly to the Co-operative movement and other selected sectors of the economy at very concessionary terms. Its key objective is to enhance efficiency and profitability of the Co-operative movement through the provision of affordable solutions.
- Since inception CCIA has successfully conducted 2800 business advisory mandates and trained thousands of people drawn from the co-operative movement and microfinance institutions. In 2019 alone, CCIA trained 4200 people drawn from 245 societies and microfinance institutions comprising of 876 board members, 2,121 staff members, 1,122 society members and delegates and 20 individuals from microfinance institutions. Over 70% of CCIA staff costs are absorbed by the bank. The consultancy has 20 consultants and a small compliment of support staff.
- In 2019 we worked with three donor projects (KCEP-CRAL Project, We-Effect and Bankable Frontiers Association (BFA)) with a total of approx. Kshs 19 Million
- The work of CCIA focuses on key areas of impact between business and society and develops creative solutions that draw on the complementary capabilities of both, to address major challenges that affect each partner.

Co-op Bank Staff welfare Teams

- 23 Staff welfare teams from various branches and departments carried out corporate Social Responsibility visiting children's homes, attending prison open days etc.

1.2. ECO- EFFICIENCY

Eco-Efficiency promotes transformation from unsustainable development to one of sustainable development. It is based on the concept of creating more goods and services while using fewer resources and producing less waste and pollution.

Resource Efficiency

We have a four-way approach towards resource efficiency:

- Prudently managing resources (both financial and non-financial).
- Financing green initiatives
- Protecting Kenya's forest cover through tree planting initiatives
- Supporting employee CSR activities that positively impact the environment

We support directly and indirectly (through funding of projects engaged) in:

- Construction or physical improvements related to energy and water performance
- Improvements of at-risk public lands, forests and waterways and the general cleanup
- Creating awareness of the benefits of energy and water conservation/efficiency and solid waste recycling amongst our staff.

In 2016, we conducted energy audits in our major establishments to gauge our resource efficiency, identify gaps and areas of improvement. The system enables managing and accounting for energy usage. The bank has also established and staffed the Energy Manager office to steer the process. We are in the process of conducting the 2019 energy audit.

Some of the energy saving measures being championed by the energy team include:

- Use of standby and power saving modes on computers and monitors and switching off these machines at the end of the day and at other times when they're not in use
- Selection of appropriate print quality - for example low quality to be used for all internal documents, color printing to be used only in specified circumstances
- Printing in batches wherever possible
- Avoidance of all unnecessary and non-essential photocopying and printing - this has reduced.
- For all the new premises we have adopted green technologies including LED bulbs for lighting while for older premises we are replacing LFL lighting fixtures with LEDs as they burn out.

Our energy management roadmap

Energy management is critical in ensuring that Co-operative Bank manages its energy costs in a sustainable way. It also ensures that the bank complies with the energy management regulations of 2012 as outlined in the Energy ACT of 2006 that has since been revised to Energy ACT of 2019. The regulations outlines various aspects that the bank has to comply with as a minimum requirement.

The bank is also keen on reducing its carbon footprint by adopting clean and sustainable energy sources to power its operations. Strategic objectives of Energy Management are as follows;

- Cost Management
- Regulatory Compliance: Energy Management Regulations of 2012
- Environmental Protection

Where we are

Electricity costs

Year	2017	2018	2019	Variance 2019/2018
KES (Million)	226.6	264.6	260.9	(3.7)

Diesel costs

Year	2017	2018	2019	Variance 2019/2018
KES (Million)	25.2	26.3	19.2	(7.0)

What we are doing

- **Lighting upgrade installations** - This has been going on and we intend complete all the LED lighting replacements by Quarter 1 of 2022. All new branches have LED lighting installed including lighting controls.
- **Training of service managers/branches** - We are in the process of training the branches to monitor their electricity costs on a regular basis and check their meter readings before making any electricity payments. We are also in the process of training Service Managers on a continuous basis on this to ensure that they fully understand the subject properly.
- **Energy management policy development** - The policy will guide the whole organization in terms of its overall energy management goals and objectives. The policy is under review by various stakeholders and is targeted for adoption by end of Quarter 1 of 2020.
  - Maximise energy performance, reduce operating expenses and increase shareholder value by actively and responsibly managing energy consumption.
  - Measure and understand our energy consumption in all its forms, to understand the drivers of that consumption, to inform and educate all our people about it and set ourselves achievable goals for reducing it.
  - Demonstrate commitment to our community and leadership in our industry, by reducing environmental impacts associated with energy use.
- **Water management** – Ensure all facilities are connected to piped water have water fixtures that are efficient.
- **Energy audits** - We are in the process of conducting both investment grade and general energy audits for banks facilities. The energy audit is not only a regulatory requirement but also a measure to identify opportunities for energy conservation and efficiency.
- **Measurement and verification** - We carry out computations with measured data and analysis of electricity bills to establish energy and cost savings. This enable us to determine whether we are making positive impact after implementation of the initiative or not.
- **Regulatory compliance** - The energy Management Regulations of 2012 came in to effect in 2012 and mandates the bank to do the following;
  - Conduct energy audits once every three years-Ongoing
  - Develop an energy policy- Under Review by stakeholders
  - File implementation reports-Derived from the Energy Audit Report
  - Designate an Energy Manager- Done
  - Develop an Energy Investment Plan-To be developed from the ongoing Energy Audit Report
  - Implement Energy Audit recommendations to achieve at least 50% of the recommended savings-Ongoing
  - Carry out monitoring of the energy efficiency projects-ongoing
  - Keep a record of production and consumption data-ongoing
- **Major facilities** – Our identified major facilities consumes approximately 31% of the total energy demand of the bank. Some of the ongoing energy management initiatives targeting these facilities include:
  - Lifts Modernization
  - Data Centre Inrow Containment
  - Data Centre Infrastructure Management System
  - Installation of Chillers
  - Power Factor Correction
  - Solar Water Heating where necessary. We implemented a solar system at our Leadership and Management Centre in Karen (heats upto 3000litres of water daily, we have disconnected all instant showers)

Resource Management

Our bank's environmental policy is aimed at conducting business in a responsible manner through conservation, optimal use of resources, energy saving mechanisms and reduction of waste. We believe operating digitally and paperless hence in our transformation journey we have phased out paper deposit slips and automated over 68 previously manual activities including establishing e-loans. We are also requesting our customers to switch to digital bank statements. We are selling idle assets and shredded paper for re-use. We are enhancing water harvesting at our properties to reduce reliance on public utility firms and free that capacity for access by currently un-connected citizenry. Towards our pursuit of a carbon-neutral operation, we migrated from diesel-powered generators to electric inverters as backup for our ATM machines.

Our Growth and Efficiency Transformation Project continues to eliminate waste as a result of unnecessary motion, rework, overproduction, unnecessary processing, transportation and inventory; we have seen the following gains;

Less Paper

- Customer Relationship Management (CRM) System for bankers- CRM system with automated diaries for sales Appointments and follow-ups has eliminated the need for hard copy diaries.
- E-Loans- Digitization of credit processing via Mco-opCash E-Flexi and Flexi plus loans eliminating paper use. The e-loan book disbursements grew by 43 Billion in 2019.
- Proactive Stationery and equipment management-Overproduction waste: Branch printers' settings standardized to hold and back to back enforced to reduce unnecessary printing and usage of excess paper. Identification and repatriation of all unused / excess stationery and equipment in branch stores for redeployment.
- Service champions driving customer migration to alternative channels- Through experiential marketing; guiding customers to carry out transactions through convenience channels namely Mco-opCash, Agency and Internet banking.

- 89% of transactions are now handled outside the branch, reducing paper previously used for these transactions.
- Email statements and Internet banking has saved on statement printing paper.
- Cash and check drop boxes- Self-service cash and cheque deposit channel uses SMS notification cutting deposit receipts by 50%.
- Customer service phones- Installation of customer service phones with a direct line to the call center- Customers can use phones for balance enquiry, ATM blocking, PIN resets and regeneration etc. reducing stationary used to print statements and requisition forms.
- Q-Matic machines for in-branch marketing-The Q-matic kiosk with TV screens running advertisements have reduced use of paper marketing fliers.
- Automated Real- time service floor reports have eliminated the need for performance and customer questionnaire survey on paper.
- Business intelligence (BI) reports- Branch daily reports previously printed have now been automated through BI reports cutting paper and printing costs.
- Sales call reports automated for Relationship Managers hence no need to maintain paper documentation.
- Instant Issuing- Inventory waste: Instant card issuing has saved the cost of wasted unclaimed cards which have to be destroyed after 6 months.

Less Electricity

- Proactive branch time management brought by branch transformation- Effective branch closure time 45 minutes after doors close has resulted to saving electricity across our branch network.

Less Fuel

- Sales Force Excellence- Transportation waste: Up-skilling of Bankers to cross-sell a basket of products has reduced the excessive single products sales trips to customers resulting in efficient fuel consumption.
- E-Credit cutting down transportation of loan documentation from branches to Head office for disbursement.

Life-cycle analysis

We analyze all our products to ensure their sustainability. This is done throughout the following key life cycle stages of the products;

- Origination- proper product setup, pricing, Scoring, Credit reports, and pre-approval
- Processing and approval- Document verification, Risk & credit analysis reports, approval.
- Portfolio management- we have a proactive approach to managing our loan book.
- Servicing- For both loans and deposits, we ensure proper customer guidance to match the product and the need.
- We are guided by the Environmental and social management policy to ensure ethical products and services.

Cutting the ribbon to open Co-op Bank Maralal Branch on 10 December 2019 are (L-R) Co-opBank Director Retail & Business William Ndumia, Lekos Heights Building Manager Florence Ng’endo, Hon. Maison Leshomo Samburu County Women Representative, Samuel Mukiti of Co-op Bank, Hon. Alois Lentoimaga MP Samburu North Rift, Maralal Branch Manager James Wachira and Alice Maringa of Co-op Bank Rift Valley Regional Office.

2. SOCIAL SUSTAINABILITY INITIATIVES

To ensure that the group operates as a responsible corporate citizen by investing in the communities, engaging in sustainable programs particularly on education, agriculture and environment, and financial deepening in the co-operative sector.

Employee Diversity

The bank endeavors to preserve gender and cultural diversity in our employee mix and takes pride as an equal opportunity employer for all qualified persons. Diversity includes, but not limited to, religious and political beliefs, gender, ethnicity, education, socioeconomic background, and geographic location. This has created an inclusive environment where individuals and teams harness strengths in diversity to maximize potential and excel in performance. By way of internal staff forums, the bank raises employees' understanding of strength in diversity and ascertains the spirit of patriotism and oneness to maintain all-round staff wellbeing. Our duty to accommodate involves taking steps to eliminate disadvantage to employees, prospective employees or clients resulting from a rule, practice or physical barrier that has or may have an adverse impact on any individual or groups. This includes the hiring process as well as accommodating an individual once they are hired.

We closed 2019 with a staff compliment of 4422 that encompasses the breadth and depth of our diversity as shown here:

Performance Indicator	2019	2018
Total permanent staff	3883	3638
Total contract staff (Includes Sales Staff)	539	613
Total Staff Number	**4422**	**4251**
No. of staff on secondment to S. Sudan	19	22
Staff attrition (%) –Voluntary	3.22%	3.82%
Staff attrition (%) –involuntary	1.73%	3.17%
Sick off days	14073	14,293
% Female staff members	58%	60%
% male staff members	42%	40%
% of our staff who are younger than 40 years	83%	87.1%
% of our staff who have a tenure of more than 10 years	24%	17.3%
% of our staff who have disabilities	0.36%	0.37%
% Permanent staff	88%	86%
% Contract staff	12%	14%
No. of paternity applicants (actual taken)	207	282
No. of Maternity applicants (actual taken)	196	203
Average Increase in staff remuneration %	8%	13%
No. of staff on secondment outside Co-op Bank group*	2	1
Subordinate staff%	0.82%	0.94%
Senior Management %	2.16%	2.15%
Grievances as a percentage of total employee base %	<1%	< 1%
Number trained on Leadership and Coaching	741	204
List the wellness initiatives carried out	320	250

*Two Staff members seconded fulltime to i) Mortgage Refinancing and ii) Co-operatives Alliance of Kenya, for technical support and capacity building.

Employee Welfare

- We are determined to make the bank a great place to work, to encourage people to bring out the best of themselves in work and in helping each other realize their full potential. We view each other as part of one big family, and each member's welfare as our collective responsibility. Our Staff welfare club participates and contributes to the welfare of the members in both times of need and celebrations; such as newborns, marriages, Hospitalization and bereavement. We invest in out-of-office staff activities such as sports events, team-building and CSR activities in reflection of our deep commitment to staff wellbeing. In 2019, the bank was ranked position 4 overall out of 32 in the 33nd annual KIB inter-banks games for Nairobi region. The bank emerged winners in Table Tennis and Tug of war, men category.
- We aim to inspire our employees have meaningful life and work, be healthier and happy to work in Co-op bank every day.
- Corporate Wellness plan for 2019 key focus was on mental health and financial wellness. Within the year we facilitated 52 talks focusing on Mental Health -anger, stress & burnout.
- There has been a steady increase in uptake of Employee Assistance Programs (EAP) with staff having undertaken counseling referrals during 2019. We also facilitated 29 debriefing sessions for teams and individuals across the Bank to deal with grief following loss of a colleague or family member or traumatic events.

- 96 Health talks were held within the Bank network.
- The bank facilitated 13 fully furnished and ready to use lactation rooms across the network for use by lactating mothers

HR Policy Framework

We have proactive HR Policies, procedures and manuals that guide us on HR related issues. These include;

• Disciplinary, Grievance Policy and Procedures	• Retirement Benefits Scheme
• Sexual Harassment Policy	• Bank's Medical Scheme Rules for Staff
• HIV/Aids Policy	• Leave policy
• People with Disabilities Policy	• Policy On Overtime
• Occupational Safety and Health Policy (OSHA)	• Promotion policy
• Code of Conduct & Ethics	• Recruitment policy
• Dress Code Policy For Bank Employees	• Recruitment and employment documentation policy
• Guidelines On The Use Of Motor Vehicles	• Vocational employment
• Policy Guide On Employee Benefits And Allowances	• Performance Management policy
• Loan Facilities	• Performance Improvement Policy
• Transfer Of Staff	• Dress Code Policy
• Whistle blowing policy	• On job training procedure and work rotation policy
• Collective Bargaining Agreement	

Our duty to accommodate involves taking deliberate steps to eliminate disadvantage to employees, prospective employees or clients resulting from a rule, practice or physical barrier that has or may have adverse impact on any individual or groups. This includes the hiring process as well as accommodating an individual once they are hired.

Average work hours policy.

This is clearly spelt out in the Bank's Human Resource Manual/Guidelines as well as the Collective bargaining Agreement, which is binding for our unionizable employees. This aims at striking a healthy work-life integration.

The normal work hours are 164 per month. We have a policy on overtime that states all unionizable employees are entitled to special compensation for overtime work, work on rest days and public holidays according to the provisions of the Collective Bargaining Agreement. There is a policy guide on employee benefits and allowances. This policy guide is applied together with the Collective Bargaining Agreement that guides on unionizable employees.

Whistle-blowing policy

The Bank is committed to the highest possible standards of openness, probity and accountability and this is well captured by our whistle blowing policy. In line with that commitment, we encourage staff with serious concerns about any aspect of the bank's work to come forward and voice those concerns. It is recognized that certain cases will have to proceed on a confidential basis. The policy makes it clear that employees can do so without fear of reprisals. The Whistleblowing policy is intended to encourage and enable employees to raise serious concerns within the bank rather than overlooking a problem or simply reporting it outside of the defined channels within the Bank. This policy aims to:

- Provide avenues for staff to raise concerns and receive feedback on any action taken.
- Reassure staff that they will be protected from reprisals or victimization for "whistleblowing" in good faith.

The policy provides that staff may report an issue if it is unlawful; fraudulent; contrary to the bank's policies and procedure; falls below established standards of practice; amounts to improper conduct and breach the Bank's code of Conduct. There are in place systems to encourage staff to raise concerns in a structured and protected way.

This policy supplements other existing procedures relating to probity in the course of the bank's business or matters relating to the conduct of employees, including grievance, disciplinary, harassment and recruitment and selection policies and procedures.

People with Disabilities Policy

The Bank is committed to equal opportunity and access for people with disabilities. In accordance with our values and the law, the Bank does not exclude any qualified persons with disabilities from participating in employment opportunities and Bank programs or activities. We are a strong advocate that people with disabilities have the skills to pursue meaningful careers and play an important role in our society and contribute to the bank's success as well as the wider success of the society.

HIV/Aids Policy towards Positive Living

The bank has developed a HIV/AIDS policy based on the understanding that we are a caring institution with staff welfare at heart. As a policy, the bank does not screen for HIV during employee recruitment nor does it discriminate in any way against HIV positive staff and such cases are treated like any other health condition for purposes of medical cover.

Our HIV/AIDS policy ensures that staff living with HIV/AIDS enjoy equal health and social discretion, including confidentiality, prevention of stigmatisation and discrimination. Further, emphasis is made to provide information on preventive measures through external professional counsellors and trainers. Structured informal discussions at office level are also managed through the Peer Education Programme to promote sharing of awareness information and material.

Attracting and Retaining Talent

- The Bank has a recruitment policy that guides all the recruitment efforts in terms of the guiding principles, processes and procedures. The policy is reviewed as and when there are any changes effected on the recruitment process. Internally though, all policies are to be evaluated and reviewed every two years. Where the policy is changing, it is taken through an approval process, which involves key stakeholders including Board of Management.
- At Co-op Bank, we have made it a priority to improve on our lead position as an employer of choice. We do this by primarily attracting and retaining the best talent in the market through appropriate investment in human capital development, inculcating high performance culture, rewarding outstanding performance, competitive remuneration packages and encouraging and appreciating innovations.
- To achieve this, we have implemented Flight Risks assessments for critical roles as part of talent management interventions.
- We have succession planning in place for various talent benches for critical and flight-risk roles with at least 3 ready-now candidates per talent bench.
- Of our staff, a high degree of professionalism and integrity is demanded. We are an equal opportunity employer with an inclusive and conducive environment for work-life integration.
- We achieved a retention rate of 95% in 2019. Group wide voluntary attrition was only 3.22% and 1.73% was involuntary.
- Our target is an employee satisfaction rate of at least 92% and maintain a job offer acceptance rate of 95%.

Skills Development and Career Progression

- Our goal is to provide inspiring employee experiences whilst equipping our people quickly with the right skills in the most effective way and developing world-class leaders and managers of our business.
- We believe that human capital is the most valuable asset of a great company, hence our commitment to the development and success of our staff through first-class continuous training, leadership-building and skills enrichment.
- There is a clear effort in managing the careers of our employees through coaching and mentoring processes, role specific trainings as well as stretch assignments as part of growing our employees.
- Our Leadership and Management Centre (LMC) is tasked with up-skilling, re-skilling and developing our people. In 2019, 16,033 people underwent training in LMC over a cumulative 949 days.
- We have Premium training and exposure for retention of key critical skills areas and capabilities e.g. Productivity & Engagement Coach programs, Data Analytics exposure visits and training, Digital capabilities exposure & premium training (design thinking and agile methodology).
- To unlock potential and align staff for role performance we continued enabling team leaders with coaching skills. Coaching has also gone to the level where peers are coaching each other with ease considering that they are more candid to one another. We will continue to demystify coaching at this level for higher impact. Staff in PIP some have been successfully coached and turned around by their line managers. To complement coaching initiatives we conducted leadership and management programs for team leaders.
- We have a robust Key Performance Indicators (KPI) focused performance management process with clear linkages to rewards and better accountability mechanisms. The introduction of fewer KPIs focused on core deliverables, performance dialogues and daily huddles keep staff focused on their performance at all times , ensure that they focus on core deliverables and provide better ways to measure and ultimately reward great performance. As a result Staff productivity in 2018, measured by staff costs to total operating income increased by 26.2% mainly due to transformative initiatives in Sales Force Effectiveness (SFE), operational efficiencies, proactive retention, re-skilling, up-skilling, coaching and clarity of performance expectations. This allows career progression, acceleration and growth opportunities for the young and energetic team with 83% being under 40years. This has further enhanced internal mobility of talent.

Community Dialogue

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

Labor standards

- We practice the virtuous value of mindfulness in appreciating the need for work-life balance for our staff and we have created an inclusive and conducive environment to cater for their different requirements. We support staff in child-rearing responsibilities by providing time off work for male and female staff in line with existing labour laws and best practice for enhanced productivity and employee engagement.
- Our bank maintains cordial relations with the staff union and we continue to foster partnership to ensure that staff interests are addressed timeously.On a continuous basis we create an inspiring experience for our people by improving the employee engagement incrementally as a key success factor to great business results as well as staff productivity.

Responsible competition

We carry out our business in full compliance of the Competition Act to ensure our customers are protected. We do not take part in;

- Restrictive trade practices.
- Controlling mergers, acquisitions, and concentration of economic power.
- Unfair and misleading market practices.
- Anti-competitive agreements.

Responsible supply chain and supplier relations

In dealing with our suppliers we do due diligence. We have a minimum set of requirements to ensure that our suppliers abide by good business practices;

- Provide Workers' compensation and employer's liability insurance as required by law
- Criminal Background Checks to the extent permitted by local law
- Supplier should not assign Supplier personnel whose background checks show any of the following.
  - Felony or misdemeanor convictions involving dishonesty (e.g. bribery, fraud, embezzlement, theft, violations of securities laws), violence (including but not limited to sexual or child abuse crimes), or computer related crimes and/or convictions that are employment-related;
  - The existence of restrictions (such as court orders) that would prevent, or impose limitations on, a personnel's ability to provide the Services contemplated by the agreement.
  - Presents a higher than normal security risk to the Bank.
- Tax compliance (Valid Tax Compliance Certificate)
- Kenya Revenue Authority Pin certificate
- Business/ certificate of registration which the bank counterchecks with the registrar of companies.
- Certificate of registration with the requisite professional bodies
- Professional Indemnity cover for professional bodies
- Contractual liability cover for requisite firms offering services
- Relevant experience in carrying out the services or supply of goods
- Audited accounts for 3 years for assurance.

Supplier Diversity

We have 1420 Local suppliers and 52 foreign suppliers. In 2019, we paid over Kshs 12 Billion to our suppliers. Of this amount, 91% was paid to local suppliers. Sourcing and Facilities management is anchored on the following; Sourcing and Facilities management Manual, Sourcing and Facilities Management Policy, ICT Sourcing Policy.

Responsible marketing and advertisement

Co-operative Bank is a corporate member of the Marketing Society of Kenya (MSK). As a member we are bound by the code of Advertising Practice and Direct Marketing developed between the Marketing Society and the Advertising Practitioners Association (APA). The Code of Advertising Practice is based upon the International Code of Advertising Practice (ICAP), prepared by the International Chamber of Commerce. Co-operative Bank abides by this code which provides general rules in advertising practice that include moral issues across East African region, all media and communication channels, guiding principles and recommended complaints handling procedures in circumstances where bleach may occur.

The bank adheres to these principles both in letter and spirit and we actively seeks to confirm rather than seek to ingeniously go around the code. As a principle, all marketing communication the bank does conforms to the Marketing Operations Manual approved by the bank, which ensures communication doesn't violate any or our national laws. Specifically the bank communication is deliberately structured to communicate honestly and truthfully. As a result, communication involving words like Free and New are only used where, in truth and fact, the offer is absolutely free of cost or there is something that has never been offered before. All images used in the banks' advertising are legally obtained and models are compensated appropriately. The bank doesn't compel any of its staff or of its associates to offer free services. The bank doesn't run advertising communication seeking to influence children or minors in any way. As a principle, the bank doesn't run comparative advertising where it directly compares prices or other product features with any of our competitor financial institutions. Whereas this may not necessarily be unethical, the bank is careful not to depict other institutions negatively.

Product Stewardship

Our bank's products and brand propositions are designed to far exceed customer expectations and respond to the diversification and sophistication of their needs as well as changes in the business environment. By focusing on understanding our customers' needs, we have created a comprehensive range of ethical and excellent products. Our emphasis on operational excellence allows us to present the right product to the right person at the right time. The Bank has also invested heavily in innovative delivery channels, which has played a critical role in enhancing financial inclusion. We have positioned ourselves as a 'one-stop-shop' financial services provider. Across our network of outlets and channels, services offered go over and above the traditional banking services to include, Insurance, securities management, Custodial and trust services, stock brokerage, investments management and consultancy. We leverage our website, mainstream and social media to ensure we inform our customers.

Our staff are well trained and knowledgeable hence able to guide the customers to the financial solutions that best suit their needs. Through our Transformation Initiatives we reengineered the teller role and now our tellers are Sales and Service advisors. We also retooled our relationship managers to be able to offer the best from our customer centric basket of products. We have ongoing regional customer training for our MSME segments where we share best practice as we onboard them in the new MSME Packages.

On dispute resolution we have centralized all disputes through our CRM (Customer Relationship Management) system where all disputes are logged in and resolved. Enhanced cyber security assessments and monitoring using the newly established Security Operations Center ensures that all our financial solutions and customer data is well secured. We are on course in the implementation of the Kenya Banking Sector Charter.

3. Socio-Environmental Stewardship

To ensure that the group operates as a responsible corporate citizen by investing in the communities, engaging in sustainable programs particularly on education, agriculture and environment, and financial deepening in the co-operative sector.

Health, Safety & Wellness

- We value and protect the health and safety of our employees and people who directly or indirectly may be affected by our business activities. A safe and secure working environment is a key priority and our work-spaces are specifically designed with this in mind. Adequate dressing and equipment arrangements are in place for employees whose work necessitates this, thus facilitating high staff productivity. Our processes and procedures prevent incidents of safety hazards, ill health and occupational diseases. Being proactive on health and safety continues to reduce costs associated with absenteeism and contributes to a high performance culture. As part of our broader wellness programme, we facilitate staff access to professional advisors and counsellors on matters relating to work, health, relationships and general social wellbeing. In 2016, the bank launched a Wellness program for all staff aimed at basic health and wellness checkup, body composition analysis and dental and optical screening. This has gained traction and acceptance among the staff and participation is very high. We believe this enhances staff productivity and has a direct impact on business performance. We are guided by a comprehensive Occupational Safety & Health Policy which provides for Health, Safety & Welfare of staff in line with the OSH Act. (OSHA)

Global Climate Change

- We are cognizant of our role in facilitating the decarburization of the environment and enabling renewable-energy scale up. Bolstered by the Paris Agreement on climate change, there is now unprecedented international resolve to reconfigure the global economic system to address urgent human development needs without breaching crucial ecological and environmental limits. As a bank our activities will be guided by these globally agreed initiatives.

Local environment Impact

- We seek to establish partnerships with industry members, government agencies, relevant environmental bodies, suppliers, customers and the general public to promote and achieve a high standard of environmental care. Pursuant to this objective, the bank partnered with the Agence Francaise De Development (AFD) towards promoting Renewable Energy and Energy Efficiency investments in the country through a USD 37.1 Million (Euro 30Mn) credit agreement. In 2019, our green lending book stood at Kshs. 2.58 (Kshs. 3.11 billion in 2018). The Bank has funded various entities undertaking projects in Wind power generation, solar power installation and acquiring/upgrading to green energy efficient machinery. We also have a long-standing link with the Nairobi City Council to maintain green-gardens around Co-operative House. We have also collaborated with schools and government agencies in tree-planting activities in support of Kenya's effort to increase forest cover to the recommended 10% of area.

4. Environmental Stewardship

Environmental degradation is characterized by habitat loss and degradation due to human activity, climate change, and pollution, among other things. Climate change and pollution continue to be some of the biggest challenges facing the world today as global threats that may affect all aspects of our civilization. The climate change related risks for the banking industry in Kenya vary from the indirect rise in operating costs to largely non-existent legal guidelines. We appreciate that banks that successfully handle and manage these risks from the onset, will not only be in a position to manage these costs but will also benefit from various opportunities such as being able to address changing customer profile expectations and meeting the financing needs of "green" investments. For this reason, we at co-op bank believe that climate change is a strategic issue that requires full integration with all business processes and decision-making mechanisms. Our Transformation Project, which is owned right from the Board level, has contributed positively to resource efficiency as detailed in this Sustainability section.

Caring for the Environment

Climate change continues to be one of the biggest challenges facing the world today, as a global threat that may affect each and every aspect of our lives. The climate change related risks for the banking industry in Kenya vary from the indirect rise in operating costs to largely non-existent legal guidelines. We appreciate that, banks that successfully handle and manage these risks from the onset, will not only be in a position to manage these costs but will also benefit from various opportunities such as being able to address changing customer profile expectations and meeting the financing needs of "green" investments. For this reason, we at co-op bank believe that climate change is a strategic issue that requires full integration with all business processes and decision-making mechanisms.

Waste Minimization/ Resource Management

In order to reduce waste the bank has proactively adopted a 3Rs Model of Retain, Recycle and Re-use. Everything is useful to somebody else; Shredded papers are given to recyclers, Used envelops are re-used internally and detailed catalogue of assets and users is maintained to facilitate internal shifting from idle (Excess) stations to where they are shortages instead of procuring new ones.

Emissions Reduction

Finance plays a key role in the transition to a low carbon economy by helping our customers to mitigate their emissions, save energy and reduce costs by providing funding for energy efficiency and renewable energy generation projects from small to large enterprises.

Regulatory Compliance

We maintain an open, honest and transparent relationships with the regulators and ensure compliance with all legal and regulatory requirements. As one of Kenya's big banks we understand our responsibility in constantly engage regulators in order to promote the required soundness and stability.

Ecosystem Services

The bank has fully shifted to the use of green gases equipment's to be in compliance with the Kyoto protocol and the green environment envisaged in the future; For instance the bank has substituted air conditioning equipment that have green gases (R410A & R407) as opposed to the prohibited R22. These gasses that do not contain chloroform that enhances depletion of the ozone layer.

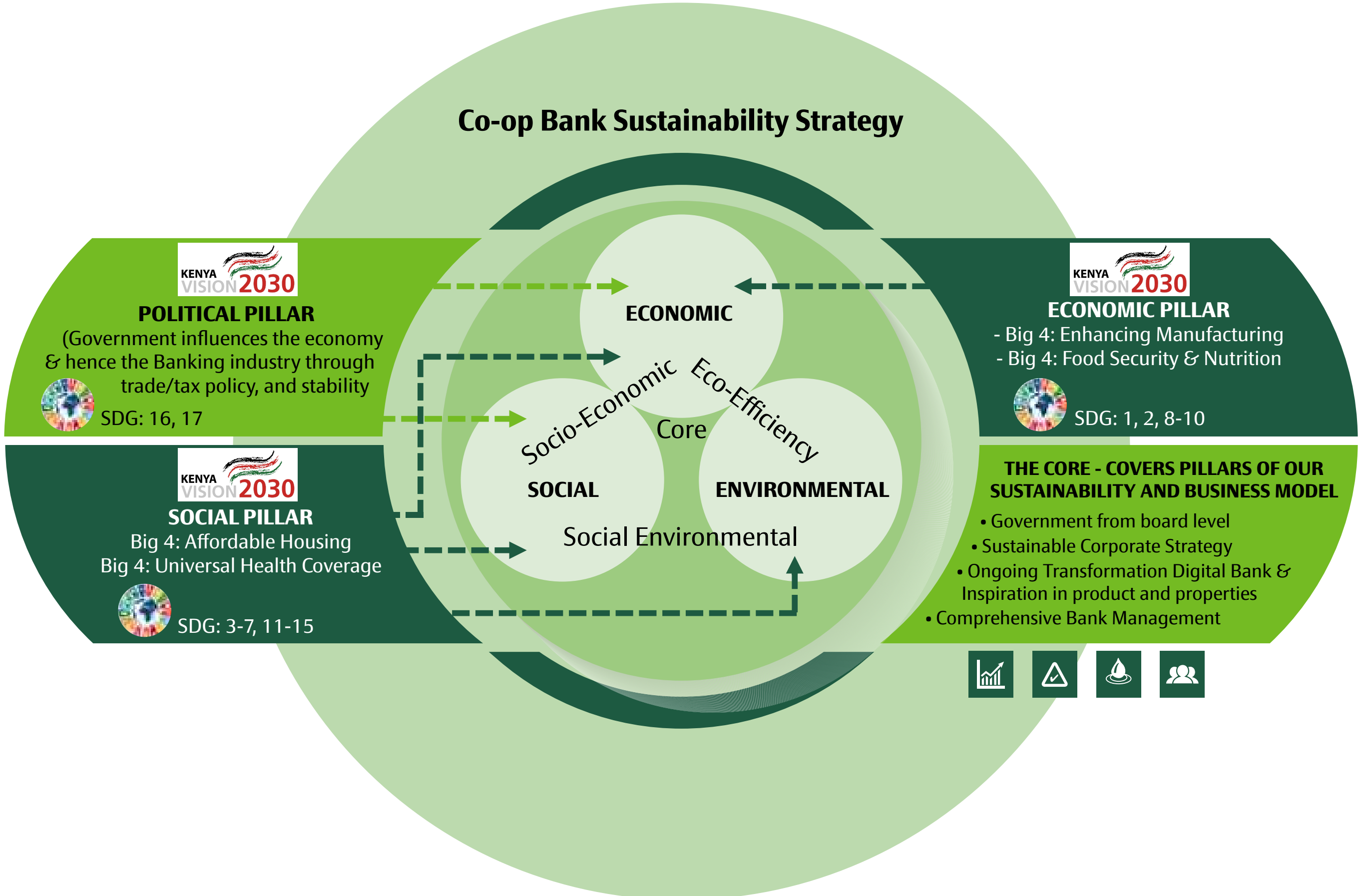
Biodiversity

- Biodiversity underpins life on Earth. It ensures the sustainable productivity of soils and provides the genetic resources for all crops, livestock, and marine species harvested for food. We recognize the global threat posed by environmental issues such as climate change and loss of biodiversity. We ensure preservation of biodiversity by requiring our customers to provide requisite approvals from authorities tasked with environmental protection such as National Environmental Management Authority (NEMA).

Sustainability Integration

As illustrated below, our sustainability strategy closely responds to

- Kenya Bankers Sustainable Finance Initiatives principles
- Vision 2030
- Big Four Agenda
- UN Sustainable Development Goals



Conclusion

As a financial services firm, we are driven by our desire to enhance financial inclusion and help millions achieve their ambitions by fulfilling their financial services needs in a responsible and sustainable manner. This is aligned with the UN Sustainable Development Goals (SDGs), which aim to address development challenges to end poverty, protect the planet and ensure prosperity for all. The role of business is fundamental, both to transition away from practices that undermine the goals' achievement and to proactively create solutions that solve existing challenges.

As a bank that is predominantly-owned by the 15 million-member Co-operative Movement, we are inclusive by design. This has not only enabled us to deliver shared prosperity today, but also helped us build awareness and prudence to avoid putting future generations in jeopardy. Sustainability is fully integrated in our business model that stands on the three pillars of Economic sustainability, Social sustainability and Environmental stewardship.

5 Year Financial performance: Key Numbers

Key Financial Position Numbers

			Dec-19	Dec-18	Dec-17	Dec-16	Dec-15
	5Yr CAGR	YoY	KSHS.B	KSHS.B	KSHS.B	KSHS.B	KSHS.B
Loans and advances to customers (net)	5.0%	8.7%	266.7	245.4	253.9	236.9	208.6
Total Assets	5.9%	10.5%	457.0	413.4	386.9	351.9	342.5
Customer deposits	4.6%	8.7%	332.8	306.1	287.4	260.2	265.4
Borrowed funds	6.5%	10.6%	26.4	23.9	21.2	19.8	19.3
Total Liabilities	5.1%	9.9%	376.2	342.2	316.6	290.7	292.7
Total Shareholders' Funds	9.6%	13.5%	79.3	69.9	69.6	61.3	50.2

Key Profitability Numbers

			Dec-19	Dec-18	Dec-17	Dec-16	Dec-15
	5Yr CAGR	YoY	KSHS.B	KSHS.B	KSHS.B	KSHS.B	KSHS.B
Total Interest Income	3.5%	1.5%	43.6	43.0	40.4	42.3	36.8
Total Interest Expenses	-1.9%	1.1%	12.3	12.2	12.3	12.8	13.6
Net Interest Income	6.2%	1.6%	31.3	30.8	28.1	29.5	23.2
Fees and commissions on loans and advances	7.0%	438.1%	3.2	0.6	2.6	2.3	2.3
Other Fees and commissions	5.9%	7.7%	9.6	8.9	7.2	7.5	7.2
Foreign exchange trading income	-7.7%	-6.6%	2.1	2.3	2.2	1.8	3.2
Total Non-Interest Income	5.4%	33.0%	17.2	12.9	13.5	12.8	13.2
Total operating income	5.9%	10.9%	48.5	43.7	41.6	42.3	36.4
Loan loss provision	4.9%	41.1%	2.5	1.8	3.6	2.6	2.0
Total Operating Expenses	5.4%	8.1%	27.8	25.7	25.3	24.6	21.4
Profit Before Tax	6.1%	13.8%	20.7	18.2	16.4	17.7	15.4
Profit After Tax	4.1%	12.7%	14.3	12.7	11.4	12.7	11.7

Key Ratios

	Dec-19	Dec-18	Dec-17	Dec-16	Dec-15
Capital Adequacy Ratios					
Core capital (Tier 1) to Total Deposits	20.2%	19.3%	20.0%	19.7%	17.5%
Core capital (Tier 1) to Total risk weighted assets	16.3%	16.0%	15.8%	16.1%	15.7%
Total capital / Total risk weighted assets	16.8%	16.4%	22.0%	22.7%	22.4%
SHEQ Capital / Average Assets	18.2%	17.5%	18.8%	17.7%	16.0%
Debt to Equity Ratio (Total Debt / SHEQ)	33.3%	34.3%	30.4%	32.3%	38.4%
Asset Quality Ratios					
Coverage Ratio	58.1%	54.7%	54.3%	71.2%	87.5%
Cost of Risk	1.0%	0.7%	1.5%	1.2%	1.0%
Non-Performing Loans in Total Loans	9.9%	10.3%	7.0%	4.3%	3.4%
Earnings and Efficiency Profitability Ratios					
Return on Average Asset (ROAA)	3.3%	3.2%	3.1%	3.7%	3.7%
Return on Equity (ROAE)	19.2%	18.3%	17.4%	22.7%	25.0%
Net Interest Margin	8.8%	9.4%	8.9%	10.5%	10.3%
FX/Non Funded	12.5%	17.7%	16.5%	14.1%	24.2%
Non - Funded to Total Operating Income	35.4%	29.5%	32.4%	30.2%	36.2%
Cost Income Ratio (With provision)	57.4%	58.8%	60.9%	58.3%	58.8%
Cost Income Ratio (Without Provision)	52.1%	54.6%	52.2%	52.1%	53.2%
Liquidity Ratios					
Liquidity ratio	46.2%	41.1%	33.8%	33.7%	37.1%
Total Loans to Total Deposits	80.1%	80.1%	88.2%	89.9%	77.6%
Loans /(Deposits+Borrowed Funds)	74.2%	74.3%	82.0%	84.0%	72.0%
Source: CBK Audited Disclosure					

Integrated risk management review

At the heart of our Group Business activities is our approach to effective and integrated enterprise risk management. Enterprise risk management is a critical pillar of our business Strategy and operations, therefore our commitment and resolve in moving beyond compliance with minimum regulatory requirements.

Group Philosophy on Enterprise Risk Management

Effective enterprise risk management is fundamental to the business activities of the Group. While we remain committed to increasing shareholder value by developing and growing our business within our Board approved Risk Appetite, we are mindful of achieving this objective in line with the interests of all key stakeholders. We seek to achieve an appropriate balance between risk and reward in our business, and continue to build and enhance risk management capabilities that assist in delivering our growth plans in a controlled environment.

Risk management is at the core of the operating structure of the Group. We seek to limit adverse variations in earnings and capital by managing risk exposures within agreed levels of risk appetite.

Our risk management approach includes minimizing undue concentrations of exposure, limiting potential losses from stress events and ensuring the continued adequacy of all our financial resources. Our risk management processes proved effective throughout the year, despite a tough economic environment and the capping of interest rates in Kenya. The Board of Management was closely involved in important risk management initiatives, which focused particularly on preserving appropriate levels of liquidity and capital, and effectively managing the risk portfolios.

Responsibility and accountability for risk management resides at all levels within the Group, from the Board of Directors, business unit managers to all staff who have been sensitized and appraised on this expectation. Risks are controlled at the level of individual exposures and at portfolio level, as well as across all businesses and risk types.

Enterprise Risk Management Framework

Our integrated enterprise risk management framework has enabled us to clearly appreciate, regulate and determine the level of risk we are willing to take in order to earn an optimum risk adjusted return. This means that we have effectively been able to;

1. Put in place appropriate risk governance structures and effective policies that enable us to oversee risk taking in the group.
2. Establish our risk universe- all the risks to our strategy and operations that we face as a group.
3. Through our risk management processes we have been able to establish our risk appetite- the quantity and nature of risks that we are willing to take in order to achieve our strategic objectives (create and preserve value).
4. Leverage on the available risk data and infrastructure which has allowed us to effectively manage our risks.
5. Effectively quantify, assess and communicate risk matters throughout the group.
6. Effectively manage the risks that are in our risk universe.
7. Effectively come up with appropriate response to risk exposures ensuring optimum risk- return tradeoff.
8. Proactively manage risk through our self-risk assessments and stress testing processes.
9. Ensure compliance to regulatory requirements and adherence to best practice

All the above elements of our risk management framework are reviewed regularly to ensure dynamism which is key in the current operating environment.

Risk Governance

At the apex of Risk Governance is the Board of Directors. We have various committees within the Board that are tasked with specific areas of governance. These committees are; Board Audit Committee (BAC), Board Risk Committee (BRC), Board staff and Nominations Committee (BSNC) and Board Credit Committee (BCC).

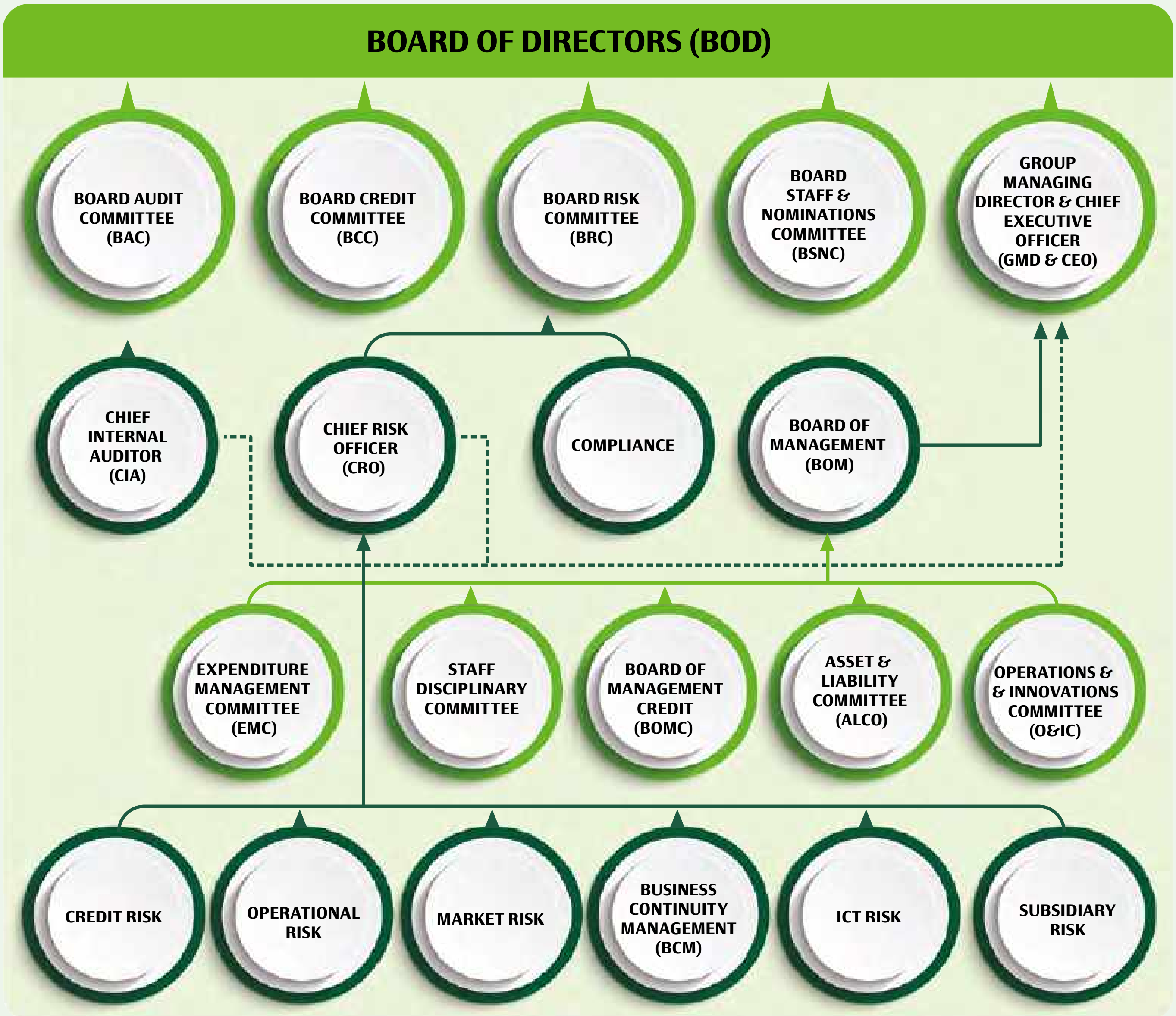
The Group Managing Director & CEO who reports to the Board of Directors (BOD), is supported closely by the Board of Management, Asset and liability Committee, Board of Management Credit, Expenditure Management Committee, Staff Disciplinary Committee and the Operations & Efficiency Committee.

The office of the Chief Internal Auditor and Chief Risk Officer report to the Board Audit Committee (BAC) and Board Risk Committee (BRC) respectively.

Risk Governance Structure

Strong independent oversight is in place at all levels throughout the group. Various committees allow the Board of Directors and the Board of management to evaluate the risks faced by the Group, as well as the effectiveness of the Group's management of these risks.

These committees are integral to the Group's risk governance structure. The following figure depicts our risk governance structure.



Risk Governance Standards, Policies and Procedures

The Group has developed a set of risk governance standards for each major risk type that form the basis of policies and procedures developed at the Bank and Subsidiary level. The risk standards set the minimum governance, control and reporting criteria for each of the main risks at a Business unit, Bank, Subsidiary and Board level. Risks are identified, measured, managed, controlled and reported. Of particular relevance is the role of the Board Risk Committee (BRC) in critically assessing and monitoring risks to which the Group is exposed. BRC and other risk committees regularly request in-depth reviews of current and potential risk issues and flashpoints.

The Board of Directors retains overall responsibility for the management of risks within the Group. The GMD & CEO is supported by the Board of Management (BOM) and Risk Management Department in discharging risk management in the Group. Independence and appropriate segregation of responsibilities between business and risk is maintained to ensure that origination of new business is within set risk appetite limits. Risk taxonomy is provided within the Group's Risk Management Framework. Arising out of the framework are material risk types identified, proper mitigation done and capital allocation done thereof. These include mainly: - Credit risk; Settlement risk on the Trading Book; Credit concentration risk; Market risk; interest rate risk; Foreign exchange rate risk; Liquidity risk; Operational risk; ICT Risk; Compliance risk; Strategic risk; Business continuity risk; Reputational risk; Country and transfer risk.

Risk Management Department, collaborating with the Risk Owners, undertakes a comprehensive risk identification process on a periodic basis. The Group puts in place necessary mitigation tools to manage the identified risks.

Risk Management Lines of Defense in the Group

First line of defense	Business unit heads	Primarily responsible for risk management. Assessing, evaluating, and measuring risk is incorporated into the day-to-day activities of the business. The team implements the risk management framework and is accountable for risk reporting to appropriate governance functions in the group.
Second line of defense	Group and business unit risk management functions (Independent of business management)	The Group risk management function is primarily accountable for setting the group's risk management framework and policies, providing oversight and independent reporting to the Board of Management, and to the Board of Directors through the Board Risk Committee. The Risk Management Department ensures implementation of the Group's risk management framework and policies in the business units and provide an independent overview of the effectiveness of risk management by the first line of defense.
Third line of defense	Internal audit function	Provides an independent assessment of the adequacy and effectiveness of the overall risk management framework, risk governance structures, practices and reports to the Board through the Group Board Audit Committee.

Risk Management Processes

Our risk management processes include:

1. Risk profiling with a view to identify the different sets of risk universes i.e. risk sources;
2. Risk identification (which we jointly perform with our business units and risk champions);
3. Risks assessments/ measurements (using a risk scoring matrix with risk impact and likelihood as measurement variables);
4. Risk mitigation through measures such as internal controls, insurance, acceptance and avoidance; and
5. Risk monitoring, reporting and ongoing assurance of the program.

Risk Appetite Framework & Statement

Risk appetite is the level of risk that the Group chooses to onboard in pursuit of its strategic objectives. It reflects the Group's capacity to sustain potential losses at varying levels of probability, based on available capital resources. The Group's risk appetite frameworks approved by the Board combines a top-down view of the Group's capacity to take risk with a bottom-up view of the risk profile provided by each business line. The Group's risk appetite framework was developed by engaging key stakeholders at the functional, business and executive levels of the organization and accordingly, the Group's risk appetite statement (and its associated components) is regularly reviewed and updated in line with the evolving strategy, business model, financial capacity, business opportunities, regulatory constraints and other internal and external factors.

The Group regularly monitors the level of potential deviation from expected financial performance that it is prepared to sustain at relevant points on the risk profile. A review of the Group's business activities is undertaken to ensure that they are within the Group's risk appetite and are of an appropriate level (relative to the risk and reward of the underlying activities). To support its capital management objectives, the Group has an internal formalized and documented capital adequacy assessment process that it leverages to drive the capital management and allocation process which are clearly consolidated in the Group's Internal Capital Adequacy Assessment Process (ICAAP) report prepared by the Board and submitted to the regulator on an annual basis. The Group's internal capital targets exceed the minimum regulatory capital requirements. Performance against risk appetite is measured by the Risk Management Department and reported to BRC regularly throughout the year.

Our Risk Universe

TYPES OF RISKS THAT WE FACE	KEY RISK INDICATORS 2019 and Beyond	2019 Risk Review	Outlook
Pillar 1 Risks			
Credit	• Loan Book Growth • Non- performing loan Book growth • Cost of risk • Coverage	• Loan Book Growth 8.7% • NPL ratio 9.9% • Cost of risk 0.99 • Coverage 58.1%	• Ensure credit growth through Sales Force Effectiveness. • Proactive implementation and review of our Credit Policy. • Adherence to credit Risk Appetite and limits, credit risk early warning indicators, proper credit appraisal and approval mechanisms, KYC, AML due diligence, segregation of duties in credit analysis, administration, disbursement, collection, portfolio management, valuation and general collateral management, and remedial, proper grading and classification of facilities, restructuring, and proactive NPL management. • Stress testing & sensitivity analysis of credit risks scenarios. • Environmental & Social Policy guides advances affecting the environment & social impacts. • Training – all credit approvers undertake training courses to acquire and upskill on credit approvals. This is delivered via external trainers like Omega and internally through our online E-Learning portal. • Adherence to the CBK regulations stipulated in this regard
Market	• Maturity gap • Value at Risk • Position limits • Stop loss limits	The indicators were within our risk appetite	• Dynamic models such as duration analysis, PV01, simulation, value at risk and stress testing to simulate the uncertainties in the future values of the market risk indicators and ensure appropriate actions are effected.
Operational	Gaps that may be identified in People, Processes or Technology especially; • New Products • Security (staff and assets) • ICT infrastructure efficiency and Cyber security • Staff empowerment and productivity. • Business Continuity Plans • Code of Business Conduct • Insurance adequacy • Outsourcing engagements • Fraud and forgeries • Agency Banking • Mobile Banking • Internet banking • Reputation • Customer satisfaction index	Within our risk appetite. We ensured; Operational Risk was kept at the lowest level possible taking into account business strategy, market sentiment, regulatory requirements and the capacity to absorb losses through earnings and capital.	• Enhanced Risk and Control Self-Assessments (RCSA) at business unit level • Incident and Loss data Management • Proactive Internal control policies and procedure guidelines; • Service Quality Charter for both internal and external clients; and • Stress testing on identified Key • Risk Indicators.

TYPES OF RISKS THAT WE FACE	KEY RISK INDICATORS 2019 and Beyond	2019 Risk Review	Outlook
Pillar 2 Risks			
Concentration	Large exposures (Individual, Geographic, Industry / Sector, foreign currency loans or Collateral type)	Within our Risk Appetite The Bank through its risk monitoring tools assesses and monitors concentration risk in both its Banking and Trading Books. The Group also leverages on the Herfindahl-Hirschman index (HHI) to assess the concentration levels.	• Leveraging on internal systems and procedures to identify, assess, control and monitor any substantial credit risk concentrations. • The Bank will continue with strict limitation of concentration. The same will apply to the deposit profile and Bank investments where efforts are made to ensure that there is proper diversification. • Risk limits have been set on industry concentration and incorporated in the Bank's approved Risk Appetite Statement
Interest Rate Risk in Banking Book (IRRBB)	The Bank's 12 months repricing maturity gap between rate sensitive assets and liabilities	We are positively gapped in the aforementioned band (12 months) hence within our risk appetite	• IRRBB is managed by risk-taking business units. • Independent IRRBB monitoring and measurement undertaken by RMD • ALCO will continue to steer and integrate IRRBB risk management across the Bank
Liquidity	• Liquidity Ratio • Maturity gaps • LCR • NSFR	Our liquidity, LCR, NSFR ratios have been within our internally set limits and the regulatory limits. The liquidity ratio has been above 30% since 2013. (Dec 2019 – 46.2%)	• Managing liquidity risks will continue to be an integral part of Co-op Bank's business operation. Thus, liquidity risk will be continuously forecast and analyzed using different time horizons, with the aim of ensuring that the Group is able to meet its obligations optimally • The group's liquidity risk & contingency planning management framework will be reviewed on a regular basis.
Legal and Contractual	Litigation- net overall Bank exposure (settlement amounts in Kshs) in respect to pending litigations against and for the Bank	Was within our Risk Appetite The cases are in our favor and we do not envisage the exposure materializing against us.	Co-op Bank is committed to adhere to statutory, regulatory requirements and follow best practices and market standards in the areas of accountability, transparency and business ethics. The Bank aims at a zero tolerance of misconduct and corruption.
Compliance & Regulatory AML/ CTF adherence	Penalties and fines levied by the regulatory bodies to which the Bank and its subsidiaries companies adheres to i.e. CBK, CMA, RBA, IRA, KRA etc.	We have sustained our compliance with the statutory and regulatory requirements.	• Co-op Bank is committed to adhere to statutory, regulatory requirements and follow best practices and market standards in the areas of accountability, transparency and business ethics. The Bank aims at a zero tolerance of misconduct and corruption.

TYPES OF RISKS THAT WE FACE	KEY RISK INDICATORS 2019 and Beyond	2019 Risk Review	Outlook
Pillar 2 Risks (Cont)			
Strategic	Current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.	The Group has a Corporate Strategic Plan (2020-2024). The objectives and goals enshrined in the Plan have been formulated in a KPI format and these were used to align the Bank's activities to its vision and strategy, improve internal and external communications, and monitor performance against strategic goals. Group wide Biannual review of our strategic objectives and tactical plans was done to assess the implementation of Strategy. The Bank also used budgets and financial modeling tools to assess strategic risk. These tools amongst others are provided in the Group's Strategic Risk Management Policy.	• To continue with strategic response to changes in the industry. • To enhance and update the Strategic Risk Register.
Systemic	Systemic risks are caused by factors such as a significant bank run, bank closures, significant interbank exposures through bankruptcy of a counterparty, significant credit exposures in the banking book, significant exposures/ losses in the trading book and macroeconomic shocks such as high inflation, economic recessions, significant FX structural exposures and collapse of key institution/ banks within the industry.	We conducted a systemic risk assessment as part of our ICAAP process and outcome affirmed the Bank's posture within our risk appetite.	• The Bank through the Risk Management Team and the Investor Relations Team in Finance will continue to identify, assess, measure and manage systemic risk. • Stress testing both on a sensitivity analysis and scenario – based analysis will be conducted on a quarterly basis and based on the results of the tests, appropriate actions will be undertaken to inform strategies that need to be put in place to manage the adverse exposures.

Leveraging on risk data and infrastructure

In addition to the above defined processes, our risk management program provides for key risk indicators and triggers, which are embedded within our internally developed enterprise risk management application system, named 'R-Universe'. These indicators and triggers are generated from a number of periodic Risks and Controls Self-Assessment (RCSA) processes/ activities that have been conducted targeted at the Group businesses, departments, and units with the outcomes being modelled in Risk Registers and Heat Maps for effective decision making which will ultimately lead to optimum value creation for all our stakeholders.

The introduction of the automated system in 2016 was timely with one of the key benefits being providing a unified platform for effective collaboration between the business units through their risk champions and the Risk Management Department team. This collaboration has registered a number of successes which included the enhanced level of awareness of enterprise risk management within the Group and the level of commitment of the various stakeholders across board in playing their risk management roles as anticipated by the adopted framework. All business units today have been able to create their own risk registers through processes such as Risks & Controls Self-Assessment (RCSA), and Leadership of Business & Support Units identification of their key risks.

Risk Communication

Within our enterprise risk management practice, we have a reporting framework that ensures that all our key stakeholders are informed of the various enterprise risk management activities that the Group engages in. These audiences, depending on the specific communication, include; Board Risk Committee (BRC), Senior Management teams, various internal committees and all staff in the Group.

Risk communication in 2019 took the following forms;

1. BOM and BOD presentations and reports
2. Core briefs to all staff sent through email for team discussion and feedback
3. Training at our leadership and Management Centre in Karen
4. Training our Branches spread across the country and in South Sudan
5. Training our various Departments
6. Risk Policies repository on Bank's intranet that is accessible to all staff
7. Risk champions representing all the subsidiaries, departments and branches
8. CRO Corner- communication from the Chief Risk Officer to all staff

Proactive management of risk through our Risk Appetite Framework.

This is an important tool for enhancing the level of quantitative risk management program within the Group.

Our Risk Appetite Statement was developed and approved by the Board, and we use it to monitor and report on the key risks and deviations from the appetite that impact the

Group. Through the framework we engage the various business units and subject our risk assessments through the Appetite Statement, whose outcomes are the various gaps and breaches. These in turn form part of our monthly and quarterly reporting to the Board of Management, Asset and Liability Committee (ALCO) and Board Risk Committee (BRC) respectively.

Proactive management of risk through our stress testing processes.

In the Stress Testing program, we conduct quarterly stress testing exercises leveraging three sets of scenario cases namely, Exceptional but Plausible, Moderate and Extreme stress scenarios. We have conducted the tests for all the quarters in 2019 and the outcomes have informed the various measures that the Group has undertaken to ensure that our capital structure and levels, liquidity and business priorities/ activities are sound. The stress testing reports are also submitted to our regulator, The Central Bank of Kenya (CBK) on a quarterly basis.

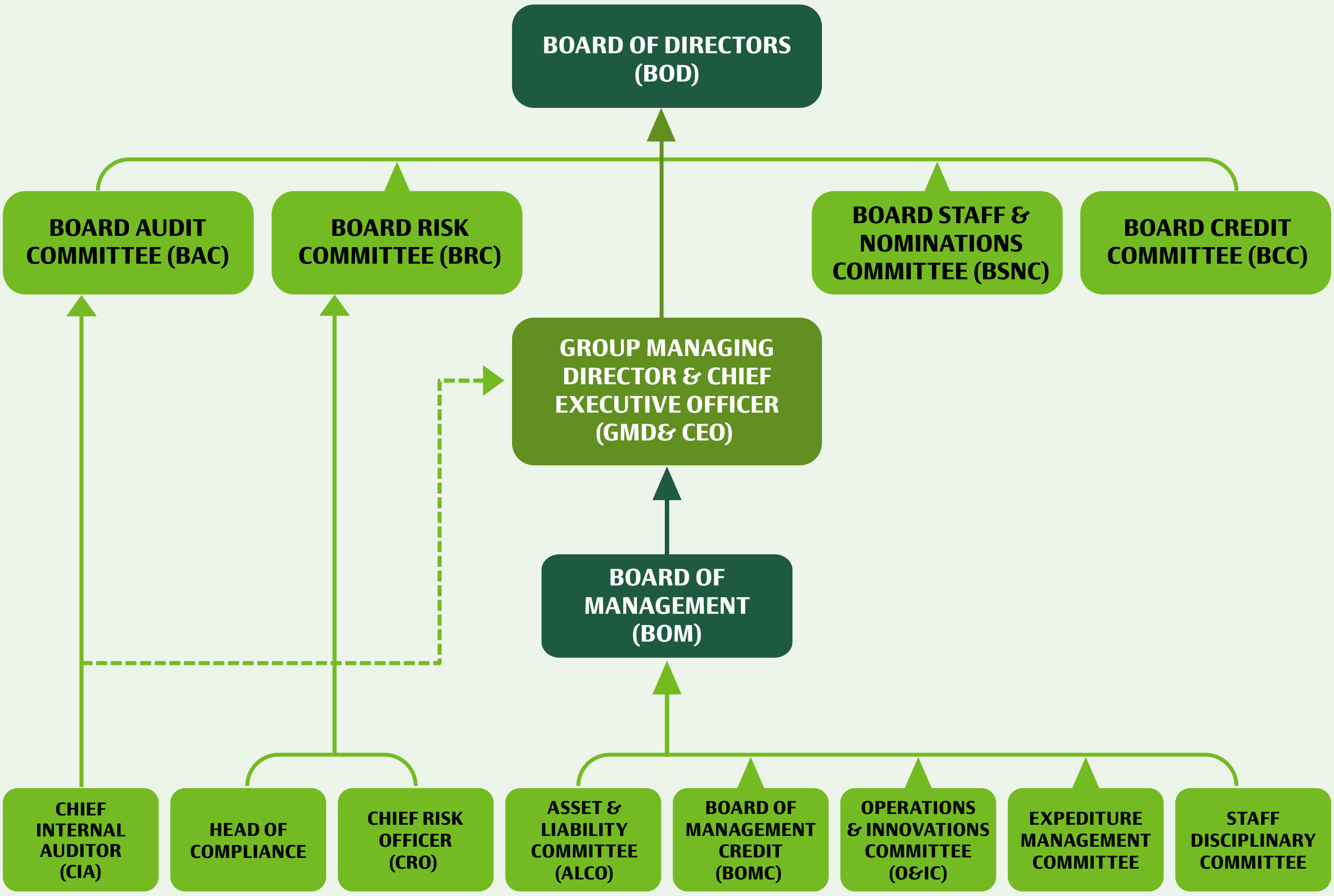
Outlook -2020 and Beyond Risk Priorities

- Ensuring the Board of management and Board Risk Committee are informed on emerging and current risk issues for enhanced strategic decision- making.
- Actively ensuring that our Policy framework is up to date and benchmarked to ensure optimal guidance on risk matters.
- Ensuring the Stress testing framework is proactively updated to capture all emerging key risk indicators and is implemented optimally.
- Optimizing the Vulnerability Management Tool for systems security monitoring.
- Enhanced cyber security assessments and monitoring using the newly established Security Operations Center that leverages on Qradar - a Security Information and Event Management (SIEM) tool for optimal cyber security threat management
- Carrying out annual Business Impact Assessment for the Bank and its subsidiaries.
- Continuous training of Group staff to ensure all staff are well informed on risk matters. Capacity Building on Enterprise Risk Management and Business Continuity.
- Ensuring group wide regulatory compliance.
- Ensuring proactive Internal Capital Adequacy Assessment Process.
- Continuously grow the capacity of the risk management unit commensurate to the Bank's growth and expansion plan.
- Automation of the risk monitoring as well as risk reporting & insights across all risk classes in order to provide a single comprehensive view of risk.

Corporate governance

Governance Structure

Our Governance structure is as follows;



Key Board of Directors Issues

Statement on Corporate Governance

Corporate governance is the system through which the Group business operations are directed, controlled and operated. Co-op Bank Group considers corporate governance to be a critical issue towards maintenance of business integrity and stakeholders' trust and is therefore an integral part of our business philosophy. Our corporate governance values are founded on the pillars of responsibility, accountability, fairness and transparency.

The Board is responsible for the Group's corporate governance practices and has put in place mechanisms to ensure observance and reporting on its compliance status on a regular basis including with regard to provisions of the Prudential Guidelines from the Central Bank of Kenya under the Banking Act.

Our high standards of corporate governance are not an exercise in compliance, but a means of driving the performance of the business whilst managing and mitigating business risks. The Group's corporate governance structure has been feted by reputable reviewers, leading to various recognition awards.

Code of Conduct

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

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

The Board of Directors

Board Composition

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

		Independent	Directors in Coop Holdings	Skills
1	**John Murugu, Director, Independent, OGW (69)**			• Banking • Public Finance • Organizational Change and Development • Business administration • Management Information Systems • Strategic Planning • Public Secretarial • Strategic Leadership • Corporate & institutional Banking • Mathematics • Business Management • Coffee Industry Management • Human Resource Management • Accounting • Education management • Co-operative Management • Tax • Economics • Foreign affairs • Finance
2	**Macloud Malonza, HSC, Director (51)**			
3	**Dr. Gideon Muriuki, CBS, MBS, Group Managing Director & CEO (55)**			
4	**Patrick K. Githendu, Director (66)**			
5	**Rose Simani (Mrs.), Director, Independent (61)**			
6	**Lawrence Karissa, Director, Independent (64)**			
7	**Julius Sitienei, Director (65)**			
8	**Benedict W. Simiyu, Director (58)**			
9	**Richard L. Kimanthi, Director (63)**			
10	**Wanyambura Mwambia, Principal Secretary - National Treasury appointee (64)**			
11	**Wilfred Ongoro HSC, Director (64)**			
12	**Godfrey K. Mburia, Director (63)**			
13	**Margaret Karangatha (59)**			

Appointments and induction to the Board

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

Board Responsibilities

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

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

- Setting policy guidelines for management and ensuring competent management of the business including the selection, supervision and remuneration of Senior Management;
- Ensuring that the business of the Bank is conducted in compliance with relevant laws and regulations; and
- Monitoring the Bank's performance and reporting this to shareholders especially at the Annual General Meeting.

Board and Strategy Meetings

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

Board Chairman and Group Managing Director

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

Board Performance Evaluation

The Board is responsible for ensuring that an evaluation of its performance and that of its committees and individual directors is carried out each year. This involves a self-review of the Board's capacity, functionality and effectiveness of performance against its set objectives. Evaluation enables directors to suggest how Board procedures may be improved by assessing strengths and weaknesses and addressing its balance of skills, knowledge and experience. This is done by way of both peer and self-evaluations, after which results are submitted to the Central Bank of Kenya (CBK). The Board and all its committees conducted evaluations during the year (2019) and no material concerns were expressed.

Internal Control and Audit

The Board has collective responsibility for establishment and management of appropriate systems of internal control and for reviewing their effectiveness. The system of internal control has defined procedures with operational and financial controls to ensure that assets are safeguarded, transactions authorized and recorded properly, and that material errors and irregularities are either prevented or detected within a reasonable period of time. The business performance of the Bank is reported regularly to its management and the Board through performance trends, forecasts and actual performance analysis against budgets and prior periods for close monitoring. The Board reviews effectiveness of internal control systems in place by taking into account results of work carried out to audit and review activities of the Group by both external and internal assurance providers. Internal assurance is carried out by an independent Internal Audit Department that reports to the Board Audit Committee and provides confirmation that the Bank's business standards, policies and procedures as set by the Board are being complied with. The Board has reviewed the Group's system of internal control and is satisfied that the system is effective. However, the Board recognizes that any system of internal control can provide only reasonable and not absolute assurance against material misstatement or loss.

Risk Management and Compliance

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management and compliance framework. The Board's Risk Committee is responsible for developing and monitoring the Group risk management policies established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. The Board's Credit Committee oversees the overall lending policy of the Bank by directing, monitoring, reviewing and considering all issues that may materially impact on the present and future quality of the Bank's credit risk management. The Committee also ensures that the Credit Policy and risk lending limits are reviewed at least on an annual basis and as and when the environment so dictates. The Board has also set up a Compliance Department which directly reports to its Board Risk Committee. The Compliance Department evaluates the Group's compliance framework, identifies and monitors relevant legislation applicable to the Group and ensures adherence to the Group's policies as well as legislative and regulatory requirements including changes arising and their impact.

Conflict of interest

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

Board training

The Board members have undergone in-depth training on Corporate Governance and Risk Management. Some of the training undertaken includes:

- Effective Director by Strathmore Business School
- Leading The Board (LTB) by Strathmore Business School
- Prudential guidelines for banks by Institute Of Directors (IOD)
- Enterprise wide risk management by Institute Of Directors (IOD)
- Leveraging on generation 'Y' by Institute Of Directors (IOD)
- I.T Governance by Institute Of Directors (IOD)
- Corporate Governance by Institute of Directors
- Governance Training on the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 by Capital Markets Authority

Board Committees

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

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

These committees have formally defined terms of reference with defined scope of authority, set by the full Board of Directors which are from time to time refreshed to synchronize them with new developments and requirements of Central Bank (CBK) Prudential Guidelines and are all chaired by independent non-executive directors.

Board Credit Committee

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

- Mrs. Margaret Karangatha - Chair.
- Mr. John Murugu OGW.
- Mr. Macloud Malonza HSC.
- Mr. Wilfred Ongoro HSC.
- Mr. Richard L. Kimanthi.
- Dr. Gideon Muriuki CBS, MBS – Group Managing Director & CEO

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

Board Audit Committee

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

- Mrs. Rose Simani – Chair.
- Mr. Lawrence Karissa.
- Mr. Wanyambura Mwambia.
- Mr. Patrick Githendu.
- Mr. Benedict Simiyu.

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

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

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

Board Risk Committee

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

- Mr. Wanyambura Mwambia – Chairman.
- Mr. Lawrence Karissa.
- Mr. Patrick Githendu.
- Mr. Benedict Simiyu.
- Mrs. Margaret Karangatha.

The Committee meets at least once every 3 months and at least twice in a year. Meetings are normally attended by resources from Risk Management and Compliance.

The objective of this Committee is to provide independent oversight of the Group's risk management and independent compliance functions in the Bank and its subsidiaries and outline the scope of risk management work, monitor external developments relating to the practice of corporate accountability and the reporting of specifically associated risks, including emerging and prospective impact, provide independent and objective oversight and review of the information presented by the management to ensure that risk policies are and strategies are effectively monitored and managed and taking account of performance and risk appetite, risk trends, risk concentrations, key performance Indicators for risk.

Board Staff and Nomination Committee

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

- Mr. Lawrence Karissa – Chairman.
- Mr. John Murugu OGW.
- Mrs. Rose Simani.
- Mr. Julius Sitienei.
- Mr. Godfrey K. Mburia.

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

Co-op Bank's Director Retail & Business Banking William Ndumia, West Pokot County Governor Prof. John Lonyang'apuo, Retired Bishop Stephen Kewasis and Bishop Emmanuel Chemengich at the opening of Co-op Bank Kapenguria Branch on 19th December 2019, bringing to 156 the bank's branch count in Kenya.

Board attendance summary

Directors-2019 Board Meetings Attendance	Co-operative Bank Group				Co-operative Bank of Kenya Ltd Board Sub-committees			
	Co-operative Bank of Kenya Ltd	Co-op Consultancy & Insurance Agency Ltd	Co-optrust Investment Services Ltd	Kingdom Securities	Audit Committee	Staff and Nomination Committee	Credit Committee	Risk
Schedule of meetings:								
John K. Murugu OGW–Chairman (Appointed on 01-October 2017)	7					1	3	
Macloud Malonza HSC- Vice Chairman (Appointed on 01-October 2017)	7	5	5				2	
Dr. G. Muriuki, CBS MBS - Group Managing Director & CEO	7	5	5			3	3	
Lawrence C. Karissa	7				5	4		4
Rose Simani (Mrs)	7				5	1		2
W. Ongoro, HSC	7						3	
W. J. Mwambia – representing PS Ministry of Finance	7				5			4
Julius Sitienei	7			5		4		
Richard L. Kimanthi	7						3	
Benedict W. Simiyu	7				2	3		2
Godfrey K. Mburia	7					4		
Patrick K. Githendu	7				5			4
Margaret Karangatha (Mrs)	2						1	2
Scholastica Odhiambo (Mrs)		5	5					
James N. Njiru		5	5					
David M. Muthigani		5	5					
Geofrey Njang'ombe		2	2					
Francis Ngone		5	5					
Geoffrey M'Nairobi		5	5					
Michael Muriithi		4	4					
Boaz Ouma Awitti				5				
Mwangi Kariuki				5				
Anthony Mburu				5				
Anthony Wangari				4				

Co-op Bank South Sudan			
	Full BOD	**Audit**	**Risk & Finance**
Schedule of meetings:			
ENG. William W. Mayar - Chairman	5		2
John K. Murugu, OGW	5	2	
Macloud Malonza, HSC	5		2
Dr. G. Muriuki, CBS, MBS – Group Managing Director & CEO	5	2	2
Elijah Wamalwa	5	2	2
Managing Director	5	2	
Prof. Mathew Gordon Udo	5		
Rosemary M. Githaiga (Mrs.)	5		
Hon. Ocum Genes Karlos	2		

The Editor, EMEA Finance Chris Moore (left) with Co-operative Bank Economist Anthony Muli (centre) and Co-op Head of Investor Relations & Strategy James Kaburu as they received the Best Bank in Kenya 2019 award given to the Co-operative Bank in the EMEA Finance - African Banking Awards 2019 held in London.

Board Remuneration

At the Annual General Meeting (AGM), shareholders pass a resolution approving the remuneration of directors for the period under review. This is in line with the industry benchmarks and international practices. Non-executive directors are paid a monthly retainer as well as a sitting allowance for every meeting attended. The directors are not eligible for pension scheme membership and do not participate in the bank's remuneration schemes.

Detailed amounts of emoluments and fees paid to directors during the year is contained in the Directors' Remuneration Report, which is in the audited Financial Statements section of this report.

Executive management comprises of the Group Managing Director, the Divisional Directors and MD's of the subsidiaries. The bank has a performance based Bonus reward system applicable to all staff including unionizable staff.

Board of Directors (Non-Executive) are not on full time employment by the bank and the compensation is by way of paying allowances per board session and an annual honorarium based on the banks performance.

As at 31st December 2019 loans to Non-Executive Directors or companies controlled by Directors amounted to Kshs 330.8M (2018: KShs.451M). All loans to directors were made in the ordinary course of business and substantially same terms including collateral as those prevailing at the same time for comparable transactions with other persons. No allowances for impairment were recognized in respect of the loans to Directors. (2018: Nil)

Management Committees/Executive Committees

The Board has put in place key Management Committees with defined terms of reference and scope of authority and reporting structure. The key Management Committees include the following;

- **The Board of Management** – This is the Executive Committee constituted to assist the Group Managing Director in day to-day management of the bank's business, including formulation and implementation of business strategy and policy. This Committee is chaired by the Group Managing Director & CEO and includes Division Directors and other senior managers co-opted from time to time.
- **The Board of Management Credit** – Its mandate is to receive, review and consider material, high-value and sensitive credit cases and matters. It currently has membership of all Business Division Directors, Director–Credit Management division and Representation from Finance & Strategy division and Legal Services Department.
- **The Asset and Liability Committee (ALCO)** - this Committee is responsible for assisting the Board of Management in the overall management and strategy on the balanced mix of assets and liabilities, encompassing interest rates structures, liquidity, foreign exchange exposure, investment of surplus funds and capital adequacy.
- **The Expenditure Management Committee** - this is the Tender Committee of the Bank that has as its primary mandate to receive, consider and approve capital and recurrent expenditure with reference to approved budget limits and annual cost efficiency targets.
- **The Staff Disciplinary Committee** - this committee receives and reviews staff disciplinary cases referred by Human Resource Division and makes recommendations to the Chief Executive as is appropriate.
- **Operations & Innovations Committee (OIC)** - The OIC is responsible for innovations and the overall monitoring and control of the operational risks. The committee is chaired by the Chief Operating Officer (COO). The Committee's main activities include business process re-engineering, business process automation, mitigation/elimination of operating risks and to continuously evaluate improvement suggestions from Bank staff aimed at exceeding benchmarked industry/market standards on customer services, operation risks management, profitable trading and processing efficiency.

Directors Shareholdings

Directors' interest in the ordinary share capital of the Company on 31 December 2019 was as follows:

Name	No. of Shares	%
John K. Murugu (OGW) - Chairman	1,895,040	0.03
Macloud Malonza (HSC) - Vice Chairman	5,160,000	0.09
Dr. Gideon Muriuki, CBS, MBS – GMD & CEO	117,471,300	2.00
Lawrence C. Karissa	3,860	-
Rose Simani (Mrs.)	-	-
Wilfred Ongoro, HSC	-	-
Wanyambura Mwambia	-	-
Julius Sitienei	4,042,639	0.07
Richard L. Kimanthi	7,800	-
Benedict W. Simiyu	3,360	-
Godfrey K. Mburia	2,352,201	0.04
Patrick K. Githendu	86,415	-
Scholastica Odhiambo (Mrs.)	1,825,524	0.03
James N. Njiru	1,680	-
David M. Muthigani	11,592	-
Francis Ngone	-	-
Geoffrey M'Nairobi	269,920	-
Boaz Ouma Awitti	-	-
Mwangi Kariuki	-	-

First Lady of Kakamega county, Mrs Priscilla Oparanya talks with Co-op Bank staff during the free cancer screening at the county on 27th September, 2019.


Co-op Foundation sponsored beneficiaries celebrate their graduation on December, 2019 at JKUAT University.

Staff explains account opening procedure to attendees during Brookside Dairies Farmers award giving day.


Noah Samoei, a Co-op Foundation beneficiary attends to a patient at Kimuri Health Centre in Uasin Gishu on 8th April, 2019, during his internship.

Co-op Bank staff participate in beyond zero half marathon held on March, 2019 at Nyayo Stadium Nairobi.

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES

2019 ANNUAL REPORT & FINANCIAL STATEMENTS

Contents

Group Information

FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

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

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

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

COMPANY SECRETARY
Samuel M. Kibugi (Mr)
Co-operative Bank House, Haile Selassie Avenue,
P.O. Box 48231 – 00100,
NAIROBI

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

LAWYERS
Various
A list is available at the Bank

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

Financial Statements

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2019.

1. **INCORPORATION**

   The company is domiciled in Kenya where it is incorporated as a public company limited by shares under the Kenyan Companies Act, 2015. The address of the registered office is set out on page 91.

2. **PRINCIPAL ACTIVITIES**

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

3. **GROUP OPERATIONS**

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

4. **RESULTS**

   The results of the Group for the year are set out from page 106.

5. **RECOMMENDED DIVIDEND**

   The directors recommend payment of a first and final dividend of KShs 1 (2018 - KShs 1) for every ordinary share of KShs 1. The dividends will be paid on or about 23 April 2020 to the shareholders registered on the Bank's register at the close of business on 15 April 2020. The register will remain closed for one day on 16 April 2020 for the preparation of dividend warrants.

6. **RESERVES**

   The movement in the Group's reserves is shown on page 112 of these financial statements.

7. **GROUP DIRECTORS**

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

Co-operative Bank of Kenya and Kenyan subsidiaries:-

J. K. Murugu, OGW	– Chairman
M. Malonza, HSC	– Vice Chairman
Dr. G. Muriuki, CBS, MBS	– Group Managing Director & CEO
L. C. Karissa	– Chairman, Staff and Nominations Committee
R. Simani (Mrs)	– Chairperson, Board Audit Committee
Margaret Karangatha (Mrs)	– Chairperson, Board Credit Committee (Appointed on 24th September 2019)
W. Ongoro, HSC	
Wanyambura Mwambia	– Representing PS, National Treasury (Chairman, Board Risk Committee)
J. Sitienei	
R. L. Kimanthi	
S. Odhiambo (Mrs)	
P. K. Githendu	
G. K. Mburia	
B. W. Simiyu	
J. N. Njiru	
D. M. Muthigani	
M. N. Mungai (Mrs), OGW	– Commissioner of Co-operatives-Retired on 28th March 2019
Didacus O. Ityeng'	– Ag. Commissioner of Co-operatives-Appointed on 28th March 2019, Retired on 2nd August 2019
Geoffrey N. Njang'ombe	– Commissioner of Co-operatives-Appointed on 2nd August 2019
F. Ngone	
G. M'Nairobi	
M. M. Muthigani	Appointed on 20th May 2019

Report of the Directors (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

7. GROUP DIRECTORS (continued)

Co-operative Bank of South Sudan: -

Eng. William Mayar Wol*	Chairman
Elijah Wamalwa	Managing Director
Prof. Mathew Gordon Udo*	
Hon. Ocum Genes Karlo*	
John K. Murugu OGW	
Macloud Malonza	
Dr. Gideon Muriuki, CBS, MBS	
Rosemary Majala Githaiga (Mrs)	

**South Sudanese*

8. BUSINESS REVIEW

The Co-operative Bank of Kenya continues to offer a wide range of innovative financial solutions leveraging on heavy investment in multi channels and with a focus on excellent customer experience and a highly motivated and talented team.

Our Business Model

The unique model is focused on value creation for all stakeholders through strategic planning, efficient operations, risk management and Governance. The key Business is; Retail, MSME (Micro, Small & Medium Enterprises), Corporate, Government, Institutional Banking and Co-operatives banking.

Through the subsidiaries the Group offers Fund Management, Consultancy & capacity building especially for the Co-operative Movement, Insurance Brokerage, Stock brokerage and the latest new business of leasing.

The customer base has grown by 10% to 8.8 Million accounts in 2019. The 159-branch network (4 in South Sudan) covers 42 counties in Kenya, with alternative channels growing: M-Co-op Cash (4.8 Million customers), Internet banking (89,959 customers), 583 ATM's, 16,783 Co-op Kwa Jirani Agents and a 24 hour Contact Centre.

In 2014, to sustain the growth momentum and put the group on a new growth trajectory, the Board of Directors appointed McKinsey & Co. for a growth and efficiency review. It is with this background in mind that the 2015 – 2019 Corporate Strategic Plan was designed. The period was marked by unparalleled transformation and growth, and many benefits were reaped as detailed in the Strategic Focus Review section of this Integrated Report.

A new corporate strategic plan 2020-2024 was approved with a focus on;

- World class Customer experience to ensure complete customer loyalty.
- New Frontiers in growing Liability and Non Funded Income leveraging on Sales Force Effectiveness, our strong customer base of 8.8 Million and the ongoing MSME Transformation thus increasing sales.
- Enhanced leasing business supported by the joint venture with Super Group.
- Cost optimization- Critical focus on lowering our overall cost to income ratio through increased efficiencies.
- Operational excellence ensuring optimal systems uptime, optimized operational processes and data security.
- Digital Transformation to take the Bank into the new frontier of digitalization.
- Collaboration with Fintechs to synergize their innovative capabilities.
- Quality loan Book growth in the IFRS 9 environment leveraging on Sales Force Effectiveness and proactive credit management.
- Proactive Regulatory compliance
- Staff productivity and a culture of high performance
- Sustained Enterprise risk management
- Synergized subsidiary business that will generate new revenue streams.

Report of the Directors (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

8. BUSINESS REVIEW (continued)

Financial Review

Despite the challenges in 2019, the Group made a profit before tax of Kshs 20.7 billion compared to Kshs18.16 billion in 2018. The bank's loan book grew by 9% to Kshs 267 billion whereas customer deposits grew by 8.7% to Kshs 333 billion. Government securities increased by 47% to KShs 117.8 billion. The bank closed the year with a solid capital base with a core capital to risk weighted assets of 15.3%, which is 4.8% above the statutory minimum of 10.5%.

9. STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR

With respect to each director at the time this report was approved:

a) there is, so far as the person is aware, no relevant audit information of which the company's auditor is unaware; and

b) the person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

10. TERMS OF APPOINTMENT OF THE AUDITORS

Ernst & Young LLP continues in office in accordance with the company's Articles of Association and Section 719 of the Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditors' appointment and the related fees. The agreed group auditor's remuneration of KShs 24 million has been charged to profit or loss in the year.

11. APPROVAL OF FINANCIAL STATEMENTS

The Board of Directors approved the financial statements on 18th March 2020.

By order of the Board

Group Managing Director & CEO

Statement of Directors' Responsibilities

FOR THE YEAR ENDED 31 DECEMBER 2019

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company keeps proper accounting records that: (a) show and explain the transactions of the company; (b) disclose, with reasonable accuracy, the financial position of the company; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

(i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii) selecting suitable accounting policies and applying them consistently; and

(iii) Making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the Group's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the company's ability to continue as a going concern.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the board of directors on 18th March 2020 and signed on its behalf by:

CHAIRMAN

VICE CHAIRMAN

GROUP MANAGING DIRECTOR & CEO

COMPANY SECRETARY

Directors' Remuneration Report

FOR THE YEAR ENDED 31 DECEMBER 2019

The Bank's Directors Remuneration Policy

The Co-operative Bank of Kenya Group Operations comprises the following;

1) The Co-operative Bank of Kenya Limited
2) Co-op Consultancy and Insurance Agency – 100% Owned
3) Co-op Trust Investments Ltd – 100% owned
4) Kingdom Securities Limited – 60% owned
5) Co-operative Bank of South Sudan – 51% owned

The board of directors as mandated by the shareholders establishes and reviews remuneration of the directors from time to time. At every Annual General Meeting (AGM), shareholders pass a resolution authorizing the Board to fix the directors' remuneration, emoluments and compensation appropriately as per industry practice. At the Annual General Meeting held on 23rd May 2019 the shareholders authorized the Board to fix the directors remuneration by show of hands.

Board of Directors (Non-Executive) are not on full time employment by the bank and the compensation is by way of fees and allowances as here under; -

- Monthly retainer / fee
- Travelling allowance. The group directors who come from upcountry are paid mileage based on distance travelled and night out allowance for hotel accommodation.
- Sitting allowance based on every meeting attended.
- Honorarium: Based on the annual group performance, the Board of Directors approves an appreciation honorarium to board members.

The directors are not eligible for pension scheme membership that is applicable to the bank employees/ staff.

Transport Facilitation

The Bank Chairman, the Vice Chairman Co-op Bank, Vice Chairman Co-opholdings and the Group Managing Director & CEO are facilitated with official vehicles for business.

Share Options

Post listing at the Nairobi Securities Exchange, the bank has not developed a Directors / Employee share ownership program.

Loans to Directors

As at 31st December 2019 loans to Non-Executive Directors or companies controlled by Directors amounted to Kshs 330.8M (2018: KShs.451M). All loans to directors were made in the ordinary course of business and substantially same terms including collateral as those prevailing at the same time for comparable transactions with other persons. No allowances for impairment were recognized in respect of the loans to Directors. (2018: Nil)

Contract of service

Directors are appointed in accordance with the company's Articles of Association. At every Annual General Meeting, one third of directors are eligible to retire by rotation and may offer themselves for re-election for a term of 3 years. The executive management is on a permanent basis except for the Group Managing Director who is on a five-year renewable contract as per capital Markets Authority guidelines.

Directors' Remuneration Report (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

Directors Remuneration Schedules

a) Co-operative Bank of Kenya Limited, Co-op Trust and Coop Consultancy.

Amounts in KShs Million

	Monthly Retainer	Sitting Allowance	Travelling Facilitation	Honorarium	Responsibility Allowance	Housing Allowance	CEO Annual remuneration	Total 2019	Total 2018
John K. Murugu, OGW – Chairman	4.51	1.41	0.45	4.71	6.17	2.98	-	**20.23**	**19.92**
Macloud M. Malonza, HSC	4.72	1.90	0.45	4.29	2.50	1.28	-	**15.14**	**14.92**
Patrick K. Githendu	1.66	1.28	0.97	4.00	2.22	1.02	-	**11.15**	**10.85**
Julius Sitienei	1.45	0.89	1.29	4.00	-	-	-	**7.63**	**7.42**
Wanyambura Mwambia	1.45	1.12	0.72	4.00	-	-	-	**7.29**	**6.75**
Rose K. Simani (Mrs)	1.45	1.16	0.76	4.00	-	-	-	**7.37**	**6.9**
Lawrence C. Karissa	1.45	1.27	2.00	4.00	-	-	-	**8.72**	**8.25**
Benedict Simiyu	1.45	0.97	1.72	4.00	-	-	-	**8.14**	**7.38**
Richard L. Kimanthi	1.45	0.82	1.38	4.00	-	-	-	**7.65**	**7.32**
Wilfred Ongoro, HSC	1.45	0.93	1.33	4.00	-	-	-	**7.71**	**7.13**
Godfrey Mburia	1.45	1.01	1.49	4.00	-	-	-	**7.95**	**7.34**
Mary N. Mungai (Mrs), OGW	0.63	0.08	0.01	8.00	-	-	-	**8.72**	**7.13**
Scholastica Odhiambo (Mrs)	2.09	0.93	0.59	4.00	-	-	-	**7.61**	**7.13**
James N. Njiru	2.09	1.01	0.97	4.00	-	-	-	**8.07**	**7.43**
David M. Muthigani	2.09	0.97	0.90	4.00	-	-	-	**7.96**	**7.49**
Francis Ngone	2.02	1.05	0.89	4.00	-	-	-	**7.96**	**6.71**
Geoffrey M'Nairobi	2.09	1.08	1.01	4.00	-	-	-	**8.18**	**6.72**
Dr. James Kahunyo	-	-	-	-	-	-	-	**-**	**23.3**
Michael M. Muthigani	1.39	0.97	0.62	4.00	-	-	-	**6.98**	**-**
Didacus O. Ityeng'	0.43	0.19	0.41	-	-	-	-	**1.03**	**-**
Geoffrey N. Njang'ombe	0.80	0.54	0.52	1.43	-	-	-	**3.29**	**-**
Margaret Karangatha (Mrs)	0.48	0.40	0.48	1.43	-	-	-	**2.79**	**-**
Dr. G. Muriuki, CBS, MBS - GMD & CEO	-	-	-	-	5.76	-	107.75	**113.51**	**105.46**
	36.60	**19.98**	**18.96**	**79.86**	**16.65**	**5.28**	**107.75**	**285.08**	**275.55**

Directors' Remuneration Report (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

b) Kingdom Securities Limited (60% Owned)

Amounts in KShs Million	Monthly Retainer	Sitting Allowance	Travelling Facilitation	Total 2019	Total 2018
Julius Sitienei – Chairman	0.72	0.28	0.31	**1.31**	**1.45**
Patrick K. Githendu	0.36	0.23	0.14	**0.73**	**0.80**
B. M. Ouma-Awiti	0.36	0.23	0.35	**0.94**	**1.07**
Samuel M. Kariuki	0.36	0.23	0.07	**0.66**	**0.62**
	1.80	**0.97**	**0.87**	**3.64**	**3.94**

c) Co-operative Bank of South Sudan (51% Owned)

Amounts in KShs Million	Monthly Retainer	Sitting Allowance	Travelling Facilitation	Honorarium	Responsibility Allowance	Housing Allowance	Total 2019	Total 2018
Eng. William Mayar Wol - Chairman	2.49	0.53	2.29	-	3.62	4.01	**12.94**	**12.03**
John K. Murugu, OGW	1.34	0.26	-	-	-	-	**1.60**	**1.77**
Prof. Mathew Gordon Udo	1.40	0.22	1.32	-	-	-	**2.94**	**2.97**
Macloud M. Malonza, HSC	1.34	0.22	-	-	-	-	**1.56**	**1.74**
Hon. Ocum Genes Karlo	1.40	0.35	1.49	-	-	-	**3.24**	**1.16**
Hon. Wani Buyu Dyori	-	-	-	1.28	-	-	**1.28**	**1.89**
Rosemary Githaiga (Mrs)	1.34	0.16	-		-	-	**1.50**	**1.67**
Dr. G. Muriuki, CBS, MBS - GMD & CEO	1.34	0.10	-	-	-	-	**1.44**	**1.60**
	10.65	**1.84**	**5.10**	**1.28**	**3.62**	**4.01**	**26.50**	**24.83**

Five (5) Year Summary of Directors Emoluments

Amounts in KShs'000	2019	2018	2016	2015	2014
Directors emoluments	201,701	198,843	180,790	163,742	148,257

Executive Management Compensation

The Bank has undergone tremendous Growth transforming from a co-operatives based sector model to a universal banking model. It was for many years a loss-making Bank with no returns to shareholders but has boldly transformed to be one of the Top Banks in the region with an Asset base of over Kshs 450 billion and a Profit Before tax of KShs 20.7 billion in a fast changing and highly competitive market environment, thereby maximizing on shareholder value. The Bank is now the largest Cooperative Bank in Africa, and 5th largest company by Market Capitalization at the Nairobi Securities Exchange.

A key pillar of this transformation has been the Board of Directors successfully implementing a Performance based bonus reward system applicable to all staff, both management and unionized staff, wherein the individual salary review / increase for the year and the bonus award each year is directly linked to attainment of the Profitability Performance Targets for the year.

Under the performance driven culture, it is noteworthy that the Bank has progressively improved profitability from a huge loss of KShs2.3 billion in year 2000 and an asset base of KShs22.3 billion to the current profit before tax of over KShs 20.7 billion and asset base of over KShs450 billion.

The Group has successfully implemented a Universal Banking Model and proactively grown market share with diverse offerings. This now include a strategic investment in CIC Insurance Group, Bancassurance business and leasing through a strategic joint venture (Co-op Bank Fleet Africa Leasing Ltd) with Super Group, one of the largest leasing companies globally and listed at both the Johannesburg and Australia Stock Exchange.

Directors' Remuneration Report (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

Executive Management Compensation (continued)

The Group has notably, received the following Global Awards/ Recognitions;

2011

- Banker Awards: Bank of the Year in Kenya by the Financial Times of UK
- Fire Awards Overall winner: Corporate Governance

2012

- FIRE Awards: 2nd runners up in Corporate Social Investment reporting

2013

- Energy Managements Awards: Most Green Bank by Kenya Association of Manufacturers

2014

- Bank CEO of the Year – Africa by International Banker Awards
- Best Innovation in Retail Banking by International Banker Awards
- Best Commercial Bank in Kenya by World Finance Banking Awards
- Best Bank in Retail Banking by East African Banking Awards
- Best Bank in Micro-Finance by East African Banking Awards

2015

- Global Bank of the year Award on Financial Inclusion by the Financial Times of UK
- Best Commercial Bank in Kenya 2015 by world finance

2016

- Best Commercial Bank, Kenya by Banker Africa
- The Best Socially Responsible Bank in East Africa by Banker Africa
- The Best Retail Bank in Kenya by Banker Africa
- CATALYST AWARDS 2ND POSITION Overall winner by Kenya Bankers Association
  - 2ND POSITION: Best Practice in Sustainable Finance
  - 1ST POSITION: Commercial Client Case Study (Strathmore University Solar Energy Project)
  - 1ST POSITION: MSME Case Study (Varomatech Enterprises)

2017 Awards

- EMEA African Banking Awards: Best Bank in Kenya
- Social Bankers: Most Socially Devoted Bank
- KBA CATALYST AWARDS 2018 Overall Winner
  - 1ST - Client Case Study – Financing Commercial Clients
  - 1ST - Bank Case Study – Bank Operations & Policy
  - 2ND -Best Practice in Sustainable Finance
  - 3RD - Sustainability Through Policy & Governance
  - 3RD - Client Case Study – Financing Micro, Small & Medium-Sized Companies
- FIRE Awards: Overall winner Corporate Social Investment reporting

2018 Awards:

- Best Retail Bank Kenya by International Finance
- Best Banking CEO Kenya by International Finance
- Best retail bank by Banker Africa
- Best SME bank in Kenya by Banker Africa
- Best Investment Institution in Kenya by Banker Africa
- Best bank in Kenya by EMEA African Banking Awards
- Best product launch (Mco-opcash Update) EMEA African Banking Awards

Directors' Remuneration Report (continued)

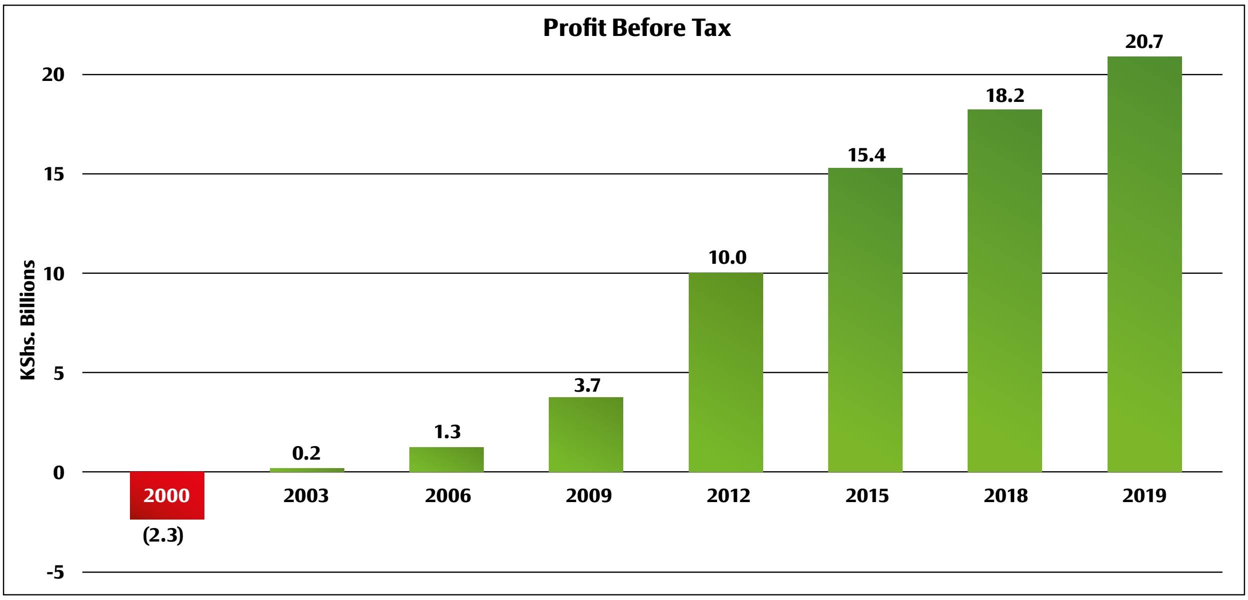
FOR THE YEAR ENDED 31 DECEMBER 2019

Executive Management Compensation (continued)

The Group has notably, received the following Global Awards/ Recognitions; (continued)

2019 Awards:

- Kenya Bankers Association, in its 2019 Catalyst Awards,
  - Overall Winner
  - Winner Client Case Study – Financing SMEs
  - 1st runner up Best in Sustainable Finance
  - 1st runner up Bank Case Study – Bank Operations
  - 1st runner up Financing the informal sector
  - 2nd runner up Client Case Study – Commercial
  - 2nd runner up Most innovative bank
- Best Bank in Sustainable Finance in Kenya by the Kenya Association of Manufacturers Awards 2019
- Winner: Environmental Sustainability Reporting by ICPAK FIRE Awards 2019
- Product innovation of the year by global SME Finance Awards 2019
- Best Bank in Kenya by EMEA Finance African Banking Awards 2019



Executive management comprises of the Group Managing Director, the Divisional Directors and Managing Directors of the subsidiaries.

Amount in KShs' Million	Salaries	Bonus/Gratuity	Fees, Other allowances and Honorarium
Board of Directors	-	-	201.76
Executive Management*	451.01	411.32	-
*Group MD & CEO	113.51	271.01	-

By the order of the board.

Samuel M. Kibugi
Company Secretary

Independent Auditors' Report

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

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of The Co-operative Bank of Kenya Limited ("the Bank") and its subsidiaries (together, "the Group"), set out on pages 106 to 221, which comprise the consolidated and separate statements of financial position as at 31 December 2019, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and the Bank as at 31 December 2019, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and separate Financial Statements section of our report. We are independent of the group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Independent Auditors' Report (continued)

Key Audit Matter	How the matter was addressed in the audit
Expected Credit Losses (ECLs) on loans and advances to customers IFRS 9 — *'Financial Instruments'* was adopted by the Group on 1 January 2018. This standard requires the Group to recognise expected credit losses (ECL) on financial instruments We focused on the Expected Credit Losses ('ECL') for loans and advances due to the materiality of the loan balances and the associated allowances for ECL. As disclosed in note 12, as at 31 December 2019, the group had recognised an allowance for ECL for loans and advances of KShs 18.5 billion. In addition, the compliance with IFRS in this area involves significant judgement and estimates to be made by the Group. The most significant areas where we identified greater levels of management judgement were: • determining the criteria for a significant increase in credit risk ('SICR'); • the application of future macro-economic variables reflecting a range of future conditions; • techniques used to determine the Probability of Default ('PD') and Loss Given Default ('LGD'); and • determination of the expected future cash flows related to defaulted loans and advances in stage 2 and 3, including the value of collateral. Relevant disclosures are included in Note 2(d), 2(m), 3(a) and 12(c) to the consolidated financial statements which give a description of the accounting policies, credit risk management and analysis of the expected credit losses for loans and advances.	We performed the following procedures; - • We obtained an understanding of the Company's process for estimating the ECL; • We tested the key controls over the administration of the expected credit loss model; • We tested the effectiveness of design and implementation of key controls related to the credit approval process, post approval credit management, loan grading system, collateral monitoring and loan impairment assessment; • We tested the accuracy and completeness of the Group's data used for the ECL model • We picked a sample of loan facilities and performed procedures to determine accuracy for exposures assessed on an individual basis • We analyzed the expected credit loss models against IFRS 9 guidelines; • For forward looking assumptions used by the Group, we held discussions with management and corroborated the assumptions using both internal and publicly available information; and • We assessed the disclosures included in the consolidated financial statements and assessed their compliance with the requirements of IFRS.

Independent Auditors' Report (continued)

Key Audit Matter	How the matter was addressed in the audit
Reporting in hyperinflationary economies by Co-operative Bank of South Sudan With effect from 2016, the South Sudan economy was considered to be hyperinflationary in accordance with guidance from the International Practices Task Force (IPTF) which required all registrants in South Sudan to report in accordance with International Accounting Standard (IAS) 29 -Financial Reporting in Hyperinflationary Economies. As a result, the financial statements of Co-operative Bank of South Sudan, which are included in the Group financial statements, have been restated to reflect the changes in general purchasing power of the South Sudanese Pound as required by International Accounting Standard (IAS) 29. The main inputs used in restatement of Co-operative Bank of South Sudan financial statements are the consumer price index (CPI) between 2018 and 2019 and conversion coefficient derived from the CPI. The conversion coefficient derived from the consumer price index (CPI) in the Republic of South Sudan and the corresponding CPI are disclosed in note 32(c). We consider this to be a key audit matter due to the effect of the restatement on the Group Financial Statements as a result of adjusting Co-operative Bank of South Sudan financial statements to reflect the general change in purchasing power. In addition, a change in the CPI for the year may result to a material change in the restated non-monetary items and consequently, the Group's performance for the year.	Our audit procedures included: • Assessing the accuracy of restated financial statements for Co-operative Bank of South Sudan by reviewing the IAS 29 workings prepared by management and evaluating the reasonableness of the inputs used in the restatement. • Assessing whether the Group financial statement disclosure in note 32 (c) appropriately reflect the impact of hyperinflation reporting in Co-operative Bank of South Sudan.
Adoption of IFRS 16- Leases effective 1 January 2019 IFRS 16 replaces the existing standard IAS 17 and specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Group adopted IFRS 16 effective 1 January 2019 using modified retrospective approach. In applying this approach, the Group recognised in the balance sheet a Right-of-Use Asset and lease liability relating to the leased office space and motor vehicles. The implementation of IFRS 16 is considered a key audit matter as the balances recorded are material and due to the judgments needed in establishing the underlying key assumptions i.e. discount rates and lease term, including termination and renewals options.	Our audit procedures included the following: - • We reviewed the assumptions used by the Bank pertaining to transition options and related disclosures; • We reviewed the assumptions used by the Bank in determination of the discounting rates applied in estimating lease liabilities and Right of Use (RoU) asset; • We tested the accuracy of the lease database by agreeing a sample of leases to lease contracts or other supporting information; • We tested the accuracy of lease quantification through recalculation of a sample of contracts; and • We assessed the lease disclosures included in note 2(c), 2(l) and 19 in consolidated financial statements for compliance with the requirements of IFRS.

Independent Auditors' Report (continued)

Other Information

The directors are responsible for the other information. The other information comprises the Report of the Directors and the Directors' Remuneration Report as required by the Kenyan Companies Act of Kenya, 2015 which we obtained prior to the date of this report and the Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, other than that prescribed by the Kenyan Companies Act, 2015, as set out below.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate annual financial statements in accordance with International Financial Reporting Standards and for such internal control as directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors are responsible for overseeing the Company's financial reporting processes.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit, conducted in accordance with ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate annual financial statements, including the disclosures, and whether the consolidated and separate annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditors' Report (continued)

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER MATTERS PRESCRIBED BY THE KENYAN COMPANIES ACT, 2015

As required by the Kenyan Companies Act, 2015 we report to you, based on our audit, that:

i) in our opinion, the information given in the report of the directors on pages 92 to 94 is consistent with the consolidated and separate financial statements; and,

ii) in our opinion, the auditable part of directors' remuneration report on page 96 to 100 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

The engagement partner responsible for the audit resulting in this independent auditor's report was CPA Michael Kimoni, Practising Certificate No. 1586.

EY

Nairobi, Kenya

18 March 2020

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2019

	Notes	2019 KShs'000	2018 KShs'000
ASSETS			
Cash and balances with Central Banks	7	29,028,674	32,478,601
Deposits and balances due from banks	8	9,709,748	18,081,648
Debt instruments at fair value through other comprehensive income	9	40,931,155	30,572,358
Equity instruments at fair value through other comprehensive income	9	411,314	164,081
Derivative financial instruments	10	379,745	664,514
Other assets	11	12,496,362	19,678,552
Loans and advances to customers	12(a)	266,712,696	245,410,302
Debt instruments at amortised cost	13	77,845,496	52,092,150
Tax recoverable	24(b)	-	18,172
Investments in associates	15	2,098,354	2,161,475
Intangible assets	16(a)	2,708,018	2,497,243
Prepaid lease rentals	17	34,522	35,132
Property and equipment	18(a)	6,514,328	6,614,048
Right of use assets	19(a)	4,906,908	-
Deferred tax asset	20	3,315,666	3,202,434
TOTAL ASSETS		**457,092,986**	**413,670,710**
LIABILITIES			
Deposits and balances due to banks	21	176,975	443,260
Customer deposits	22(a)	332,823,917	306,117,046
Loans and borrowings	23	26,424,266	23,949,611
Tax payable	24(b)	24,353	321,453
Provisions	25	151,426	151,147
Other liabilities	26	16,534,378	11,213,590
Government grants	27	443,416	461,892
Deferred tax liability	20	100,778	257,496
TOTAL LIABILITIES		**376,679,509**	**342,915,495**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT			
Share capital	28	5,867,180	5,867,180
Share premium	29	1,911,926	1,911,926
Revaluation reserve	30(a)	1,474,773	1,292,735
Retained earnings	30(b)	62,402,380	53,976,280
Fair value reserve	30(c)	(185,720)	(438,161)
Statutory reserve	30(d)	1,639,892	1,013,587
Foreign currency translation reserve	30(e)	(85,842)	(88,609)
Proposed dividends	31	5,867,180	5,867,180
		78,891,769	**69,402,118**
Non-controlling interest	32	1,521,708	1,353,097
TOTAL EQUITY		**80,413,477**	**70,755,215**
TOTAL LIABILITIES & EQUITY		**457,092,986**	**413,670,710**

The financial statements were approved by the Board of Directors on 18th March 2020 and signed on its behalf by: -

J. K. Murugu, OGW - Chairman

M. Malonza, HSC - Vice Chairman

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

S. M. Kibugi - Company Secretary

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 KShs'000	2018 KShs'000
Interest and similar income	33	44,626,998	43,540,568
Interest and similar expense	34	(12,640,378)	(12,240,115)
NET INTEREST INCOME		**31,986,620**	**31,300,453**
Fees and commission income	35	12,817,634	8,941,686
Fees and commission expense	35	(118,546)	(111,322)
NET FEES AND COMMISSION INCOME		**12,699,088**	**8,830,364**
Net trading income	36	2,148,844	2,343,734
Amortisation of government grants	27	18,476	18,475
Write back of credit loss on other financial assets	40	40,768	131,290
Other operating income	37	1,302,735	935,373
TOTAL OTHER INCOME		**3,510,823**	**3,428,872**
OPERATING INCOME		**48,196,531**	**43,559,689**
Credit loss expense on loans and advances	12(c)	(2,539,071)	(1,722,167)
Amortisation of intangible assets	16(a)	(594,476)	(562,328)
Amortisation of leasehold land	17	(610)	(610)
Depreciation of property and equipment	18(a)	(1,523,591)	(1,817,946)
Depreciation-Right of use asset	19(b)	(1,212,163)	-
Employee costs	38	(12,374,217)	(11,449,964)
Other operating expenses	39	(9,286,684)	(10,020,959)
OPERATING EXPENSES		**(27,530,812)**	**(25,573,974)**
OPERATING PROFIT		**20,665,719**	**17,985,715**
Share of profit of associates	15	40,035	171,416
PROFIT BEFORE TAX		**20,705,754**	**18,157,131**
Income tax expense	24(a)	(6,394,506)	(5,424,645)
PROFIT FOR THE YEAR		**14,311,248**	**12,732,486**
Attributable to:			
Equity holders of the parent		14,528,813	12,788,882
Non-controlling interest		(217,565)	(56,396)
		14,311,248	**12,732,486**
Basic earnings per share (KShs)	41	2.48	2.18
Diluted earnings per share (KShs)	41	2.48	2.18

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 KShs'000	2018 KShs'000
PROFIT FOR THE YEAR		**14,311,248**	**12,732,486**
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Financial assets at fair value through other comprehensive income	42	156,747	253,859
Share of other comprehensive income of associates			
- Fair value gain on debt instruments at fair value through other comprehensive income	15	22,941	25,018
- Exchange differences on translation of a foreign operation	15	2,767	(78,094)
Income tax related to the above		-	-
Total items to be reclassified to profit or loss		182,455	200,783
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation gains/(losses) on equity instruments at fair value through other comprehensive income		68,273	11
Share of other comprehensive income of associates			
- Revaluation of building	15	14,178	13,467
Income tax related to the above		-	-
Total items that will not be reclassified to profit or loss		82,451	13,478
OTHER COMPREHENSIVE INCOME, NET OF TAX		418,442	214,261
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF INCOME TAX		**14,729,690**	**12,946,747**
Attributable to:-			
Equity holders of the parent		14,947,969	13,005,808
Non-controlling interest		(218,279)	(59,061)
		14,729,690	**12,946,747**

Bank Statement of Financial Position

AS AT 31 DECEMBER 2019

	Notes	2019 KShs'000	2018 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	7	25,393,302	29,884,170
Deposits and balances due from banks	8	8,026,317	17,596,366
Debt instruments at fair value through other comprehensive income	9	40,931,155	30,572,358
Equity instruments at fair value through other comprehensive income	9	303,424	35,151
Derivative financial instruments	10	379,745	664,514
Other assets	11	12,265,057	19,571,309
Loans and advances to customers	12(a)	265,332,776	243,546,383
Debt instruments at amortized cost	13	77,693,633	51,935,363
Investments in subsidiaries	14	2,512,920	2,512,920
Investments in associates	15	706,444	755,118
Intangible assets	16(b)	2,242,641	2,093,951
Prepaid lease rentals	17	34,522	35,132
Property and equipment	18(b)	5,844,283	5,971,546
Right of use asset	19	4,674,823	-
Deferred tax asset	20	3,275,430	3,129,344
TOTAL ASSETS		**449,616,472**	**408,303,625**
LIABILITIES			
Deposits and balances due to banks	21	734,804	839,621
Customer deposits	22(a)	329,378,392	303,753,161
Loans and borrowings	23	26,424,266	23,949,611
Tax payable	24(b)	29,805	294,555
Provisions	25	147,774	147,582
Other liabilities	26	15,813,443	11,000,074
Government grants	27	443,416	461,892
TOTAL LIABILITIES		**372,971,900**	**340,446,496**
EQUITY			
Share capital	28	5,867,180	5,867,180
Share premium	29	1,911,926	1,911,926
Revaluation reserve	30(a)	1,351,679	1,198,144
Retained earnings	30(b)	60,096,268	52,376,129
Fair value reserves	30(c)	(53,282)	(298,944)
Statutory reserve	30(d)	1,603,621	935,514
Proposed dividends	31	5,867,180	5,867,180
TOTAL EQUITY		**76,644,572**	**67,857,129**
TOTAL LIABILITIES & EQUITY		**449,616,472**	**408,303,625**

The financial statements were approved by the Board of Directors on 18th March 2020 and signed on its behalf by:-

J. K. Murugu, OGW - Chairman

M. Malonza, HSC - Vice Chairman

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

S. M. Kibugi - Company Secretary

Bank Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 KShs'000	2018 KShs'000
Interest and similar income	33	44,245,251	43,160,536
Interest and similar expense	34	(12,583,644)	(12,200,735)
NET INTEREST INCOME		**31,661,607**	**30,959,801**
Fees and commission income	35	11,316,397	7,569,878
Fees and commission expense	35	(118,546)	(111,322)
NET FEES AND COMMISSION INCOME		**11,197,851**	**7,458,556**
Net trading income	36	1,933,761	2,052,864
Amortisation of government grants	27	18,476	18,475
Write back on credit losses		-	44,109
Other operating income	37	1,229,045	993,083
TOTAL OTHER INCOME		**3,181,282**	**3,108,531**
OPERATING INCOME		**46,040,740**	**41,526,888**
Credit loss expense on loans and advances	12(c)	(2,459,898)	(1,706,753)
Credit loss expense on other financial assets and commitments	40	(196,362)	(99,680)
Amortization of intangible assets	16(b)	(568,045)	(488,392)
Amortisation of leasehold land	17	(610)	(610)
Depreciation of property and equipment	18(b)	(1,362,371)	(1,612,198)
Depreciation-Right of use asset	19(b)	(1,120,094)	-
Employee costs	38	(11,847,149)	(10,953,108)
Other operating expenses	39	(8,160,147)	(9,079,389)
OPERATING EXPENSES		**(25,714,676)**	**(23,940,130)**
PROFIT BEFORE TAX		**20,326,064**	**17,586,758**
Income tax expense	24(a)	(6,070,637)	(5,177,681)
PROFIT FOR THE YEAR		**14,255,427**	**12,409,077**
Basic earnings per share (KShs)	41	2.43	2.11
Diluted earnings per share (KShs)	41	2.43	2.11

Bank Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 KShs'000	2018 KShs'000
PROFIT FOR THE YEAR		**14,255,427**	**12,409,077**
OTHER COMPREHENSIVE INCOME:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Financial assets at fair value through other comprehensive income	42	177,387	326,661
Income tax related to the above		-	-
Total items to be reclassified to profit or loss		177,387	326,661
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation gains/(losses) on equity instruments at fair value through other comprehensive income		68,273	11
Revaluation of land and buildings surplus		219,337	-
Deferred tax related to building surplus		(65,801)	-
Income tax related to the above		-	-
Total items that will not be reclassified to profit or loss		221,809	11
OTHER COMPREHENSIVE INCOME, NET OF TAX		**399,196**	**326,672**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		**14,654,623**	**12,735,749**

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to the equity holders of the parent										
	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Statutory reserve KShs'000	Fair value reserve KShs'000	Foreign currency translation reserve KShs'000	Proposed dividends KShs'000	Retained earnings KShs'000	Total KShs'000	Non-controlling interest KShs'000	Total equity KShs'000
At 1 January 2018	**5,867,180**	**1,911,926**	**1,296,498**	**718,617**	**(733,149)**	-	**4,693,744**	**55,329,786**	**69,084,602**	**727,983**	**69,812,585**
Impact of adopting IFRS 9 (Note 2(cc))	-	-	-	-	-	-	-	(8,302,566)	**(8,302,566)**	(159,988)	(8,462,554)
Restated opening balance under IFRS 9	5,867,180	1,911,926	1,296,498	718,617	(733,149)		4,693,744	47,027,220	**60,782,036**	567,995	61,350,031
Profit /(loss) for the year	-	-	-	-	-	-	-	12,788,882	12,788,882	(56,396)	12,732,486
Other comprehensive income	-	-	10,549	-	294,987	(88,609)	-	-	216,927	(2,666)	214,261
Total comprehensive income	-	-	**10,549**	-	**294,987**	**(88,609)**	-	**12,788,882**	**13,005,809**	**(59,062)**	**12,946,747**
Transfer of excess depreciation	-	-	(29,150)	-	-	-	-	29,150	-		-
Deferred tax on excess depreciation	-	-	-	-	-	-	-	12,493	12,493	-	12,493
Transfer to statutory reserve	-	-	-	291,875	-	-	-	(291,875)	-	-	
Exchange difference on hyperinflationary economy	-	-	14,838	3,095	-	-	-	277,590	295,523	171,237	466,760
Issue of additional shares	-	-	-	-	-	-	-	-	-	672,927	672,927
2017- Dividends paid	-	-	-	-	-	-	(4,693,744)	-	(4,693,744)	-	(4,693,744)
Proposed dividends	-	-	-	-	-	-	5,867,180	(5,867,180)	-	-	-
At 31 December 2018	**5,867,180**	**1,911,926**	**1,292,735**	**1,013,587**	**(438,161)**	**(88,609)**	**5,867,180**	**53,976,280**	**69,402,118**	**1,353,097**	**70,755,215**
At 1 January 2019	**5,867,180**	**1,911,926**	**1,292,735**	**1,013,587**	**(438,161)**	**(88,609)**	**5,867,180**	**53,976,280**	**69,402,118**	**1,353,097**	**70,755,215**
Profit /(loss) for the year	-	-	-	-	-	-	-	14,528,812	14,528,812	(217,565)	14,311,247
Other comprehensive income	-	-	163,947	-	252,441	2,767	-	-	419,155	(714)	418,441
Total comprehensive income	-	-	**163,947**	-	**252,441**	**2,767**	-	**14,528,812**	**14,947,967**	**(218,279)**	**14,729,688**
Deferred tax on excess depreciation	-	-	(65,801)	-	-	-	-		(65,801)	-	(65,801)
Transfer to statutory reserve	-	-	-	620,991	-	-	-	(620,991)	-	-	-
Exchange difference on hyperinflationary economy	-	-	83,892	5,314	-	-	-	385,459	474,665	386,890	861,555
2018- Dividends paid	-	-	-	-	-	-	**(5,867,180)**	-	(5,867,180)	-	(5,867,180)
Proposed dividends	-	-	-	-	-	-	5,867,180	(5,867,180)	-	-	-
At 31 December 2019	**5,867,180**	**1,911,926**	**1,474,773**	**1,639,892**	**(185,720)**	**(85,842)**	**5,867,180**	**62,402,380**	**78,891,769**	**1,521,708**	**80,413,477**

Bank Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Share premium	Revaluation reserve	Statutory reserve	Fair value reserve	Proposed dividends	Retained earnings	Total
	KShs'000		KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January 2018	**5,867,180**	**1,911,926**	**1,227,294**	**717,844**	**(625,616)**	**4,693,744**	**53,954,407**	**67,746,780**
Impact of adopting IFRS 9 (Note 2(cc))	-	-	-	-	-	-	(7,944,149)	**(7,944,149)**
Restated opening Balance under IFRS 9	**5,867,180**	**1,911,926**	**1,227,294**	**717,844**	**(625,616)**	**4,693,744**	**46,010,258**	**59,802,631**
Profit for the year	-	-		-		-	12,409,077	**12,409,077**
Other comprehensive income	-	-	-	-	326,672	-	-	**326,672**
Total comprehensive income	-	-	-	-	**326,672**	-	**12,409,077**	**12,735,749**
Transfer of excess depreciation	-	-	(29,150)	-	-	-	29,150	-
Deferred tax on excess depreciation	-	-	-	-	-	-	12,493	**12,493**
Transfer to statutory reserve	-	-	-	217,670	-	-	(217,670)	-
2017- Dividends paid	-	-	-	-	-	(4,693,744)	-	**(4,693,744)**
Proposed dividends	-	-	-	-	-	5,867,180	(5,867,180)	-
At 31 December 2018	**5,867,180**	**1,911,926**	**1,198,144**	**935,514**	**(298,944)**	**5,867,180**	**52,376,129**	**67,857,129**
At 1 January 2019	**5,867,180**	**1,911,926**	**1,198,144**	**935,514**	**(298,944)**	**5,867,180**	**52,376,129**	**67,857,129**
Profit for the year	-	-		-		-	14,255,427	**14,255,427**
Other comprehensive income	-	-	219,337	-	245,660	-	-	**464,996**
Total comprehensive income	-	-	**219,337**	-	**245,660**	-	**14,255,427**	**14,720,423**
Deferred tax on excess depreciation	-	-	(65,801)	-	-	-	-	**(65,801)**
Transfer to statutory reserve	-	-	-	668,107	-	-	(668,107)	-
2018- Dividends paid	-	-	-	-	-	(5,867,180)	-	**(5,867,180)**
Proposed dividends	-	-	-	-	-	5,867,180	(5,867,180)	-
At 31 December 2019	**5,867,180**	**1,911,926**	**1,351,679**	**1,603,621**	**(53,284)**	**5,867,180**	**60,096,268**	**76,644,572**

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:-		**KShs'000**	**KShs'000**
Cash generated from / (used in) operating activities	43	27,159,908	38,558,045
Tax paid	24(b)	(6,826,421)	(5,472,487)
Net cash generated from operating activities		**20,333,487**	**33,085,558**
CASH FLOWS FROM INVESTING ACTIVITIES:-			
Purchase of property and equipment	18(a)	(1,058,429)	(789,813)
Purchase of intangible assets	16(a)	(725,645)	(977,506)
Proceeds from disposal of property and equipment		2,242	7,297
Investment in a joint venture		(25)	-
Proceeds from disposal of associate shares		106,611	-
Purchase of investments at amortised cost	13	(59,210,392)	(12,571,460)
Maturity of investments at amortised cost	13	33,205,943	3,742,830
Dividends from an associate	15	86,755	83,287
Net cash used in investing activities		**(27,592,940)**	**(10,505,365)**
CASH FLOWS FROM FINANCING ACTIVITIES:-			
Proceeds from borrowings	23	7,600,238	7,638,458
Repayment of borrowings	23	(5,066,175)	(8,562,857)
Dividends paid to equity holders of the parent		(5,867,180)	(4,693,744)
Additional capital by non-controlling interest		-	662,072
Repayment of principal portion of lease liabilities		(1,348,900)	-
Net cash used in financing activities		**(4,682,017)**	**(4,956,071)**
Net movement in cash and cash equivalents		(11,941,470)	17,624,122
Cash and cash equivalents at the beginning of the year		35,173,827	17,507,216
Effect of foreign exchange difference		(154,737)	42,489
Cash and cash equivalents at 31 December	**43**	**23,077,620**	**35,173,827**

Bank Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 KShs'000	2018 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES:-			
Cash from / (used in) operating activities	43	23,548,910	37,103,692
Tax paid	24(b)	(6,547,273)	(5,186,165)
Net cash generated from operating activities		**17,001,637**	**31,917,527**
CASH FLOWS FROM INVESTING ACTIVITIES:-			
Purchase of property and equipment	18(b)	(1,049,853)	(774,340)
Purchase of software	16(b)	(718,820)	(975,733)
Proceeds from disposal of property and equipment		2,242	6,914
Investment in a joint venture		(25)	-
Proceeds from disposal of associate shares		106,611	-
Purchase of investments at amortised cost	13	(59,212,027)	(12,570,634)
Maturity of investments at amortised cost	13	33,200,048	3,745,475
Net cash used in investing activities		**(27,671,824)**	**(10,568,318)**
CASH FLOWS FROM FINANCING ACTIVITIES:-			
Proceeds from borrowings	23	7,600,238	7,638,458
Repayment of borrowings	23	(5,066,175)	(8,562,857)
Dividends paid		(5,867,180)	(4,693,744)
Repayment of principal portion of lease liabilities		(1,261,634)	-
Net cash used in financing activities		**(4,594,751)**	**(5,618,143)**
Net movement in cash and cash equivalents		(15,264,938)	15,731,066
Cash and cash equivalents at the beginning of the year		32,112,688	16,381,622
Cash and cash equivalents at 31 December	**43**	**16,847,750**	**32,112,688**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL INFORMATION

The Co-operative Bank of Kenya Limited is a financial institution incorporated in Kenya under the Companies Act, 2015 as a public limited liability company, licensed under the Kenyan Banking Act (Chapter 488) and domiciled in Kenya. The consolidated and separate financial statements comprise the Bank and its subsidiaries together referred to as "the Group". The Group is primarily involved in corporate and retail banking, investment and asset management services in various parts of Kenya. The Bank's equities are listed on the Nairobi Stock Exchange (NSE). The group information is included on page 1 of these financial statements.

Information on subsidiaries has been disclosed in Note 14 of the financial statements.

2. ACCOUNTING POLICIES

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

(a) Basis of preparation

The consolidated and separate financial statements are prepared on the historical cost basis, except for derivative financial instruments, other financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through profit or loss (FVPL) and debt and equity instruments at fair value through other comprehensive income (FVOCI) all of which have been measured at fair value.

The consolidated and separate financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the Kenyan Companies Act, 2015.

For the Kenyan Companies Act, 2015 reporting purposes, in these financial statements the balance sheet is represented by/is equivalent to the statement of financial position and the profit and loss account is presented in the Statement of profit or loss and statement of other comprehensive income.

(b) Basis of consolidation

The consolidated and separate financial statements of the Group comprise the financial statements of the Bank and its subsidiaries and associates as at 31 December 2019. Control is achieved by the Group over an investee if and only if the Group has: -

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

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

(c) Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group applied IFRS 16 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated and separate financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16-Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Statement of financial position. balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Bank is the lessor.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019.

Instead, the Bank applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations (continued)

IFRS 16-Leases (continued)

(i) Leases previously accounted for as operating leases

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed. The Bank's classification of its financial assets and liabilities is explained in note 2(m). The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in note 2(cc).

The lease liabilities for the group as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

Assets	**KShs "000"**
Operating lease commitments as at 31 December 2018	4,732,540
Weighted average incremental borrowing rate as at 1 January 2019	6.38%
Discounted operating lease commitments as at 1 January 2019	3,388,040
Less:	
Commitments relating to short-term leases	(233,979)
Commitments relating to leases of low-value assets	-
Add:	
Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	2,899,648
Lease liabilities as at 1 January 2019	6,053,709

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations (continued)

As at 1 January 2019, the Bank had:

Right-of-use assets of Kshs 5,795 million were recognised and presented in the statement of financial position under right-of-use assets.

- Additional lease liabilities of Kshs 5,795 million (included in "Other liabilities") were recognised.
- The adoption of IFRS 16 had no impact on the Bank's retained earnings.

The lease liabilities for the bank as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

Assets	**KShs "000"**
Operating lease commitments as at 31 December 2018	4,195,233
Weighted average incremental borrowing rate as at 1 January 2019	6.38%
Discounted operating lease commitments as at 1 January 2019	2,895,369
Less:	
Commitments relating to short-term leases	-
Commitments relating to leases of low-value assets	-
Add:	
Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	2,899,648
Lease liabilities as at 1 January 2019	5,795,017

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

In June 2017 the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments which clarified application of the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The interpretation became effective for annual reporting periods beginning on or after 1 January 2019.

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group applies significant judgement in identifying uncertainties over income tax treatments.

Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated and separate financial statements. Upon adoption of the Interpretation, the Bank considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The tax filings of the Group and the subsidiaries in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated and separate financial statements of the Group.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations (continued)

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and became effective from 1 January 2019. These amendments have no impact on the consolidated and separate financial statements of the Group.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and became effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments did not have an impact on its consolidated financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss.

An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. The Group does not operate a defined benefit plan and the standard did not have impact on the Group's Consolidated and separate financial statements.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations (continued)

Annual Improvements 2015-2017 Cycle

IFRS 3 *Business Combinations*	Previously held Interests in a joint operation • The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including re-measuring previously held interests in the assets and liabilities of the joint operation at fair value. • In doing so, the acquirer re-measures its entire previously held interest in the joint operation. • An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. • These amendments had no impact on the consolidated and separate financial statements of the group as there was no transaction where control of a joint operation was obtained.
IFRS 11 *Joint Arrangements*	Previously held Interests in a joint operation • A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not re-measured. • An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. • These amendments had no impact on the consolidated and separate financial statements of the group as there is no such transaction.
IAS 12 Income Taxes	Income tax consequences of payments on financial instruments classified as equity • The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. • An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. • Since the Group's current practice is in line with these amendments, they had no impact on the consolidated and separate financial statements of the Group.
IAS 23 Borrowing Costs	Income tax consequences of payments on financial instruments classified as equity • The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for intended use or sale are complete. • An entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. • Since the Group's current practice is in line with these amendments, they had no impact on the consolidated and separate financial statements of the Group.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies and disclosures (continued)

Standards issued but not yet effective

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

Effective for annual periods beginning on or after 1 January 2020.

- ➢ Definition of a Business – Amendments to IFRS 3
- ➢ Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7
- ➢ Definition of Material – Amendments to IAS 1 and IAS 8
- ➢ The Conceptual Framework for Financial Reporting

Effective for annual periods beginning on or after 1 January 2023

- ➢ IFRS 17 Insurance Contracts

Effective date postponed indefinitely

- ➢ Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The nature and the effect of the standards issued but not yet effective, which the Bank reasonably expects to be applicable at a future date, are described below.

IFRS 17 Insurance Contracts

In May 2017 the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard will not be applicable to the Group.

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

As indicated in the accounting policies, the Group elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. IAS 39 requires that for cash flow hedges, a forecast transaction must be highly probable. IAS 39 also requires that a hedging relationship only qualifies for hedge accounting if the hedging relationship is highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk. The assessment of hedge effectiveness is made prospectively and retrospectively.

As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments will be effective from 1 January 2020, with earlier application permitted. These amendments are not expected to have an impact on the consolidated and separate financial statements of the Group.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies and disclosures (continued)

Standards issued but not yet effective (Continued)

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants can replace any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make based on those financial statements, which provide financial information about a specific reporting entity.

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated and separate financial statements.

(d) Significant accounting estimates and assumptions

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

Estimates and assumptions

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

Going concern

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

Fair value of financial instruments

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

Effective Interest Rate (EIR) method

The Bank's EIR method, as explained in Note 2 (e), recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to Central Bank's base rate and other fee income/expense that are integral parts of the instrument.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (Continued)

(d) Significant accounting estimates and assumptions (continued)

Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary's stand-alone credit rating, or to reflect the terms and conditions of the lease).

Impairment losses on Financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's and the Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's and the Bank's internal credit grading model, which assigns PDs to the individual grades
- The Group's and the Bank's criteria for assessing if there has been a significant increase in credit risk and therefore allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant other intangibles with indefinite useful lives recognised by the Group.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (Continued)

(d) Significant accounting estimates and assumptions (continued)

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

Determination of general price index

The restatement of the financial statements for Co-operative Bank of South Sudan has been calculated by means of conversion factors derived from South Sudan Consumer Price Index (CPI) compiled by the National Bureau of Statistics, South Sudan which the directors have determined to be the more reliable. Refer to the Consumer Price Index applied in note 32 (c).

(e) Recognition of interest income

i) The effective interest rate method

Under IFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial assets measured at amortised cost and at fair value through OCI and financial liabilities at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortized cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Group recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income.

ii) Interest and similar income/expense

Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the income statement for both interest income and interest expense to provide symmetrical and comparable information.

In its Interest income/expense calculated using the effective interest method, the Group only includes interest on those financial instruments that are set out in Note (e)(i) above.

Interest income/expense on all trading financial assets/liabilities is recognised as a part of the fair value change in Net trading income.

The Group calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Group calculates interest income by applying the effective interest rate to the net amortized cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

iii) Presentation of interest income

Interest revenue calculated using the effective interest rate (EIR) method is presented separately on the face of the Statement of profit or loss, where it is differentiated and presented separately from interest revenue calculated using other methods.

The Group has also elected to present its interest expense in a manner consistent and symmetrical with interest income. Therefore, it separates interest expense on liabilities measured at amortised cost from other interest expense. The Group's accounting policies in respect of interest income/expense and the effective interest method are set out in note 2(e) (i) and (ii) above.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (Continued)

(f) Fee and commission income

The Group and the Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income are recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Group's and Bank's revenue contracts do not typically include multiple performance obligations.

When the Group and the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

The Group and the Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Fee and commission income from services where performance obligations are satisfied over time

Performance obligations satisfied over time include fund management, custody and share registration fees, where the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

The Group's and Bank's fee and commission income from services where performance obligations are satisfied over time include the following:

Fund management fees: These fees are earned for the provision of fund management services, which include portfolio diversification and rebalancing. These services represent a single performance obligation comprised of a series of distinct services which are substantially the same, being provided continuously over the contract period. Management fees are invoiced monthly and determined based on a fixed percentage of the net asset value of the funds under management at the end of the month. Revenue from management fees is therefore generally recognised at the end of each month.

Custody fees: The Group and the Bank earns a fee for providing its customers with custody services, which include the safekeeping of purchased securities and processing of any dividend income and interest payments. Custody fees are invoiced monthly based on a fixed percentage of the value of the funds under custody at the end of the month. These services represent a single performance obligation comprised of a series of distinct daily services that are substantially the same and have the same pattern of transfer over the contract period. Revenue from custody services is therefore generally recognised at the end of each month.

Share registration fees: The Group and the Bank earns fees from maintenance of clients' share registers and processing of dividend pay-outs. Share registration fees are invoiced quarterly based on a fixed amount. These services represent a single performance obligation comprised of a series of distinct daily services that are substantially the same and have the same pattern of transfer over the contract period. Revenue from share registration services is therefore generally recognised at the end of each quarter.

Interchange fees: The Bank provides its customers with credit card processing services (i.e., authorisation and settlement of transactions executed with the Bank's credit cards) where it is entitled to an interchange fee for each transaction (i.e., when a credit cardholder purchases goods and services from merchants using the Bank's credit card). These services represent a single performance obligation comprised of a series of distinct daily services that are substantially the same and have the same pattern of transfer over the contract period. The fees vary based on the number of transactions processed and are structured as either a fixed rate per transaction processed or at a fixed percentage of the underlying cardholder transaction. The variable interchange fees are allocated to each distinct day, based on the number and value of transactions processed that day, and the allocated revenue is recognised as the entity performs.

Fee and commission income from services where performance obligations are satisfied at a point in time

Services provided where the Group's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These include fees and commissions arising from brokerage, bancassurance, consultancy and training services.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (continued)

(f) Fee and commission income (continued)

Fees and commission income from services where perfomance obligations are satisfied over time (continued)

The Group typically has a single performance obligation with respect to these services, which is to successfully complete the transaction specified in the contract.

Brokerage fees: The Group buys and sells securities on behalf of its customers and receives a fixed commission for each transaction. The Group's performance obligation is to execute the trade on behalf of the customer and revenue is recognised once each trade has been executed (i.e., on the trade date). Payment of the commission is typically due on the trade date.

Bancassurance fees: These fees are received for issuance of insurance covers on behalf of the appointed insurance company. The Group's performance obligation is to issue insurance cover notes and remit the premiums collected every month. The Group recognises revenue as per the fixed rates of commission per premium per insurance class.

Consultancy fees: These fees arise from provision of advisory services and Front Office Services Activities (FOSA). The Group's performance obligation is to conduct the assignment and issue a report. The Group recognises revenue after the report has been issued as per the fees agreed in the consultancy agreements.

Training fees: These fees arise from training services rendered to Savings and Credit Co-operative Societies. The Group's performance obligation is to complete the training of the courses specified in the training invites in the period specified. Payment for the training is typically due at the end of the training. The Group recognises revenue after the training has been attended as per the fees indicated in the training invites.

(g) Net trading income

Net trading income includes all gains and losses from changes in fair value and the related interest income or expense and dividends, for financial assets and financial liabilities held for trading.

(h) Property, equipment and right of use assets

Recognition and measurement

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Any revaluation surplus is recognised as other comprehensive income in the revaluation reserve (a separate component of equity), except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve. Revaluation surpluses are not distributable. Land and buildings are revalued after every 3 years by approved external valuers.

An annual transfer from the asset revaluation surplus to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being disposed is transferred to retained earnings.

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

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (Continued)

(h) Property, equipment and right of use assets (continued)

Depreciation

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

Buildings	40 years	2.5%
Fixtures	8 years	2.5%
Furniture and equipment	5 years	20.0%
Motor vehicles	5 years	20.0%
Office machinery	5 years	20.0%
Computers	5 years	20.0%

Right-of-use assets are depreciated on a straight-line basis over the lease term.

Leasehold land is depreciated over the remaining period of the lease. Buildings on leasehold land are depreciated over the remaining period of the lease subject to a maximum of forty years. Buildings on freehold land are depreciated over forty years. Freehold land is not depreciated.

The asset's residual values, useful lives and methods of depreciation are reviewed, at each financial year end and prospectively adjusted as a change in estimate, if appropriate.

(i) Business combinations and goodwill

Business combinations are accounted for using the acquisition method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date.

If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, the discount on acquisition is recognised directly in profit and loss in the year of acquisition.

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

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

Where goodwill has been allocated to a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal.

Goodwill disposed of in these circumstances are measured based on the relative values of the disposed operation and the portion of the CGU retained. When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in profit or loss.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (continued)

(j) Intangible assets

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

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

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

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

(1) Computer software licences

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

(2) Other intangible assets

Other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. Other intangible assets consist of the NSE trading right and Business rights. The Business rights relate to the costs incurred in negotiating of the business arrangement with the Government of South Sudan. Under the agreement, the Group acquired certain rights that are identifiable e.g., business relationships with the government and co-operative movement.

NSE trading right, which gave participants the right to trade at Nairobi Securities Exchange (NSE) was initially measured at cost and classified as an intangible asset with an indefinite useful life. After initial recognition, the seat was carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated impairment losses. The revaluation was non-recurring due to non-volatility of the fair values of the NSE seat.

Effective September 2014 and upon demutualization of Nairobi Securities Exchange (NSE), the NSE Seat was replaced with a trading right which gives participants a right to trade at NSE. The trading right serves the same function as the Seat. The trading right was attached a value of KShs 25 million by NSE Board, which has been taken as its fair value. After the demutualisation the shares were replaced by a right to trade and the shares which is currently held at FVOCI under IFRS 9.

The trading right is carried as an intangible asset with an indefinite useful life at the value of KShs 25 million, less any subsequent accumulated impairment losses. The right is not subject to annual renewal and can be transferred to another party. Management tests the trading right for impairment by comparing its recoverable amount with its carrying amount annually and whenever there is an indication that the right may be impaired. The Group bases its impairment calculation on market information and the value of the right when a transaction between two parties takes place.

The value is based on available data from binding sales transactions, conducted at arm's length. In determining the fair value, recent market transactions are taken into account. Any impairment losses are accounted for through profit or loss. Refer to note 2(s) on impairment of non-financial assets.

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

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 the income statement when the asset is derecognised.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (Continued)

(k) Investments in associates

An associate is an entity over which the Group and the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The Group and the Bank's investments in its associates are accounted for using the equity method and at cost in the separate financial statements.

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

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

The share of profit of an associate is shown on the face of the consolidated Statement of profit or loss. This is the profit attributable to equity holders of the associate and therefore is the entity's proportionate share of the associate's profit after tax.

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

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

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

(l) Leases (Policy applicable before 1 January 2019)

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

Group is the lessee

Leases that do not transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they it is incurred.

Group is the lessor

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

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (continued)

(l) Leases (Policy applicable before 1 January 2019) (Continued)

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 19 and are subject to impairment in line with the Bank's policy as described in Note 2 (s) Impairment of non-financial assets.

Lease Liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

Group as Lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(m) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (continued)

(m) Financial assets (continued)

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in categories:

- Debt Instruments at amortised cost s
- Debt Instruments at Fair Value through OCI
- Derivatives at fair value through profit or loss
- Equity Instruments at Fair Value through OCI

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes loans and advances to customers, due from banks financial investments at amortised cost and trade receivables.

The details of these conditions are outlined below.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Group does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (continued)

(m) Financial assets (continued)

Financial assets at amortised cost (debt instruments) (continued)

Business model assessment (Continued)

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of the financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling

And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. The ECL calculation for Debt instruments at FVOCI is explained in Note 9.

The Group's debt instruments at fair value through OCI includes investments in treasury bonds and corporate bonds.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its listed equity investments under this category.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (continued)

(m) Financial assets (continued)

Derivative financial instruments

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

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

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

The Group uses the following derivative instruments:

Currency Forwards

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

Swaps

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

Financial guarantee, letter of credit and undrawn loan commitment

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. These are written by the Group to support performance by a customer to third parties. The Group will only be required to meet these obligations in the event the customer defaults. Financial guarantee contracts are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and an ECL allowance.

(i) Overview of the Expected Credit Loss (ECL) principles

The Group records the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as "financial instruments". Equity instruments and other financial assets held at FVPL are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in note 2 m (ii). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 3(a).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 3(a).

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (continued)

(m) Financial assets (continued)

(i) Overview of the Expected Credit Loss (ECL) principles (continued)

Based on the above process, the Group categorises its loans into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: When loans are first recognized, the Group recognizes an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired as outlined in Note 3(a). The Group records an allowance for the LTECLs.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a partial derecognition of the financial asset.

(ii) The calculation of ECLs

The Group calculates ECLs based on four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- *Probability of Default (PD):* The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio. The concept of PDs is further explained in Note 3(a)
- *Exposure at Default (EAD):* The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 3(a).
- *Loss Given Default (*LGD): The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 3(a).

When estimating the ECLs, the Group considers four scenarios (a base case, an upside, a mild downside ('downside 1') and a more extreme downside ('downside 2')). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out below, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

Provisions for ECLs for undrawn loan commitments are assessed as set out below. The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards is explained below.

The mechanics of the ECL method are summarised below:

Stage 1:

The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (continued)

(m) Financial assets (continued)

Stage 2:

When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3:

For loans considered credit-impaired (as defined in Note 3(a)), the Group recognises the lifetime expected credit losses for these loans, with the PD set at 100%.

Loan commitments and letters of credit

When estimating LTECLs for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised in other liabilities.

Financial guarantee contracts

The Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Statement of Profit and loss , and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within Provisions.

(iii) Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

(iv) Credit cards and other revolving facilities (Overdraft)

The Group's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Group has the right to cancel and/or reduce the facilities with one day's notice. The Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group's expectations of the customer behaviour, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Group's expectations, the period over which the Group calculates ECLs for these products, is five years for corporate and seven years for retail products.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in usage.

The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, as explained in Note 3(a) on a collective basis. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (continued)

(m) Financial assets (continued)

(v) Forward looking information

In its ECL models, the Group relies on a broad range of forward-looking information as economic inputs, such as:

- Inflation Rate "Inflation"
- Brent Crude Oil in USD/Barrel "Oil"
- Lending Rate "Lending"

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 3(a).

(vi) Forborne and modified loans

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Group's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

When the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 3 (a). The Group also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 6-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing
- The probation period of 6 months has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contracts that are more than 30 days past due

If modifications are substantial, the loan is derecognised as disclosed in note 2 (n) below.

(n) Derecognition of financial assets

Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (continued)

(n) Derecognition of financial assets (continued)

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Bank considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

Derecognition other than for substantial modification

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Group also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement

Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Group cannot sell or pledge the original asset other than as security to the eventual recipients
- The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipient.

A transfer only qualifies for derecognition if either:

- The Group has transferred substantially all the risks and rewards of the asset

  Or

- The Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Derecognition other than for substantial modification

The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group's continuing involvement, in which case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Group would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (continued)

(o) Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount of the secured asset and fair value less costs to sell and reported within 'Non-current assets held for sale'. The bank did not have repossessed assets in the current year (2018: nil).

In its normal course of business, the Bank engages external agents to recover funds from the repossessed assets, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

(p) Financial liabilities

Initial recognition and measurement

The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and borrowings or payables as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

The Group has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortised cost

i) Customer deposits

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

ii) Deposits from/ to other banks

Deposits from other banks include inter-bank placements, 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.

iii) Other borrowed funds

Borrowings are financial liabilities and measured initially at fair value and subsequently at amortised cost using the effective interest rate method.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (continued)

(q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Statement of profit or loss net of any reimbursement in other operating expenses.

(r) Offsetting

Financial assets and liabilities are offset, and the net amount reported in the consolidated and separate statement of financial position if the amount is not material, there is a currently enforceable legal 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. The Group has no set off arrangements.

(s) Impairment of non-financial assets

The carrying amounts of the group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, an appropriate valuation model is used.

Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for a property previously re-valued where the valuation was taken to other comprehensive income. In this case, the impairment loss is also recognised in other comprehensive income up to the amount of any previous revaluation.

For the assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

(t) Foreign currency

i) 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 at the reporting date. Any resulting gains or losses on exchange are dealt with in profit or loss in the period in which they arise. Non-monetary items carried at cost are translated using the exchange rate at the date of the initial transactions, whilst assets carried at fair value are translated at the exchange rate when the fair value was determined.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (continued)

(t) Foreign currency (continued)

ii) Group companies

With effect from 2016, the South Sudanese economy is considered to be hyperinflationary in accordance with criteria in *International Accounting Standards (IAS) 29-Financial Reporting in Hyperinflationary Economies.*

On consolidation, the statements of profit or loss and financial position of foreign operations whose functional currency is the currency of a hyperinflationary economy are translated into the group's functional currency at the closing rate at the reporting date. The exchange differences arising on translation for consolidation are recognised directly through equity.

Where the functional currency is changed to a currency that is not under hyperinflationary economy, the exchange difference arising on translation is recognised through translation reserve.

(u) Employee benefits

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

Short-term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services (i.e. free medical check-ups, counselling and medical complementary follow-ups)

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the reporting date.

(v) Taxes

Current tax

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

Deferred income tax

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (continued)

(v) Taxes (continued)

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

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

Value Added Tax

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

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

(w) 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 other 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 other 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 other income in the period in which it becomes receivable.

(x) 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 restricted balances - cash reserve ratio), items in the course of collection and deposits and balances due from banking institutions. For the purpose of the consolidated and separate statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Cash and cash equivalents are measured at amortised cost.

(y) Dividends

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

(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.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (continued)

(aa) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. External valuers are involved for valuation of significant assets, such as land and buildings. The bank's panel of Valuers is selected through a competitive bidding process. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuation is carried out every three years after which the valuation reports are evaluated for reasonability by the bank's internal valuers before adoption.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT

Risk management framework

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

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

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

The Group has exposure to the following risks from its use of financial instruments:
(a) Credit risk
(b) Liquidity risk
(c) Market risks
(d) Operational risks

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

(a) Credit risk

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

Management of credit risk

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

(1) 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.

(2) Establishing the authorisation structure for the approval and renewal of credit facilities.

(3) Reviewing and assessing credit risk.

(4) Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks.

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

(6) Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Each business unit is required to implement Group credit policies and procedures, with credit approval authorities delegated from the Board's Credit 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.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Management of credit risk (continued)

The table below summarizes the maximum exposure to credit risk and indicates the worst-case scenario, without taking into consideration collateral, other credit enhancements or provisions of impairment.

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Items recognised in the statement of financial position:				
Balances with central bank	20,069,039	22,669,211	17,135,079	20,820,071
Items in the course of collection	1,344,671	722,345	482,790	450,856
Deposits and balances due from banking institutions	9,709,748	18,081,648	8,026,317	17,596,366
Derivatives	379,745	664,514	379,745	664,514
Debt instruments at amortised cost	77,845,496	52,092,150	77,693,633	51,935,363
Debt & equity instruments at fair value through other comprehensive income	40,931,155	30,572,358	40,931,155	30,572,358
Interest receivable	3,592,981	2,847,811	3,592,981	2,847,811
Other assets	346,285	555,784	346,285	422,599
Loans and advances to customers	266,712,696	245,410,302	265,332,776	243,546,383
	420,931,816	**373,616,123**	**413,920,761**	**368,856,321**
Items not recognised in the statement of financial position (note 48)	24,627,930	19,633,909	24,627,930	19,633,909
	445,559,746	**393,250,032**	**438,548,691**	**388,490,230**

While collateral is an important means to mitigate against credit risk, the Group's primary policy is to issue loans after establishing capacity of the customer to repay. Unsecured facilities amount to KShs 107 billion (2018- KShs 80.1 billion). All other facilities are secured by collateral in the form of charges over cash, land and buildings, marketable securities, plant and machinery among others.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(i) Impairment assessment

The references below show where the Group's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the accounting policies on note 2(m).

Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Group considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Group also has an early warning system, (EWS), which considers a variety of parameters that may indicate unlikeliness of the customer to pay. EWS accounts are carefully reviewed and decisions made that result in treating customer as either stage 2 or stage 3 for ECL calculations such parameters include:

- Changes in account turnovers
- Adverse industry information
- Missed covenants and conditions especially of financial information or ratios
- Missed monthly payments
- Reduced monthly payments
- The borrower requesting emergency funding from the Group
- Bouncing cheques
- A material decrease in the borrower's turnover or the loss of a major customer
- Suspension of the debtor at the primary exchange because of rumours or facts about financial difficulties
- The borrower having past due liabilities to public creditors or employees.
- Increase of frequency of overdraft.
- Several requests on restructure.
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- The debtor filing for bankruptcy application/protection
- Employee retrenchment
- Diversion of funds

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for six to twelve consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the stage sub segment and the updated credit grade, at the time of the cure, and whether this indicates there has been a significant improvement in credit risk compared to the stage 3 recognition.

The Group's internal rating and PD estimation process

The Group's Credit risk division operates its internal rating models. The Group runs separate models for its key portfolios in which its customers are rated from AAA to F using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behaviour. Where practical, we also build on information from credit reference bureaus. The internal credit grades are assigned based on these Basel III based grades. PDs are then adjusted for IFRS 9 ECL calculations to incorporate historically collected loss behaviour data and forward-looking information and the IFRS 9 Stage classification of the exposure.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(i) Impairment assessment (continued)

The Group's internal rating and PD estimation process

(i) Treasury, trading and interbank relationships

The Group's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, investment banks and stock brokers. For these relationships, the Group's credit department analyses available information such as financial information and other external data, e.g., the rating of credit reference bureaus, ratings by moody or other credible agencies and assigns the internal rating, as shown in the table below.

(ii) Corporate and Co-operatives, small and medium business lending

For above segments of customers, the borrowers are assessed by specialised credit risk analysis employees of the Group. The credit risk assessment is based on a mix of expert assessment and credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Group and the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated on basis of behaviours opposed to using an application score and are being migrated to digital channels for more efficient management.

(iii) Consumer lending and other retail advances

Consumer lending comprises unsecured personal loans, credit cards, salary advances, asset finance and mortgages. These products are assessed on basis of product probability of default history and are driven for ECL by an automated tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.

(iv) The Group's and the Bank's internal credit rating grades

Grade	Classification
1	Normal
2	Watch
3	Substandard
4	Doubtful
5	Loss

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(i) Impairment assessment (continued)

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments.

To calculate the EAD for a Stage 1 loan, the Group and the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and Stage 3, the exposure at default is considered for events over the lifetime of the instruments.

The Group and the Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Group's and the Bank's models.

Loss given default

For corporate financial instruments, LGD values are assessed at the end of every month, reviewed and approved by the Bank's specialized risk department. The risk assessment is based on a standardized LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realized from any collateral held.

For Corporate, Co-operatives, Small and Medium lending as well as Asset finance and mortgages, the value of securities and expected future cash flows as well as recovery histories are taken into consideration in arriving as specific loss given default to apply to the ECL calculations.

The Group and the Bank segments its retail lending products like unsecured loans, credit cards, mobile loans into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data.

Under IFRS 9, LGD rates are estimated for the stage 1, stage 2 and stage 3 IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and where possible, calibrated through back testing against recent recoveries.

The Group and the Bank estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2 and Stage 3 IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Significant increase in credit risk

The Group and the Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group and the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Group and the Bank considers an exposure to have significantly increased in credit risk when the IFRS 9 lifetime PD has doubled since initial recognition and has increased by more than 20 bps a year.

When estimating ECLs on a collective basis for a group of similar assets, the Group and the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(i) Impairment assessment (continued)

Grouping financial assets measured on a collective basis

The Group and the Bank calculates ECLs either on a collective or an individual basis. Asset classes where the Group and the Bank calculates ECL on an individual basis include:

- Top 50 Corporate
- Composite (SME, MCU, Asset Finance, Mortgage Finance, Corporate Loans)
- Overdraft
- Mobi-Loans
- Credit Card
- Guarantee
- Letters of Credit
- SACCO & Agri Business

Asset classes where the Group and the Bank calculates ECL on a collective basis include:

- Retail unsecured

The Group and the Bank consolidates these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, as described below:

- Repayment Type
- Repayment Frequency
- Contract Start Date
- Date of First Repayment
- Expiry date
- Product Type
- Effective Interest Rate
- Days Past Due Band

Analysis of inputs to the ECL model under multiple economic scenarios

The macroeconomic factor forecasts - for the three scenarios, best estimate, optimistic and downturn - are used to create forecasted values for each of the principal components. These factors are first differenced and lagged, where applicable, and then standardised. Thereafter, the principal components are derived through vector multiplication of the principal components, using the weights for each factor. Lastly, for each scenario, the forecasted index is constructed using the weights.

Data on inflation interest rates etc is obtained from Central Bank of Kenya website and Kenya Bureau of Statistics to come up with the various scenarios that is used to overlay the ECLs.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(i) Impairment assessment (continued)

The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for "Subsequent years" represent a long-term average and so are the same for each scenario

Macroeconomic Overlays

Date	Base scenario	Growth Scenario	Down side scenario	Probability Weighted
31-12-18	1.057860015	0.996938929	1.228233812	1.068185813
31-01-19	1.058507409	0.997904669	1.22857557	1.068866948
28-02-19	1.059155122	0.995779614	1.233879562	1.069519911
31-03-19	1.059803153	0.995371305	1.224905369	1.068460524
30-04-19	1.060451503	0.99564679	1.219898556	1.068167383
31-05-19	1.061100171	0.997551945	1.21705165	1.068605836
30-06-19	1.061606681	0.998716291	1.215215663	1.068925431
31-07-19	1.062255916	0.930962164	1.249733425	1.057554104
31-08-19	1.06290547	0.926575812	1.236687275	1.054890326
30-09-19	1.063555343	0.931042253	1.248684599	1.058196459
31-10-19	1.064205535	0.934138018	1.253708833	1.06011415
30-11-19	1.057860015	0.996938929	1.228233812	1.068185813
31-12-19	1.065506876	0.939318982	1.258750313	1.062946418
31-01-20	1.066158025	0.943632756	1.255890258	1.063986543
29-02-20	1.066809494	0.945047625	1.252578373	1.064234358
31-03-20	1.067461282	0.944366523	1.253947479	1.064660522
30-04-20	1.068113389	0.941906072	1.251666986	1.0640946
31-05-20	1.068765817	0.942176046	1.249902599	1.064288891
30-06-20	1.069418564	0.940719167	1.247593005	1.063969881
31-07-20	1.070071631	0.938309049	1.24534209	1.063421554
31-08-20	1.070725018	0.936977502	1.245923767	1.063567951
30-09-20	1.071378725	0.94053107	1.255184461	1.066237671
31-10-20	1.072032752	0.942445997	1.253609724	1.066872609
30-11-20	1.072687099	0.943223483	1.249842089	1.066894443
31-12-20	1.073341767	0.945959578	1.24929704	1.067889511

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(i) Impairment assessment (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The main types of collateral obtained are, as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For corporate and small business lending, charges over real estate properties, inventory and trade receivables and, in special circumstances, government guarantees
- For retail lending, mortgages over residential properties
- For asset finance, charge over the asset
- For MCU charge over chattels

The Group and the Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

In the normal course of business, the Group and the Bank do not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/ obligors.

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

	Group and Bank	
	2019	**2018**
	KShs'000	**KShs'000**
(i) Categorised by loans & advances:		
Stage 3/Doubtful & loss categories	14,822,048	9,540,072
Stage 3/ Sub-standard category	19,303,426	4,257,666
Stage 1&2 / Normal & watch categories	413,819,785	597,813,204
	447,945,254	**611,610,942**
(ii) Categorised by nature of collateral:		
Land & buildings	232,282,747	254,070,236
Cash & other pledges	794,481	5,553,679
Motor vehicles	38,657,642	190,094,656
Hypothecation of stock	1,422,676	1,174,254
Debentures & guarantees	162,916,753	151,224,456
Equities & Shares	519,049	-
Other chattels	11,351,906	9,493,661
	447,945,254	**611,610,942**

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 Group and 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. Note 12 (c) shows the movement of loans between stage 1,2 and 3. The carrying amount of renegotiated financial assets that would otherwise be past due or impaired is as KShs 6,434,522 (2018: KShs 28,708,447).

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(i) Impairment assessment (continued)

Concentration of Risk

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

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

Loans and advances:-	**Group**		**Bank**	
	2019	**2018**	**2019**	**2018**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
(i) Concentration by sector:				
Agriculture	5,031,369	4,705,704	5,031,369	4,705,704
Manufacturing, energy & water	127,274,887	25,317,764	127,274,887	25,317,764
Financial services	31,313,659	26,403,526	31,313,659	26,403,526
Tourism & hospitality	20,325,022	2,089,786	20,325,022	2,089,786
Wholesale and retail trade	37,186,315	41,222,894	35,694,409	39,337,317
Transport and communication	2,074,308	23,224,620	2,074,308	23,224,620
Real Estate, building & construction	25,686,894	38,122,756	25,686,894	38,122,756
Consumer & household	40,897,180	104,464,345	40,897,180	104,464,345
	289,789,634	**265,551,395**	**288,297,728**	**263,665,818**
Less: staff loans amortisation	(4,599,768)	(4,044,752)	(4,599,768)	(4,044,752)
	285,189,866	**261,506,643**	**283,697,960**	**259,621,066**
(ii) Concentration by business:				
Corporate	90,626,620	104,630,901	89,134,714	102,745,324
Mortgage & Asset Finance	61,528,570	61,109,209	61,528,570	61,109,209
Small, Medium and Microenterprises	19,587,549	17,974,196	19,587,549	17,974,196
Retail	114,512,656	79,300,864	114,512,656	79,300,864
Agribusiness	3,534,239	2,536,225	3,534,239	2,536,225
	289,789,634	**265,551,395**	**288,297,728**	**263,665,818**
Less: staff loans amortisation	(4,599,768)	(4,044,752)	(4,599,768)	(4,044,752)
	285,189,866	**261,506,643**	**283,697,960**	**259,621,066**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(i) Impairment assessment (continued)

Write-off policy

As disclosed in note 12, The Group and 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.

Settlement Risk

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

(b) Liquidity risk

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

Management of liquidity risk

The Group's and 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 Group's and Bank's reputation.

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

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Exposure to liquidity risk

The table below analyses the Group's and Banks assets and liabilities into relevant groupings based on the remaining period at 31 December to the un-discounted contractual cash flows:

GROUP 31 December 2019 FINANCIAL ASSETS	Available immediately and up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	11,970,785	-	-	-	-	**11,970,785**
Deposits and balances due from banks	8,791,431	918,317	-	-	-	**9,709,748**
Investment in financial instruments	4,545,000	35,664,660	35,577,424	55,251,419	63,766,162	**194,804,665**
Loans and advances to customers	39,586,638	6,194,569	27,170,826	166,108,038	159,776,458	**398,836,529**
Total undiscounted financial assets	**64,893,854**	**42,777,546**	**62,748,250**	**221,359,457**	**223,542,620**	**615,321,727**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	176,675	-	-	-	-	**176,675**
Customers' deposits	276,090,117	42,387,483	16,031,942	933,381	-	**335,442,923**
Loans and borrowings	-	-	1,145,894	12,672,732	21,554,273	**35,372,899**
Lease liability	120,502	241,004	1,084,518	3,391,624	490,969	**5,328,617**
Other liabilities	1,423,807	-	-	-	-	**1,423,807**
Total undiscounted financial liabilities	**277,811,101**	**42,628,487**	**18,262,354**	**16,997,737**	**22,045,242**	**377,744,921**
Net liquidity gap at 31 December 2019	**(212,917,247)**	**149,059**	**44,485,896**	**204,361,720**	**201,497,378**	**237,576,806**
Liabilities not recognised in statement of financial position (note 48)	**507,287**	**2,231,148**	**21,286,427**	**1,236,040**	**16,040**	**25,276,942**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Exposure to liquidity risk

BANK 31 December 2019 FINANCIAL ASSETS	Available immediately and up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	8,335,413	-	-	-	-	**8,335,413**
Deposits and balances due from banks	7,108,000	918,317	-	-	-	**8,026,317**
Investment in financial instruments	4,545,000	9,183,650	35,577,424	54,835,814	63,766,162	**167,908,050**
Loans and advances to customers	39,204,805	6,194,569	25,611,517	166,108,038	159,776,458	**396,895,387**
Total undiscounted financial assets	**59,193,218**	**16,296,536**	**61,188,941**	**220,943,852**	**223,542,620**	**581,165,167**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	734,804	-	-	-	-	**734,804**
Customers' deposits	272,630,236	42,387,483	16,031,942	762,261	-	**331,811,922**
Loans and borrowings	-	-	1,145,894	12,672,732	21,554,273	**35,372,899**
Lease Liability	115,967	231,933	1,043,701	3,263,975	472,490	**5,128,066**
Other Liabilities	345,968	-	-	-	-	**345,968**
Total undiscounted financial liabilities	**273,826,975**	**42,619,416**	**18,221,537**	**16,698,968**	**22,026,763**	**373,393,659**
Net liquidity gap at 31 December 2019	**(214,633,757)**	**(26,322,880)**	**42,967,404**	**204,244,884**	**201,515,857**	**207,771,508**
Liabilities not recognised in statement of financial position (note 48)	**507,287**	**2,231,148**	**21,286,427**	**1,236,040**	**16,040**	**25,276,942**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Exposure to liquidity risk

GROUP 31 December 2018 FINANCIAL ASSETS	Available immediately and up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	16,079,650	-	-	-	-	**16,079,650**
Deposits and balances due from banks	10,129,462	5,856,151	-	2,096,035	-	**18,081,648**
Investment in financial instruments	-	1,444,996	28,352,710	47,640,877	43,199,562	**120,638,145**
Loans and advances to customers	31,567,578	3,425,160	24,817,014	162,101,132	149,586,732	**371,497,616**
Total undiscounted financial assets	**57,776,690**	**10,726,307**	**53,169,724**	**211,838,044**	**192,786,294**	**526,297,059**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	393,260	-	50,000	-	-	**443,260**
Customers' deposits	252,988,892	36,606,221	18,888,032	43,758	-	**308,526,903**
Other Liabilities	469,866	-	-	-	-	**469,866**
Loans and borrowings	-	-	-	26,603,662	5,728,313	**32,331,975**
Total undiscounted financial liabilities	**253,852,018**	**36,606,221**	**18,938,032**	**26,647,420**	**5,728,313**	**341,772,004**
Net liquidity gap at 31 December 2018	**(196,075,329)**	**(25,879,914)**	**34,231,692**	**185,190,624**	**187,057,981**	**184,525,055**
Liabilities not recognised in statement of financial position (note 48)	**2,353,062**	**1,588,442**	**11,442,610**	**4,249,796**	**-**	**19,633,910**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Exposure to liquidity risk

BANK 31 December 2018 FINANCIAL ASSETS	Available immediately and up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	14,058,993	-	-	-	-	**14,058,993**
Deposits and balances due from banks	9,644,180	5,856,151	-	2,096,035	-	**17,596,366**
Investment in financial instruments	-	1,444,189	27,994,215	47,640,877	43,199,562	**120,278,843**
Loans and advances to customers	31,567,578	3,425,160	19,569,632	162,101,132	149,586,732	**366,250,234**
Total undiscounted financial assets	**55,270,751**	**10,725,500**	**47,563,847**	**211,838,044**	**192,786,294**	**518,184,436**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	839,621	-	-	-	-	**839,621**
Customers' deposits	239,828,712	46,460,207	19,937,135	56,521	-	**306,282,575**
Other Liabilities	205,411	-	-	-	-	**205,411**
Loans and borrowings	-	-	-	26,603,662	5,728,313	**32,331,975**
Total undiscounted financial liabilities	**240,873,744**	**46,460,207**	**19,937,135**	**26,660,183**	**5,728,313**	**339,659,584**
Net liquidity gap at 31 December 2018	**(185,602,993)**	**(35,734,707)**	**27,626,712**	**185,177,861**	**187,057,981**	**178,524,854**
Liabilities not recognised in statement of financial position (note 48)	**2,353,062**	**1,588,442**	**11,442,610**	**4,249,796**	**-**	**19,633,910**

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

	2019 %	2018 %
At 31 December 2019	44.8	41.5
Average for the year	44.2	39.5
Maximum for the year	48.2	44.0
Minimum for the year	41.6	36.9
Statutory minimum ratio	20.0	20.0

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates, 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 non-trading portfolios. Trading portfolios are managed on a mark to market basis. Overall authority for market risk is vested in Asset and Liability Committee (ALCO). Risk Management Department is responsible for the development of detailed risk management policies and for the day to day review of their implementation.

Exposure to market risk – trading portfolios

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

Exposure to interest rate risk – *non- trading portfolios*

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

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Exposure to interest rate risk (Continued)

GROUP 31 December 2019 ASSETS	Available immediately and up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Non- interest bearing	Total KShs'000
Cash and balances with Central Bank of Kenya	-	-	-	-	-	29,028,674	**29,028,674**
Deposits and balances due from banks	8,791,431	918,317	-	-	-	-	**9,709,748**
Investment in financial instruments	4,500,000	8,504,851	31,765,557	34,532,137	39,853,851	-	**119,156,396**
Loans and advances to customers	39,162,379	5,999,583	24,044,979	100,671,538	96,834,217	-	**266,712,696**
Total assets	**52,453,810**	**15,422,751**	**55,810,536**	**135,203,675**	**136,688,068**	**29,028,674**	**424,607,514**
LIABILITIES							
Deposits and balances due to banks	176,975	-	-	-	-	-	**176,975**
Customers' deposits	78,190,312	41,864,181	15,268,516	746,705	-	196,754,203	**332,823,917**
Loans and borrowings	-	-	1,070,929	9,387,209	15,966,128	-	**26,424,266**
Lease liabilities	113,275	226,550	1,019,476	3,188,216	461,523	-	**5,009,040**
Total liabilities	**78,480,562**	**42,090,731**	**17,358,921**	**13,322,130**	**16,427,651**	**196,754,203**	**364,434,198**
Interest sensitivity gap	**(26,026,752)**	**(26,667,980)**	**38,451,615**	**121,881,545**	**120,260,417**	**-**	**60,173,316**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Exposure to interest rate risk (Continued)

BANK **31 December 2019**	**Available immediately and up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non- interest bearing**	**Total**
ASSETS	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**		**KShs'000**
Cash and balances with Central Bank of Kenya	-	-	-	-	-	25,393,302	**25,393,302**
Deposits and balances due from banks	7,108,000	918,317	-	-	-	-	**8,026,317**
Investment in financial instruments	4,500,000	8,916,165	31,765,557	33,968,960	39,853,851	-	**119,004,533**
Loans and advances to customers	39,162,379	6,992,521	21,672,121	100,671,538	96,834,217	-	**265,332,776**
Total assets	**50,770,379**	**16,827,003**	**53,437,678**	**134,640,498**	**136,688,068**	**25,393,302**	**417,756,928**
LIABILITIES							
Deposits and balances due to banks	734,804	-	-	-	-	-	**734,804**
Customers' deposits	77,464,496	41,864,181	15,268,516	746,705	-	194,034,494	**329,378,392**
Loans and borrowings	-	-	1,070,929	9,387,209	15,966,128	-	**26,424,266**
Lease liabilities	109,012	218,024	981,106	3,068,222	444,153	-	**4,820,517**
Total liabilities	**78,308,312**	**42,082,205**	**17,320,551**	**13,202,136**	**16,410,281**	**194,034,494**	**361,357,979**
Interest sensitivity gap	**(27,537,933)**	**(25,255,202)**	**36,117,127**	**121,438,362**	**120,277,787**	**-**	**56,398,949**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. **FINANCIAL RISK MANAGEMENT (continued)**

(c) Market risk (continued)

(iii) Exposure to interest rate risk (Continued)

GROUP

31 December 2018	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non- interest bearing**	**Total**
ASSETS	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cash and balances with Central Bank of Kenya	-	-	-	-	-	32,478,601	**32,478,601**
Deposits and balances due from banks	10,129,462	5,856,151	-	2,096,035	-		**18,081,648**
Investment in financial instruments	-	1,402,909	24,830,754	30,095,632	26,499,294	-	**82,828,589**
Loans and advances to customers	34,009,043	3,317,346	17,318,258	100,107,029	90,658,626	-	**245,410,302**
Total assets	**44,138,505**	**10,576,406**	**42,149,012**	**132,298,696**	**117,157,920**	**32,478,601**	**378,799,140**
LIABILITIES							
Deposits and balances due to banks	443,260	-	-	-	-	-	**443,260**
Customers' deposits	57,303,571	45,886,624	18,987,748	45,217	-	183,893,886	**306,117,046**
Loans	-	-	-	19,706,416	4,243,195	-	**23,949,611**
Total liabilities	**57,746,831**	**45,886,624**	**18,987,748**	**19,751,633**	**4,243,195**	**183,893,886**	**330,509,917**
Interest sensitivity gap	**(13,608,326)**	**(35,310,218)**	**23,161,264**	**112,547,063**	**112,914,725**	**-**	**48,289,223**

Reclassifications have been made to previously disclosed numbers in 2018 so as to align with the presentation of the same items in 2019. This largely results from a reorganization of the split between interest bearing and non-interest bearing items as well as the time band classification of the same items.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Exposure to interest rate risk (Continued)

BANK

31 December 2018	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non- interest bearing**	**Total**
ASSETS	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cash and balances with Central Bank of Kenya	-	-	-	-	-	29,884,170	**29,884,170**
Deposits and balances due from banks	9,644,180	5,856,151	-	2,096,035	-	-	**17,596,366**
Investment in financial instruments	-	1,402,909	24,673,967	30,095,632	26,999,727	-	**83,172,235**
Loans and advances to customers	32,145,124	3,317,346	17,318,258	100,107,029	90,658,626	-	**243,546,383**
Total assets	**41,789,304**	**10,576,406**	**41,992,225**	**132,298,696**	**117,658,353**	**29,884,170**	**374,199,154**
LIABILITIES							
Deposits and balances due to banks	839,621	-	-	-	-	-	**839,621**
Customers' deposits	54,939,686	45,886,624	18,987,748	45,217	-	183,893,886	**303,753,161**
Loans	-	-	-	19,706,416	4,243,195	-	**23,949,611**
Total liabilities	**55,779,307**	**45,886,624**	**18,987,748**	**19,751,633**	**4,243,195**	**183,893,886**	**328,542,393**
Interest sensitivity gap	**(13,990,003)**	**(35,310,218)**	**23,004,477**	**112,547,063**	**113,415,158**	**-**	**45,656,761**

Reclassifications have been made to previously disclosed numbers in 2018 so as to align with the presentation of the same items in 2019. This largely results from a reorganization of the split between interest bearing and non-interest bearing items as well as the time band classification of the same items.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Exposure to interest rate risk (Continued)

Interest rate risk sensitivity analysis

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

ASSETS	**2019 Carrying amount KShs'000**	**1% increase**	**1% decrease**	**2018 Carrying amount KShs'000**	**1% increase**	**1% decrease**
Deposits and balances due from banks	**9,709,748**	97,097	(97,097)	**18,081,648**	180,816	(180,816)
Debt instruments at amortised cost	**77,845,496**	778,455	(778,455)	**52,092,150**	520,922	(520,922)
Debt instruments at fair value through other comprehensive income	**41,310,900**	413,109	(413,109)	**30,736,439**	307,364	(307,364)
Loans and advances to customers	**266,712,696**	2,667,127	(2,667,127)	**245,410,302**	2,454,103	(2,454,103)
		3,955,788	**(3,955,788)**	**-**	**3,463,205**	**(3,463,205)**
LIABILITIES & EQUITY						
Deposits and balances due to banks	**176,975**	(1,770)	1,770	**443,260**	(4,433)	4,433
Customers' deposits	**136,069,714**	(1,360,697)	1,360,697	**122,223,160**	(1,222,232)	1,222,232
Lease liabilities	**5,009,040**	(50,090)	50,090		-	-
Loans and borrowings	**26,424,266**	(264,243)	264,243	**23,949,611**	(239,496)	239,496
		(1,676,800)	**1,676,800**	-	**(1,466,161)**	**1,466,161**
Effect on profit before tax		**2,278,988**	**(2,278,988)**	-	**1,997,044**	**(1,997,044)**
As percentage of profit before tax (%)		**11%**	**(11%)**	-	**11%**	**(11%)**
Effect on equity		**1,595,291**	**(1,595,291)**	**-**	**1,397,931**	**(1,397,931)**
As percentage of equity (%)		**1.98%**	**(1.98%)**		**1.98%**	**(1.98%)**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Exposure to currency risk

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

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

CURRENCY TYPE	**USD**	**GBP**	**EURO**	**JPY**	**CHF**	**ZAR**	**OTHERS**	**TOTAL**
EXCHANGE RATE	101.34	132.94	113.37	0.93	104.31	7.19	-	
31 December 2019	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**
Foreign Currency Assets:								
Cash and balances with banks abroad	11,768,415	267,748	2,233,372	143,818	52,114	48,052	1,427,777	**15,941,296**
Loan and advances	29,705,250	140,164	115,413	-	-	-	-	**29,960,827**
Other foreign assets	1,298,852	15,964	2,174	-	-	(31)	6,821	**1,323,780**
Total statement of financial position items	**42,772,517**	**423,876**	**2,350,959**	**143,818**	**52,114**	**48,021**	**1,434,598**	**47,225,903**
Items not recognised in statement of financial position	25,658,798	232,376	4,339,651	-	-	-	-	**30,230,824**
Total Foreign Assets	**68,431,315**	**656,253**	**6,690,610**	**143,818**	**52,114**	**48,021**	**1,434,598**	**77,456,727**
Foreign Currency Liabilities:								
Deposits	7,928,382	287,855	2,087,849	67,393	9,461	1,759	4,243	**10,386,941**
Loan and advances	25,610,653	-	-	-	-	-	-	**25,610,653**
Other foreign liabilities	44,981	11,215	11,460	-	-	-	2,434	**70,090**
Total statement of financial position items	**33,584,016**	**299,070**	**2,099,309**	**67,393**	**9,461**	**1,759**	**6,676**	**36,067,684**
Items not recognised in statement of financial position	34,033,617	319,063	4,601,331	80,813	20,862	51,519	1,383,644	**40,490,849**
Total Foreign liabilities	**67,617,633**	**618,133**	**6,700,640**	**148,206**	**30,323**	**53,278**	**1,390,321**	**76,558,534**
Net Exposure at 31 December 2019	**813,681**	**38,120**	**(10,030)**	**(4,388)**	**21,791**	**(5,256)**	**44,278**	**898,195**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Exposure to currency risk (Continued)

CURRENCY TYPE	USD	GBP	EURO	JPY	CHF	ZAR	OTHERS	TOTAL
EXCHANGE RATE	102	129	116	1	104	7	-	
31 December 2018	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Foreign Currency Assets:								
Cash and balances with banks abroad	10,361,777	107,188	2,452,373	66,616	45,839	19,577	109,274	**13,162,644**
Loan and advances	32,045,668	138,110	236,953	-	-	-	-	**32,420,731**
Other foreign assets	1,140,559	10,938	454,251	-	-	5	111	**1,605,864**
Total statement of financial position items	**43,548,004**	**256,236**	**3,143,577**	**66,616**	**45,839**	**19,582**	**109,385**	**47,189,239**
Items not recognised in statement of financial position	17,132,072	221,805	2,979,203	-	-	-	5,804	**20,338,884**
Total Foreign Assets	**60,680,076**	**478,041**	**6,122,780**	**66,616**	**45,839**	**19,582**	**115,189**	**67,528,123**
Foreign Currency Liabilities:								
Balances due to banks abroad	-	-	-	-	-	-	-	-
Deposits	8,544,576	224,403	2,338,795	67,008	12,510	546	2,819	**11,190,657**
Loan and advances	22,734,403	-	-	-	-	-	-	**22,734,403**
Other foreign liabilities	3,509,686	24,951	488,800	4	91	2,133	2,526	**4,028,191**
Total statement of financial position items	**34,788,665**	**249,354**	**2,827,595**	**67,012**	**12,601**	**2,679**	**5,345**	**37,953,251**
Items not recognised in statement of financial position	23,203,182	242,246	3,256,346	-	20,391	20,528	88,465	**26,831,158**
Total Foreign liabilities	**57,991,847**	**491,600**	**6,083,941**	**67,012**	**32,992**	**23,207**	**93,810**	**64,784,409**
Net Exposure at 31 December 2018	**2,688,229**	**(13,559)**	**38,839**	**(396)**	**12,847**	**(3,625)**	**21,379**	**2,743,714**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Exposure to currency risk (continued)

Currency risk sensitivity analysis

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

	2019 Carrying amount KShs'000	10% appreciation	10% depreciation	2018 Carrying amount KShs'000	10% appreciation	10% depreciation
Foreign Currency Assets:						
USD	**68,431,314**	(6,843,131)	6,843,131	**60,680,076**	(6,068,008)	6,068,008
GBP	**656,253**	(65,625)	65,625	**478,041**	(47,804)	47,804
EURO	**6,690,609**	(669,061)	669,061	**6,122,780**	(612,278)	612,278
JPY	**143,818**	(14,382)	14,382	**66,616**	(6,662)	6,662
CHF	**52,114**	(5,211)	5,211	**45,839**	(4,584)	4,584
ZAR	**48,021**	(4,802)	4,802	**19,582**	(1,958)	1,958
Other currencies	**1,434,598**	(143,460)	143,460	**115,189**	(11,519)	11,519
		(7,745,672)	**7,745,672**		**(6,752,813)**	**6,752,813**
Foreign Currency Liabilities:						
USD	**67,617,634**	6,761,763	(6,761,763)	**57,991,847**	5,799,185	(5,799,185)
GBP	**618,133**	61,813	(61,813)	**491,600**	49,106	(49,106)
EURO	**6,700,639**	670,064	(670,064)	**6,083,941**	608,394	(608,394)
JPY	**148,206**	14,821	(14,821)	**67,012**	6,701	(6,701)
CHF	**30,323**	3,032	(3,032)	**32,992**	3,299	(3,299)
ZAR	**53,278**	5,328	(5,328)	**23,207**	2,321	(2,321)
Other currencies	**1,390,320**	139,032	(139,032)	**93,810**	9,381	(9,381)
		7,655,853	**(7,655,853)**		**6,478,387**	**(6,478,387)**
Effect on profit before tax		**(89,820)**	**89,820**		**(274,372)**	**274,372**
As percentage (%) of profit before tax		**(0.44%)**	**0.44%**		**(1.56%)**	**1.56%**
Effect on equity (profit after tax)		**(62,874)**	**62,874**		**(192,060)**	**192,060**
As percentage (%) of equity		**(0.08%)**	**0.08%**		**(0.28%)**	**0.28%**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(d) Operational risk

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

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

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

(i) requirements for appropriate segregation of duties, including the independent authorisation of transactions

(ii) requirements for the reconciliation and monitoring of transactions

(iii) compliance with regulatory and other legal requirements

(iv) documentation of controls and procedures

(v) requirements for the yearly assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified

(vi) requirements for the reporting of operational losses and proposed remedial action

(vii) development of contingency plans

(viii) training and professional development

(ix) ethical and business standards

(x) risk mitigation, including insurance where this is effective

Compliance with Group 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.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4. CAPITAL MANAGEMENT

Regulatory capital

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

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

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

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

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

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

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

	2019	2019	2018
Tier I Capital:	**KShs'000**	**KShs'000**	**KShs'000**
		(Regulator adjusted)	
Ordinary share capital	5,867,180	5,867,180	5,867,180
Share premium	1,911,926	1,911,926	1,911,926
Retained earnings	60,096,268	60,101,468	55,367,994
Other reserves	443,416	443,416	461,890
Less: Investments in equity of other institutions & deferred tax	(5,548,350)	(5,548,350)	(5,402,264)
Core Capital	**62,770,440**	**62,775,640**	**58,206,726**
-			
Tier II Capital:			
Revaluation reserves (25%)	337,920	337,920	299,536
Term subordinated debt	-	-	-
Loan loss provisions	1,603,621	1,603,621	935,514
Supplementary capital	**1,941,541**	**1,941,541**	**1,235,050**
Total regulatory capital	**64,711,981**	**64,717,181**	**59,441,776**
Total risk weighted assets	**410,346,536**	**410,346,536**	**367,430,410**
Capital ratios:			
Core capital to Total deposit liabilities (CBK minimum 10.5%)	19.0%	19.0%	19.1%
Core capital to Total risk weighted assets (CBK minimum 10.5%)	15.3%	15.3%	15.8%
Total capital to Total risk weighted assets (CBK minimum 14.5%)	15.8%	15.8%	16.2%

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4. CAPITAL MANAGEMENT (continued)

Capital Allocation

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

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

5. SEGMENT REPORTING

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

1. Retail Banking: Includes loans deposits and other transactions and balances with retail customers;
2. Wholesale Banking: Includes loans deposits and other transactions and balances with corporate and institutional customers
3. Unallocated- This relates to segments which do not fall into the categories of retail or wholesale banking. This mainly comprises of support departments such as ICT, Finance and shared services among others.

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

The Group's segment operations are all financial with a majority of revenues deriving from interest. The management relies primarily on net interest revenue to assess the performance of the segment. Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not gross income and expenses. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2019 or 2018.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

5. SEGMENT REPORTING (continued)

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments. All the revenue shown is from external customers.

Profit or loss for the year ended 31 December 2019	Wholesale banking KShs'000	Retail banking KShs'000	Un-allocated KShs'000	Total KShs'000
Interest income	16,859,561	17,951,526	9,815,911	**44,626,998**
Interest expense	(8,285,214)	(2,983,429)	(1,371,735)	**(12,640,378)**
Net interest income	8,574,347	14,968,097	8,444,176	**31,986,620**
Non-funded income	2,224,004	11,983,000	2,002,907	**16,209,911**
Operating income	**10,798,351**	**26,951,097**	**10,447,083**	**48,196,531**
Depreciation	(66,920)	(1,865,464)	(803,370)	**(2,735,754)**
Amortization	-	-	(595,086)	**(595,086)**
Other operating expenses	(801,949)	(10,458,637)	(13,202,849)	**(24,463,435)**
Share of profit in associates	-	-	40,035	**40,035**
Profit before tax	**9,929,482**	**14,626,996**	**(3,850,724)**	**20,705,754**
Income tax expense	-	-	(6,394,506)	**(6,394,506)**
Profit after tax	**9,929,482**	**14,626,996**	**(10,245,230)**	**14,311,248**

Profit or loss for the year ended 31 December 2018	Wholesale banking KShs'000	Retail banking KShs'000	Un-allocated KShs'000	Total KShs'000
Interest income	15,279,551	27,703,485	557,532	**43,540,568**
Interest expense	(4,295,384)	(7,787,998)	(156,733)	**(12,240,115)**
Net interest income	10,984,167	19,915,487	400,799	**31,300,453**
Non-funded income	2,198,822	8,328,731	1,731,683	**12,259,236**
Operating income	**13,182,989**	**28,244,218**	**2,132,482**	**43,559,689**
Depreciation	(31,751)	(1,580,447)	(205,748)	**(1,817,946)**
Amortization	(229,831)	(259,171)	(73,326)	**(562,328)**
Other operating expenses	(772,750)	(20,974,465)	(1,446,485)	**(23,193,700)**
Share of profit in associates	-	-	171,416	**171,416**
Profit before tax	**12,148,657**	**5,430,135**	**578,339**	**18,157,131**
Income tax expense	(1,944,151)	(3,233,530)	(246,964)	**(5,424,645)**
Profit after tax	**10,204,506**	**2,196,605**	**331,375**	**12,732,486**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

5. SEGMENT REPORTING (continued)

Statement of financial position as at 31 December 2019	Wholesale banking KShs'000	Retail banking KShs'000	Un-allocated KShs'000	Total KShs'000
Assets:				
Segment assets	113,590,824	143,045,590	7,703,424	**264,339,838**
Unallocated assets	-	-	192,753,148	**192,753,148**
Total assets	**113,590,824**	**143,045,590**	**200,457,572**	**457,092,986**
Liabilities and equity:				
Segment liabilities and Equity	146,397,272	166,820,393	16,160,727	329,378,392
Unallocated liabilities and Equity	-	-	127,714,594	127,714,594
Total liabilities and equity	**146,397,272**	**166,820,393**	**143,875,321**	**457,092,986**
Other disclosures				
Capital expenditure	**649,938**	**671,734**	**462,403**	**1,784,075**

Statement of financial position as at 31 December 2018	Wholesale banking KShs'000	Retail banking KShs'000	Un-allocated KShs'000	Total KShs'000
Assets:				
Segment assets	114,602,612	127,620,516	11,085,239	**253,308,367**
Unallocated assets	-	-	160,362,343	**160,362,343**
Total assets	**114,602,612**	**127,620,516**	**171,447,582**	**413,670,710**
Liabilities and equity:				
Segment liabilities and Equity	144,218,113	139,748,729	2,623,811	286,590,653
Unallocated liabilities and Equity	-	-	127,080,057	127,080,057
Total liabilities and equity	**144,218,113**	**139,748,729**	**129,703,868**	**413,670,710**
Other disclosures				
Capital expenditure	**643,834**	**665,425**	**458,060**	**1,767,319**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

5. SEGMENT REPORTING (continued)

Geographical information

The Group's operations are within the two geographical segments of Kenya and South Sudan. The table below contains segmental information provided to the Board of Management for the year ended 31 December 2019.

Profit or loss for the year ended 31 December 2019	**Kenya KShs'000**	**South Sudan KShs'000**	**Total KShs'000**
Interest income	44,360,272	266,726	**44,626,998**
Interest expense	(12,600,741)	(39,637)	**(12,640,378)**
Net interest income	31,759,531	227,089	**31,986,620**
Non-funded income	15,447,631	762,280	**16,209,911**
Operating income	**47,207,162**	**989,369**	**48,196,531**
Depreciation	(2,576,292)	(159,462)	**(2,735,754)**
Amortization	(584,057)	(11,028)	**(595,085)**
Other operating expenses	(23,029,495)	(760,762)	**(23,790,257)**
Loss on net monetary position	-	(409,716)	(409,716)
Operating profit/(loss)	**21,017,318**	**(351,599)**	**20,665,719**
Share of profit in associate	33,145	6,890	40,035
Profit/(Loss) before tax	**21,050,463**	**(344,709)**	**20,705,754**
Income tax expense	**(6,319,348)**	**(75,158)**	**(6,394,506)**
Profit for the year	**14,731,115**	**(419,867)**	**14,311,248**
Statement of financial position			
Segment assets			
Non-current assets	358,026,217	6,255,040	**364,281,257**
Current assets	91,337,350	1,474,379	**92,811,729**
	449,363,567	**7,729,419**	**457,092,986**
Segment liabilities	**372,057,659**	**4,621,850**	**376,679,509**
Equity	**77,305,908**	**3,107,569**	**80,413,477**

Profit or loss for the year ended 31 December 2018	**Kenya KShs'000**	**South Sudan KShs'000**	**Total KShs'000**
Interest income	43,191,443	349,125	**43,540,568**
Interest expense	(12,200,735)	(39,380)	**(12,240,115)**
Net interest income	30,990,708	309,745	**31,300,453**
Non-funded income	11,291,487	967,749	**12,259,236**
Operating income	**42,282,195**	**1,277,494**	**43,559,689**
Depreciation	(1,615,163)	(202,783)	**(1,817,946)**
Amortization	(506,023)	(56,915)	**(562,938)**
Other operating expenses	(22,144,515)	(687,462)	**(22,831,977)**
Loss on net monetary position	-	(361,113)	(361,113)
Operating profit/(loss)	**18,016,494**	**(30,779)**	**17,985,715**
Share of profit in associate	157,052	14,364	171,416
Profit/(Loss) before tax	**18,173,546**	**(16,415)**	**18,157,131**
Income tax expense	(5,331,173)	(93,472)	(5,424,645)
Profit for the year	**12,842,373**	**(109,887)**	**12,732,486**
Statement of financial position			
Segment assets			
Non-current assets	115,657,551	1,378,094	**117,035,645**
Current assets	291,905,226	4,729,839	296,635,065
	407,562,777	**6,107,933**	**413,670,710**
Segment liabilities	**339,536,474**	**3,379,021**	**342,915,495**
Equity	**68,026,303**	**2,728,912**	**70,755,215**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

6. FAIR VALUE OF ASSETS AND LIABILITIES

(a) Determination of fair value and fair value hierarchy

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

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

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

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

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

GROUP

As at 31 December 2019	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Assets measured at fair value:				
Free hold land and buildings	-	-	2,408,791	**2,408,791**
Debt instruments at FVOCI	-	-	-	**-**
Treasury bonds	40,931,155	-	-	**40,931,155**
Equity instruments at FVOCI	107,890	-	-	**107,890**
Unquoted equity instruments at FVOCI	-	-	303,424	**303,424**
Derivatives	-	379,745	-	**379,745**
Loans and advances				
Directors and staff loans	-	4,599,768	-	**4,599,768**
Assets for which fair values are disclosed (note 6b)				
Debt Instruments at Amortised cost				
Treasury bonds	38,876,142	-	-	**38,876,142**
Treasury bills	37,995,382	-	-	**37,995,382**
Corporate bonds	-	973,971	-	**973,971**
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	2,203,120	-	**2,203,120**

As at 31 December 2018	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Assets measured at fair value:				
Free hold land and buildings	-	-	2,367,148	**2,367,148**
Debt instruments at FVOCI	-	-	-	**-**
Treasury bonds	30,572,358	-	-	**30,572,358**
Equity instruments at FVOCI	128,930	-	-	**128,930**
Unquoted equity instruments at FVOCI	-	-	35,151	**35,151**
Derivatives	-	664,514	-	**664,514**
Loans and advances				
Directors and staff loans	-	4,044,752	-	**4,044,752**
Assets for which fair values are disclosed (note 6b)			-	
Debt Instruments at Amortised cost				
Treasury bonds	34,828,403	-	-	**34,828,403**
Treasury bills	16,418,924	-	-	**16,418,924**
Corporate bonds	-	2,421,541	-	**2,421,541**
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	2,548,522	-	**2,548,522**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

BANK

As at 31 December 2019	**Level 1 KShs'000**	**Level 2 KShs'000**	**Level 3 KShs'000**	**Total KShs'000**
Assets measured at fair value:				
Free hold land and buildings	-	-	2,408,791	**2,408,791**
Debt instruments at FVOCI	-	-	-	**-**
Treasury bonds	40,931,155	-	-	**40,931,155**
Equity instruments at FVOCI	-	-	-	**-**
Unquoted equity instruments at FVOCI	-	-	303,424	**303,424**
Derivatives	-	379,745	-	**379,745**
Loans and advances				
Directors and staff loans	-	4,599,768	-	**4,599,768**
Assets for which fair values are disclosed (note 6b)				
Debt Instruments at Amortised cost				
Treasury bonds	38,724,279	-	-	**38,724,279**
Treasury bills	37,995,383	-	-	**37,995,383**
Corporate bonds	-	973,971	-	**973,971**
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	2,203,120	-	**2,203,120**

As at 31 December 2018	**Level 1 KShs'000**	**Level 2 KShs'000**	**Level 3 KShs'000**	**Total KShs'000**
Assets measured at fair value:				
Free hold land and buildings	-	-	2,408,791	**2,408,791**
Free hold land and buildings	-	-	2,367,148	**2,367,148**
Debt instruments at FVOCI	-	-	-	**-**
Treasury bonds	30,572,358	-	-	**30,572,358**
Equity instruments at FVOCI	-	-	-	**-**
Unquoted equity instruments at FVOCI	-	-	35,151	**35,151**
Derivatives	-	664,514	-	**664,514**
Loans and advances				
Directors and staff loans	-	4,044,752	-	**4,044,752**
Assets for which fair values are disclosed (note 6b)				
Debt Instruments at Amortised cost				
Treasury bonds	34,828,403	-	-	**34,828,403**
Treasury bills	16,418,924	-	-	**16,418,924**
Corporate bonds	-	2,421,541	-	**2,421,541**
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	2,548,522	-	**2,548,522**

The transfers between levels 1 and 2 in the year are disclosed on note 6(e).

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

6. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

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

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's consolidated and separate statement of financial position at their fair value, other than those with carrying amounts that are reasonable approximation of fair values.

	2019		2018	
Financial assets:	**Carrying amount KShs'000**	**Fair value KShs'000**	**Carrying amount KShs'000**	**Fair value KShs'000**
Amortised cost/ Held-to-maturity				
Corporate Bonds, Treasury bonds and bills	78,816,367	82,285,129	53,668,868	52,092,150
	78,816,367	**82,285,129**	**53,668,868**	**52,092,150**
Financial liabilities:				
Loans and borrowings				
Fixed-rates borrowings	2,619,194	2,203,120	3,135,015	2,548,522
	2,619,194	**2,203,120**	**3,135,015**	**2,548,522**

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

(i) Assets for which fair value approximates carrying amounts

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

(ii) Loans and advances to customers

Loans and advances are net of expected credit losses /charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Loans and advances to customers are at variable rates.

(iii) Government securities

Government debt securities include both long-term treasury bonds and short-term treasury bills with fixed rate interest payments. These instruments are generally highly liquid and traded in active markets resulting in a Level 1 classification. When active market prices are not available, the Group uses discounted cash flow models with observable market inputs of similar instruments and bond prices to estimate the fair value in which instances the Group classifies those securities as Level 2. The Group does not have Level 3 government securities where valuation inputs would be unobservable.

(iv) Debt securities issued by financial institutions and other debt securities

These include corporate bonds which are standard fixed rate securities. The Group uses active market prices when available, or other observable inputs in discounted cash flow models to estimate the corresponding fair value. Corporate bonds are generally Level 2 instruments.

(v) Foreign exchange contracts

Foreign exchange contracts include foreign exchange forward and swap contracts. These instruments are valued by either observable foreign exchange rates, observable or calculated forward points and option valuation models. With the exception of contracts where a directly observable rate is available which are disclosed as Level 1, the Group classifies foreign exchange contracts as Level 2 financial instruments when no unobservable inputs are used for their valuation or the unobservable inputs used are not significant to the measurement (as a whole).

(vi) Loans and borrowings

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

6. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

(c) Description of significant unobservable inputs to valuation

The significant unobservable inputs used in the fair value measurements categorised within level 3 of the fair value hierarchy, are as shown below

	Valuation Technique	Significant unobservable inputs	Range (Weighted Average)	Sensitivity of the input to fair value
Free hold land and building	DCF method	Estimated rental value per s.q.m. per month	KShs 30	+/-1% (2018: +/-1%) = Fair value change of +/- KShs 23million (2018: 24million)
		Rent growth p.a.	3%	
		Long-term vacancy rate	5%	
		Discount rate	5%	
Unquoted-equity instruments	DCF method	Long term growth rate	5%	+/-1% (2018: +/-1%) = Fair value change of +/- KShs 0.3million (2018: +/- Nil)
		Discount rate (WACC)	15%	

(d) Transfers between Level 1 and Level 2

The following table shows transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets which are recorded at fair value:

	Transfers from Level 1 to Level 2	
	2019	2018
	KShs'000	KShs'000
Financial investments available-for-sale		
Corporate bonds	-	3,229,174

There were no transfers between Level 1 & 2 in the year (2018: 3,229,174)

(e) Reconciliation of fair value measurement of unquoted equity instruments classified as FVOCI/ AFS Financial asset

	Group and Bank	
	2019	2018
	KShs'000	KShs'000
At 1 January	35,150	30,009
Impairment	-	-
Purchase	200,000	-
Sales		-
Remeasurement recognised through OCI	68,274	5,141
At December	**303,424**	**35,150**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

7. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Cash on hand	8,959,634	9,809,390	8,258,224	9,064,099
Central Bank of Kenya:				
Restricted balances (Cash Reserve Ratio)	17,057,889	16,398,951	17,057,889	15,825,177
Unrestricted balances available for use by the Group	126,260	4,994,894	77,189	4,994,894
Central Bank of South Sudan	2,933,960	1,557,660	-	-
	29,077,743	**32,760,895**	**25,393,302**	**29,884,170**
Less: Allowance for credit losses	(49,069)	(282,294)	-	-
	29,028,674	**32,478,601**	**25,393,302**	**29,884,170**

The Cash Reserve Ratio are restricted deposits with the Central Bank of Kenya and Bank of South Sudan and represents mandatory reserve deposits and are not available for use in the Bank's day–to–day operations. The deposits are non-interest earning and are based on the value of deposits as adjusted by Central Bank of Kenya requirements. At 31 December 2019, the Cash Reserve Ratio requirement was 5.25% (2018 – 5.25%) on all deposits.

The allowance for credit losses relates to deposits held by Bank of South Sudan.

8. DEPOSITS AND BALANCES DUE FROM BANKS

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Local banks	1,729,416	7,887,523	349,446	6,997,990
Foreign banks	7,983,680	10,202,016	**7,680,101**	10,604,849
	9,713,096	**18,089,539**	8,029,547	**17,602,839**
Less: Allowance for credit losses	(3,348)	(7,891)	(3,230)	(6,473)
	9,709,748	**18,081,648**	**8,026,317**	**17,596,366**

The weighted average effective interest rate on deposits and balances due from banks as at 31 December 2019 was 2.3% (2018-2.89%).

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

9. HELD-FOR-TRADING INVESTMENTS

DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Bank	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
(a) Treasury bonds				
Maturing within 91 days	-	-	-	-
Maturing after 91 days of reporting date	40,931,155	30,572,358	40,931,155	30,572,358
	40,931,155	**30,572,358**	**40,931,155**	**30,572,358**

EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Bank	
Quoted equity investments:-	**2019**	**2018**	**2019**	**2018**
Nairobi Securities Exchange:-				
7,000,000 shares of KShs 14.65 each	86,450	98,050	-	-
CIC Insurance Group Ltd:-				
8,000,000 shares of KShs 3.80 each	21,440	30,880	-	-
Unquoted equity Investments:-				
Consolidated Bank of Kenya Ltd:-				
135,000 ordinary shares of KShs 20 each	2,700	2,700	2,700	2,700
580,000 4% non-cumulative preference shares of KShs 20 each	1,562	1,562	1,562	1,562
Kenya National Federation of Co-operatives Ltd:-				
82 shares of KShs100 each	8	8	8	8
Kenya National Housing Co-operative Union Ltd:-				
1 share of KShs 1,000	1	1	1	1
Kenya Mortgage Finance Company:-				
2,000,000 shares of KShs 100 each	200,000	-	200,000	-
Menno Plaza Limited:-				
9,340 ordinary shares representing 12.39% ownership	99,153	30,880	99,153	30,880
	411,314	**164,081**	**303,424**	**35,151**

Movement in the year for debt and equity instrument through OCI

At January 1	**30,736,439**	**-**	**30,607,509**	**-**
Transfer from FVOCI	-	28,698,765	-	28,515,665
Reclassifications	-	(6,712,465)	-	(6,712,065)
Additions	34,459,854	29,070,623	34,459,854	29,070,623
Disposals and maturities	(23,898,576)	(20,067,016)	(23,898,176)	(20,086,049)
Expected credit loss	(180,268)	(507,337)	(180,268)	(507,337)
Change in fair value recognized OCI	225,020	253,869	245,660	326,672
At December 31	**41,342,469**	**30,736,439**	**41,234,579**	**30,607,509**

The weighted average effective interest rate on FVOCI as at 31 December 2019 was 11.44%

The above unquoted instruments relate to investments in the banking sector co-operative movement. The unquoted equities are not actively traded, and management does not intend to dispose them in the immediate future. The unquoted equity investments are placed under level 3 of fair value hierarchy. The valuation technique used is equity calculation based on EBTDA and market data.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

10. DERIVATIVE FINANCIAL INSTRUMENTS

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

	Group and Bank			
	2019		2018	
	KShs'000	KShs'000	KShs'000	KShs'000
	Notional value	Fair value of contracts: Asset / (Liability)	Notional value	Fair value of contracts: Asset / (Liability)
Forward exchange contracts	(579,747)	45,808	(924,280)	(6,126)
Swaps	7,392,554	333,937	9,349,988	670,640
	6,812,807	**379,745**	**8,425,708**	**664,514**

11. OTHER ASSETS

	Group		Bank	
	2019	2018	2019	2018
	KShs'000	KShs'000	KShs'000	KShs'000
Interest receivable	**3,592,981**	2,847,811	3,592,981	2,847,811
Items in the course of collection from other banks	**1,344,671**	722,345	482,790	450,856
Deposits with financial Institutions	**346,285**	555,784	346,285	422,599
Sundry debtors and prepayments	**2,629,762**	11,647,528	3,198,662	11,872,987
Amounts due from related parties (43 (c))	**-**	-	61,676	71,972
Staff loan amortisation	**4,599,768**	4,044,752	4,599,768	4,044,752
	12,513,467	**19,818,220**	**12,282,162**	**19,710,977**
Impairment losses on deposits with financial institutions	**(17,105)**	(139,668)	(17,105)	(139,668)
	12,496,362	**19,678,552**	**12,265,057**	**19,571,309**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

12. LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
	2019	2018	2019	2018
(a) Net loans and advances	KShs'000	KShs'000	KShs'000	KShs'000
Overdrafts	6,240,618	6,495,805	6,187,040	6,495,805
Commercial loans	255,474,989	248,814,235	254,036,661	246,928,658
Government/Donor funded loan schemes	548,232	434,375	548,232	434,375
Credit card balances	512,308	508,903	512,308	508,903
Micro enterprises & SME	27,013,487	9,298,077	27,013,487	9,298,077
Gross loans and advances	**289,789,634**	**265,551,395**	**288,297,728**	**263,665,818**
Staff loans amortisation (note 12)	(4,599,768)	(4,044,752)	(4,599,768)	(4,044,752)
	285,189,866	261,506,643	283,697,960	259,621,066
Allowance for ECL / impairment losses (note 12 c)	(18,477,170)	(16,096,341)	(18,365,184)	(16,074,683)
Net loans and advances	**266,712,696**	**245,410,302**	**265,332,776**	**243,546,383**

	Group and Bank	
(b) The weighted average effective interest rates at 31 December were:-	**2019**	**2018**
	%	**%**
Overdrafts	12.5	13
Commercial loans	12.4	13
Government/Donor funded loan schemes	8.5	8.6
Credit card balances	12.5	8

(c) Allowance for ECL / impairment losses

Group

	Under IFRS 9			
Presented in KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At 1 January 2018	**3,586,110**	**3,679,166**	**10,428,832**	**17,694,108**
Expected credit loss	568,573	668,864	484,730	1,722,167
Interest on impaired loans recognised as income	-	-	(1,660,820)	(1,660,820)
Impaired loss written off during the year	-	-	(1,659,114)	(1,659,114)
At 31 December 2018	**4,154,683**	**4,348,030**	**7,593,628**	**16,096,341**
At 1 January 2019	**4,154,683**	**4,348,030**	**7,593,628**	**16,096,341**
Expected credit loss			2,539,071	2,539,071
Interest on impaired loans recognised as income	-	-	(96,656)	(96,656)
Exchange difference on translation of a foreign operation	-	-	11,155	11,155
Write off-E-credit loans	-	-	(72,741)	(72,741)
At 31 December 2019	**4,154,683**	**4,348,030**	**9,974,457**	**18,477,170**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

12. LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Allowance for ECL/ Impairment losses (continued)

Bank

	Under IFRS 9			
Presented in KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At 1 January 2018	**3,634,045**	**3,659,414**	**10,400,649**	**17,694,108**
Expected credit loss	565,847	657,113	483,793	1,706,753
Interest on impaired loans recognised as income	-	-	(1,660,820)	(1,660,820)
Impaired loss written off during the year	-	-	(1,665,358)	(1,665,358)
Amount released to income	-	-	-	-
At 31 December 2018	**4,199,892**	**4,316,527**	7,558,264	**16,074,683**
At 1 January 2019	**4,199,892**	**4,316,527**	7,558,264	**16,074,683**
Expected credit loss	-	-	2,459,898	2,459,898
Interest on impaired loans recognised as income			(96,656)	(96,656)
Write off-e-credit Loans			(72,741)	(72,741)
At 31 December 2019	**4,199,892**	**4,316,527**	**9,848,765**	**18,365,184**

The table below provides overview of the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year end stage classification.

Group

31 December 2019

					Provisions for impairment			
Internal risk rating category	**12-month ECL Stage 1**	**Lifetime ECL not credit impaired Stage 2**	**Lifetime ECL credit Impaired Stage 3**	**Gross Carrying Amount**	**12-month ECL Stage 1**	**Lifetime ECL not credit impaired Stage 2**	**Lifetime ECL credit Impaired Stage 3**	**Total ECL**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Grade1	232,203,064	-	-	232,203,064	4,680,665	-	-	4,680,665
Grade2	-	26,310,125	-	26,310,125	-	1,738,471	-	1,738,471
Grade3	-	-	13,302,760	13,302,760	-	-	5,029,080	5,029,080
Grade4	-	-	17,356,708	17,356,708	-	-	6,453,086	6,453,086
Grade5	-	-	616,977	616,977	-	-	575,868	575,868
Total	**232,203,064**	**26,310,125**	**31,276,445**	**289,789,634**	**4,680,665**	**1,738,471**	**12,058,034**	**18,477,170**

31 December 2018

					Provisions for impairment			
Internal risk rating category	**12-month ECL Stage 1**	**Lifetime ECL not credit impaired Stage 2**	**Lifetime ECL credit Impaired Stage 3**	**Gross Carrying Amount**	**12-month ECL Stage 1**	**Lifetime ECL not credit impaired Stage 2**	**Lifetime ECL credit Impaired Stage 3**	**Total ECL**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Grade1	206,071,494	-	-	206,071,494	1,902,139	-	-	1,902,139
Grade2	1,825,606	28,167,926	-	29,993,532	57,658	1,126,287	-	1,183,945
Grade3	-	1,295,230	9,060,272	10,355,502	-	240,984	5,037,511	5,278,495
Grade4	-	-	17,862,302	17,862,302	-	-	6,665,407	6,665,407
Grade5	-	-	1,268,565	1,268,565	-	-	1,066,355	1,066,355
Total	**207,897,100**	**29,463,156**	**28,191,139**	**265,551,395**	**1,959,797**	**1,367,271**	**12,769,273**	**16,096,341**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

12. LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Allowance for ECL/ Impairment losses (continued)

Bank

31 December 2019					Provisions for impairment			
Internal risk rating category	12-month ECL Stage 1	Lifetime ECL not credit impaired Stage 2	Lifetime ECL credit Impaired Stage 3	Gross Carrying Amount	12-month ECL Stage 1	Lifetime ECL not credit impaired Stage 2	Lifetime ECL credit Impaired Stage 3	Total ECL
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Grade1	230,882,433	-	-	230,882,433	4,666,568	-	-	4,666,568
Grade2	-	26,259,793	-	26,259,793	-	1,677,699	-	1,677,699
Grade3	-	-	13,256,953	13,256,953	-	-	5,015,021	5,015,021
Grade4	-	-	17,328,316	17,328,316	-	-	6,444,373	6,444,373
Grade5	-	-	570,234	570,234	-	-	561,523	561,523
Total	**230,882,433**	**26,259,793**	**31,155,503**	**288,297,729**	**4,666,568**	**1,677,699**	**12,020,917**	**18,365,184**

31 December 2018					Provisions for impairment			
Internal risk rating category	12-month ECL Stage 1	Lifetime ECL not credit impaired Stage 2	Lifetime ECL credit Impaired Stage 3	Gross Carrying Amount	12-month ECL Stage 1	Lifetime ECL not credit impaired Stage 2	Lifetime ECL credit Impaired Stage 3	Total ECL
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Grade1	204,732,623	-	-	204,732,623	1,899,410	-	-	1,899,410
Grade2	1,825,606	27,950,344	-	29,775,950	57,658	1,114,536	-	1,172,194
Grade3	-	1,295,230	8,973,089	10,268,319	-	240,984	5,030,333	5,271,317
Grade4	-	-	17,620,362	17,620,362	-	-	6,665,407	6,665,407
Grade5	-	-	1,268,564	1,268,564	-	-	1,066,355	1,066,355
Total	**206,558,229**	**29,245,574**	**27,862,015**	**263,665,818**	**1,957,068**	**1,355,520**	**12,762,095**	**16,074,683**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

12. LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Allowance for ECL/ Impairment losses (continued)

An analysis of changes in gross carrying amount and the corresponding ECL allowance in relation to Group and Bank loan portfolio is as follows

Group	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Gross carrying amount as at 1 January 2019	207,725,659	29,774,480	28,051,256	**265,551,395**
Disbursement	62,242,170	(2,404,235)	6,287,332	**66,125,267**
Repayment (excluding write-off)	(38,913,623)	(5,738,047)	(3,597,139)	**(48,248,809)**
Movement to Stage 1	867,357	(731,491)	(135,866)	**-**
Movement to Stage 2	237,268	(574,695)	337,427	**-**
Movement to Stage 3	(469,043)	(154,206)	623,249	**-**
Restructures	-	6,434,522	-	**6,434,522**
Write-offs	-	-	(72,741)	**(72,741)**
31 December 2019	**231,689,788**	**26,606,328**	**31,493,518**	**289,789,634**

	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Impairment allowance as at 1 January 2019 under IFRS 9	1,388,726	1,936,415	12,771,200	**16,096,341**
ECL on disbursement	6,946,276	67,350	4,848,650	**11,862,276**
ECL on repayment (excluding write-off)	(4,173,149)	(3,893,498)	(1,628,966)	**(9,695,612)**
Movement to Stage 1	(324,423)	(12,103)	336,526	**-**
Movement to Stage 2	77,369	3,023,011	(3,100,380)	**-**
Movement to Stage 3	179,022	847,352	(1,026,374)	**-**
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	**-**
ECL on restructures	-	286,904	-	**286,904**
Write-Back	-	-	-	**-**
Write-offs	-	-	(72,741)	**(72,741)**
31 December 2019	**4,093,821**	**2,255,431**	**12,127,916**	**18,477,168**

Group	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Gross carrying amount as at 1 January 2018	219,668,933	29,643,140	18,424,905	**267,736,978**
Disbursement	69,564,512	232,710	1,197,280	**70,994,502**
Repayment (excluding write-off)	(27,987,552)	(498,051)	(302,439)	**(28,788,042)**
Movement to Stage 1	1,597,002	(1,595,136)	(1,866)	**-**
Movement to Stage 2	(28,233,710)	28,588,259	(354,549)	**-**
Movement to Stage 3	(10,871,547)	(818,519)	11,690,066	**-**
Restructures	(16,011,979)	(25,777,923)	(918,116)	**(42,708,018)**
Write-offs	-	-	(1,684,025	**(1,684,025)**
31 December 2018	**207,725,659**	**29,774,480**	**28,051,256**	**265,551,395**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

12. LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Allowance for ECL/ Impairment losses (continued)

	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Impairment allowance as at 1 January 2018 under IFRS 9	5,756,274	2,155,112	9,782,722	**17,694,108**
ECL on disbursement	6,684,925	76,389	1,154,812	**7,916,126**
ECL on repayment (excluding write-off)	(6,234,781)	(1,476,526)	(118,561)	**(7,829,868)**
Movement to Stage 1	217,883	(217,880)	(3)	-
Movement to Stage 2	(1,112,303)	1,379,567	(267,264)	-
Movement to Stage 3	(3,516,502)	(266,519)	3,783,021	-
Impact on year end ECL of exposures transferred between stages during the year	(406,770)	286,272	120,498	-
ECL on restructures	-	-	-	-
Write-Back	-	-	-	-
Write-offs	-	-	(1,684,025)	**(1,684,025)**
31 December 2018	**1,388,726**	**1,936,415**	**12,771,200**	**16,096,341**

Bank	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	KShs'000	KShs'000	KShs'000	KShs'000
Gross carrying amount as at 1 January 2019	206,558,229	29,497,376	27,610,213	**263,665,818**
Disbursement	61,421,454	(2,615,997)	6,257,387	**65,062,844**
Repayment (excluding write-off)	(38,263,067)	(5,562,075)	(2,967,572)	**(46,792,714)**
Movement to Stage 1	866,363	(730,497)	(135,866)	-
Movement to Stage 2	271,903	(609,330)	337,427	-
Movement to Stage 3	27,551	(154,206)	126,655	-
Restructures	-	6,434,522	-	**6,434,522**
Write-offs	-	-	(72,741)	**(72,741)**
31 December 2019	**230,882,433**	**26,259,793**	**31,155,503**	**288,297,729**

Bank	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	KShs'000	KShs'000	KShs'000	KShs'000
Impairment allowance as at 1 January 2019 under IFRS 9	1,958,756	1,353,832	12,762,095	**16,074,683**
ECL on disbursement	6,846,071	66,452	4,838,371	**11,750,894**
ECL on repayment (excluding write-off)	(4,170,848)	(3,888,040)	(1,615,668)	**(9,674,556)**
Movement to Stage 1	(325,905)	(11,812)	337,717	-
Movement to Stage 2	77,369	3,023,011	(3,100,380)	-
Movement to Stage 3	281,124	847,352	(1,128,476)	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
ECL on restructures	-	286,904	-	**286,904**
Write-offs	-		(72,741)	**(72,741)**
31 December 2019	**4,666,567**	**1,677,699**	**12,020,918**	**18,365,184**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

12. LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Allowance for ECL/ Impairment losses (continued)

Bank	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Gross carrying amount as at 1 January 2018	218,551,695	29,611,186	18,341,861	**266,504,743**
Disbursement	69,240,644	112,753	987,764	**70,341,161**
Repayment (excluding write-off)	(27,987,552)	(498,053)	(302,437)	**(28,788,042)**
Movement to Stage 1	1,597,002	(1,595,137)	(1,865)	**-**
Movement to Stage 2	(28,108,519)	28,463,068	(354,549)	**-**
Movement to Stage 3	(10,723,062)	(818,519)	11,541,581	**-**
Restructures	(16,011,979)	(25,777,923)	(918,116)	**(42,708,018)**
Write-offs	-	-	(1,684,025)	**(1,684,025)**
31 December 2018	**206,558,229**	**29,497,375**	**27,610,214**	**263,665,818**

Bank	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Impairment allowance as at 1 January 2018 under IFRS 9	4,903,745	2,154,701	9,779,798	**16,838,244**
ECL on disbursement	7,732,424	65,181	952,728	**8,750,333**
ECL on repayment (excluding write-off)	(6,234,781)	(1,476,526)	(118,561)	**(7,829,868)**
Movement to Stage 1	217,883	(217,880)	(3)	**-**
Movement to Stage 2	(1,112,189)	1,379,452	(267,263)	**-**
Movement to Stage 3	(3,289,512)	(266,519)	3,556,031	**-**
Impact on year end ECL of exposures transferred between stages during the year	(258,814)	(284,577)	543,390	**(1)**
ECL on restructures	-	-	-	**-**
Write-offs	-	-	(1,684,025)	**(1,684,025)**
31 December 2018	**1,958,756**	**1,353,832**	**12,762,095**	**16,074,683**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

13. DEBT INSTRUMENTS AT AMORTISED COST

	Group		Bank	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Government treasury bills:				
Maturing within 91 days	13,325,094	984,486	13,325,094	984,486
Maturing after 91 days	24,670,289	15,277,875	24,670,289	15,277,875
Treasury bonds:				
Maturing within 91 days	-	-	-	-
Maturing after 91 days	38,876,142	33,438,668	38,724,279	33,281,881
Corporate bonds:				
Maturing within 91 days	-	200,000	-	200,000
Maturing after 91 days	973,971	2,191,121	973,971	2,191,121
	77,845,496	**52,092,150**	**77,693,633**	**51,935,363**
Movement in the year:				
At 1 January	52,092,150	43,983,288	51,935,363	43,827,327
Additions	59,210,392	12,571,460	59,212,027	12,570,634
Allowance for credit losses	(251,103)	(719,768)	(253,709)	(717,123)
Maturities	(33,205,943)	(3,742,830)	(33,200,048)	(3,745,475)
At December 31	**77,845,496**	**52,092,150**	**77,693,633**	**51,935,363**

The weighted average effective interest rate on Debt instruments measured at amortised cost as at 31 December 2019 was 12.01%. In assessing for the expected credit losses, the debt instruments at amortised cost were assessed to be of high grade credit quality and classified under stage 1 category.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

14. INVESTMENT IN SUBSIDIARIES

The following subsidiaries are owned by the Bank:-

Bank	Ownership	Principal activity	2019 KShs'000	2018 KShs'000
Co-op Consultancy & Insurance Agency Limited	100%	Consultancy & Insurance Agency	70,000	70,000
Co-optrust Investment Services Limited	100%	Fund management	20,000	20,000
Kingdom Securities Limited	60%	Brokerage Services	150,000	150,000
Co-operative Bank of South Sudan	51%	Banking	2,272,920	2,272,920
			2,512,920	**2,512,920**

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

Co-op Consultancy & Insurance Agency Limited was established as Co-op Consultancy Services in 2002 to offer consultancy, advisory and insurance agency services. The audited financial statements for the year ended 31 December 2019 show that the company made a profit after tax of KShs 498,223,595 (2018- KShs 334,949,950).

Co-optrust Investment Services was established in 1998 to offer fund management and investment services. The audited financial statements for the year ended 31 December 2019 show that the company made a profit after tax of KShs 60,648,553 (2018- KShs 30,961,522).

Kingdom Securities Limited (previously Bob Mathews Stockbrokers Limited) was acquired by Co-operative Bank Limited through purchase of 60% shareholding in 2009. The company offers brokerage services and is a registered broker with the Nairobi Securities Exchange. The audited financial statements for the year ended 31 December 2019 show that the company made a loss after tax of KShs 29,576,137 (2018 – loss after tax of KShs 6,337,970). Refer to note 32 for financial statements summaries.

Co-operative Bank of South Sudan was registered in 2013 with the partnership of Government of South Sudan which holds 49% of the ordinary shares. As at year end, Co-operative Bank of Kenya Limited had contributed 51% of the total share capital with the Government of South Sudan contributing 49%. The Subsidiary is based in South Sudan and commenced operation in September 2013. The audited financial statements for the year ended 31 December 2019 show that the company made a loss of KShs 419,866,580 (2018- KShs 109,886,653 -Loss). Refer to note 32 for financial statements summaries.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

15. INVESTMENTS IN ASSOCIATES

The Bank has 33.41% interest in Co-operative Insurance Society Limited which is the majority shareholder of CIC Insurance Group Limited This is a reduction from the 35.71% interest held in prior year following the sale of 44.7M shares in two tranches of 30.4M and 14.3M respectively during the year. CIC Insurance Group Limited is a listed company at Nairobi Securities Exchange (NSE) and is incorporated in Kenya. The principal activity of the Company is insurance business and fund management. The fair value of the investment as at 31 December 2019 was KShs 1,740 million.

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

The Bank's interest in Co-operative Insurance Society Limited is accounted for at cost in the separate financial statements.

Co-operative Bank of South Sudan owns 31% stake in CIC South Sudan. The interest in CIC South Sudan is accounted for using the equity method in the consolidated financial statements.

During the year, the bank concluded the incorporation of Co-op Bank Fleet Africa Leasing Limited, a joint venture with South Africa based Super Group Limited to carry out leasing business. The terms of the joint venture are such that the bank owns 25% shareholding with Super Group owning 75% shareholding with a 50:50 profit sharing arrangement.

	Group		Bank	
	2019	2018	2019	2018
	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January	**2,161,475**	**2,143,347**	**755,118**	**755,118**
Share of profit	40,035	171,416	-	-
Other comprehensive income	39,886	(39,609)	-	-
Exchange difference on translation	(7,613)	(30,392)	-	-
Sale of shares	(48,699)	-	(48,699)	
Investment in Co-op Bank Fleet Africa Leasing Limited	25	-	25	-
Dividends received	(86,755)	(83,287)	-	-
As at 31 December	**2,098,354**	**2,161,475**	**706,444**	**755,118**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

15. INVESTMENTS IN ASSOCIATES (Continued)

The following table illustrates summarized financial information of the Group's investment in associates: -

	Co-operative Insurance Society Limited		CIC South Sudan Limited	
	2019	2018	2019	2018
Statement of financial position:	KShs'000	KShs'000	KShs'000	KShs'000
Non-current assets	9,671,817	9,927,023	356,971	370,389
Current assets	25,393,985	23,237,773	839,397	408,536
	35,065,802	33,164,796	1,196,368	778,925
Current liabilities	(27,409,120)	(25,294,421)	(638,059)	(243,087)
Equity	**7,656,682**	**7,870,375**	**558,309**	**535,839**
Group's share in equity	2,558,097	2,810,511	173,075	166,110
Cumulative share of profit	(1,390,410)	(1,412,577)	-	-
Cumulative dividends received	630,868	544,113	-	-
Cumulative share of OCI	85,518	53,318	-	-
Inflation adjustment	-	-	-	-
Group's carrying amount of the investment	**1,884,073**	**1,995,365**	**173,075**	**166,110**

	Co-operative Insurance Society Limited		CIC South Sudan Limited	
	2019	2018	2019	2018
Statement of comprehensive income:	KShs'000	KShs'000	KShs'000	KShs'000
Revenue	17,655,031	17,078,727	718,019	464,150
Operating and other expenses	(17,457,144)	(16,260,545)	(660,380)	(417,816)
Profit before tax	197,887	818,182	57,639	46,334
Income tax expense	(108,586)	(226,258)	-	-
Profit after tax	**89,301**	**591,924**	**57,639**	**46,334**
Other comprehensive income	129,720	(252,681)	24,792	88,435
Total comprehensive income for the year	**219,021**	**339,243**	**82,431**	**134,769**
Attributable to parent	162,733	252,336	-	-
Attributable to Non-controlling interest	56,288	86,907	-	-
	219,021	**339,243**	**-**	**-**
Group's share of comprehensive income	**54,368**	**90,029**	**25,554**	**41,778**
Split as follows				
Share of profit or loss	22,168	157,053	17,868	14,363
Share of other comprehensive income	32,200	(67,024)	7,686	27,415
	54,368	**90,029**	**25,554**	**41,778**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

16. INTANGIBLE ASSETS

(a) GROUP	Computer software	Joint venture development	Other intangible assets	Work-in-progress	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
COST					
At 1 January 2019	**3,654,328**	**131,460**	**25,000**	**1,634,461**	**5,445,249**
Additions	330,727	-	-	394,918	**725,645**
Transfers from WIP	1,482,745	-	-	(1,482,745)	-
Write off	-	-	-	(2,085)	**(2,085)**
Exchange difference on translation	9,973	22,714	-	60,946	**93,633**
At 31 December 2019	**5,477,772**	**154,174**	**25,000**	**605,495**	**6,262,442**
AMORTISATION					
At 1 January 2019	**2,822,782**	**125,225**	-	-	**2,948,007**
Amortisation for the year	594,476	-	-	-	**594,476**
Exchange difference on translation	12,926	(985)	-	-	**11,941**
At 31 December 2019	**3,430,184**	**124,240**	-	-	**3,554,424**
NET CARRYING AMOUNT					
At 31 December 2019	**2,047,589**	**29,934**	**25,000**	**605,495**	**2,708,018**

(a) GROUP	Computer software KShs'000	Joint venture development KShs'000	Other intangible assets KShs'000	Work-in-progress KShs'000	Total KShs'000
COST					
At 1 January 2018	**3,433,974**	**114,584**	**25,000**	**823,372**	**4,396,930**
Additions	211,668	-	-	765,838	**977,506**
Exchange difference on translation	8,686	16,876	-	45,251	**70,813**
At 31 December 2018	**3,654,328**	**131,460**	**25,000**	**1,634,461**	**5,445,249**
AMORTISATION					
At 1 January 2018	**2,295,460**	**82,595**	-	-	**2,378,055**
Amortisation for the year	524,494	37,834	-	-	**562,328**
Write offs	(637)	-	-	-	**(637)**
Exchange difference on translation	3,464	4,796	-	-	**8,260**
At 31 December 2018	**2,822,781**	**125,225**	-	-	**2,948,006**
NET CARRYING AMOUNT					
At 31 December 2018	**831,547**	**6,235**	**25,000**	**1,634,461**	**2,497,243**

Other intangible assets relate to trading rights by Kingdom Securities Limited to participate in trading at Nairobi Securities Exchange (NSE). The business rights relate to the costs incurred in negotiating a business arrangement with the Government of South Sudan for the Co-Operative Bank of South Sudan. Under the agreement with the Government of South Sudan, the Bank acquired certain rights that are identifiable e.g., business relationships with the government and co-operative movement.

Work-in-progress relates to partially paid and ongoing software projects not yet commissioned for use by the group.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

16. INTANGIBLE ASSETS (continued)

(b) BANK	Computer Software KShs'000	Work –in progress KShs'000	Total KShs'000
COST			
At 1 January 2019	**3,504,211**	**1,281,727**	**4,785,938**
Additions	323,902	394,918	718,820
Write Offs	-	(2,085)	(2,085)
At 31 December 2019	**3,828,113**	**1,674,560**	**5,502,673**
AMORTISATION			
At 1 January 2019	2,691,987	-	2,691,987
Amortisation for the year	568,045	-	568,045
At 31 December 2019	**3,260,032**	**-**	**3,260,032**
NET CARRYING AMOUNT			
At 31 December 2019	**568,081**	**1,674,560**	**2,242,641**
COST			
At 1 January 2018	3,294,316	515,889	3,810,205
Additions	209,895	765,838	975,733
At 31 December 2018	**3,504,211**	**1,281,727**	**4,785,938**
AMORTISATION			
At 1 January 2018	2,204,232	-	2,204,232
Amortisation for the year	488,392	-	488,392
Write Offs	(637)	-	(637)
At 31 December 2018	**2,691,987**	**-**	**2,691,987**
NET CARRYING AMOUNT			
At 31 December 2018	**812,224**	**1,281,727**	**2,093,951**

Amortisation has not been charged in arriving at the results for the year in respect of certain fully amortised software assets with a cost of KShs. 1,671,017,282.53 (2018-KShs 764,847,872), which are still in use. If amortisation had been charged during the year on the cos t of these assets at normal rates, it would have amounted to KShs 334,203,456.51 (2018-KShs 152,969,575).

17. PREPAID LEASE RENTALS

	Group and Bank	
	2019 KShs'000	2018 KShs'000
COST		
At 1 January 2019	**54,413**	**54,413**
AMORTISATION:		
At 1 January 2019	**19,281**	**18,671**
Charge for the year	610	610
At 31 December 2019	**19,891**	**19,281**
NET CARRYING AMOUNT		
At 31 December 2019	**34,522**	**35,132**

Prepaid lease rentals relate to the lease payments for leasehold land to the government. Amortization is done over the remaining lease period of the lease as at the time of purchase.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

18. a) PROPERTY AND EQUIPMENT-GROUP

COST/VALUATION	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery, furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
At 1 January 2019	**2,408,791**	**643,280**	**8,626,621**	**2,352,792**	**187,338**	**6,348,572**	**20,567,394**
Additions	1,423	228,996	75,218	126,273	16,407	610,113	**1,058,430**
Disposals	-	-	-	(3,730)	(6,498)	(6,488)	**(16,716)**
Revaluation	(60,091)	-	-	-	-	-	**(60,091)**
Transfers from WIP	-	(398,953)	104,292	3,503	-	291,158	**-**
Exchange difference on translation	-	25,156	-	194,720	(4,860)	25,246	**240,262**
Asset Reclassification	-	-	(366)	366	-	-	**-**
Write off	-	(7,311)	(116,232)	-	-	-	**(123,543)**
At 31 December 2019	**2,350,123**	**491,168**	**8,689,533**	**2,673,924**	**192,387**	**7,268,601**	**21,665,736**
ACCUMULATED DEPRECIATION							
At 1 January 2019	**186,286**	**-**	**6,719,954**	**1,742,050**	**119,865**	**5,185,191**	**13,953,346**
Charge for the year	93,143	-	614,882	216,910	18,690	579,966	**1,523,591**
Disposals	-	-	-	(3,107)	(6,498)	(6,441)	**(16,046)**
Revaluation	(279,429)	-	-	-	-	-	**(279,429)**
Write off	-	-	(90,055)	-	-	-	**(90,055)**
Exchange difference on translation	-	-	-	47,044	1,295	11,662	**60,001**
At 31 December 2019	**-**	**-**	**7,244,781**	**2,002,897**	**133,352**	**5,770,378**	**15,151,408**
NET CARRYING AMOUNT							
At 31 December 2019	**2,350,123**	**491,168**	**1,444,752**	**671,027**	**59,034**	**1,498,223**	**6,514,328**

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

(ii) Land and Buildings were revalued on open market value basis by professional valuers (Realty Valuers, Mwaka Musau Consultants and Solomon & Associates Co Ltd) as at 31 December 2019. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs 2,129,363,324 (2018: KShs 1,284,818,514)

(iii) Freehold land and buildings are revalued every three years. Freehold land and buildings include an amount of KShs 292,790,830 (2018- KShs. 292,790,830) against which no depreciation has been charged, as these are pieces of land.

(iv) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs 8,288,806,982 (2018- KShs 5,246,718,954), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs 1,386,488,916 (2018 - KShs 886,435,730).

(v) The Group has not pledged any item of property, plant and equipment as security as at 31 December 2019 (31 December 2018: Nil)

(vi) The write offs in PPE & Intangibles relate to abandoned projects during the year. Their book values were written off through the statement of Profit or Loss.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

18. (a) PROPERTY AND EQUIPMENT-GROUP

COST/VALUATION	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery, furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
At 1 January 2018	**2,408,791**	**732,766**	**8,283,210**	**2,157,582**	**168,941**	**5,931,241**	**19,682,531**
Additions	-	83,657	208,123	70,264	24,026	403,743	**789,813**
Disposals	-	-	(8,353)	(6,663)	(20,715)	(45,940)	**(81,671)**
Transfers from WIP		(186,914)	143,641	-	-	43,273	-
Exchange difference on translation		13,771	-	131,336	15,087	16,529	**176,721**
Asset Reclassification	-	-	-	273	-	(273)	-
At 31 December 2018	**2,408,791**	**643,280**	**8,626,621**	**2,352,792**	**187,338**	**6,348,572**	**20,567,394**
ACCUMULATED DEPRECIATION							
At 1 January 2018	**93,143**	-	**6,001,994**	**1,489,503**	**119,506**	**4,484,811**	**12,188,957**
Charge for the year	93,143	-	725,328	238,756	19,315	741,399	**1,817,946**
Disposals	-	-	(7,369)	(6,611)	(19,326)	(45,423)	**(78,729)**
Exchange difference on translation	-	-	-	20,401	370	4,406	**25,177**
At 31 December 2018	**186,286**	-	**6,719,954**	**1,742,050**	**119,865**	**5,185,191**	**13,953,346**
NET CARRYING AMOUNT							
At 31 December 2018	**2,222,505**	**643,280**	**1,906,667**	**610,742**	**67,473**	**1,163,381**	**6,614,048**

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

(ii) Land and Buildings were revalued on open market value basis by professional valuers (N.W Realite Limited, Seven Degrees North Valuers, Kiragu and Mwangi Valuers and Afriland Valuers Limited) as at 31 December 2016. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs 129,813,710 (2017: KShs 137,133,480).

(iii) Freehold land and buildings are revalued every three years. Freehold land and buildings include an amount of KShs 292,790,830 (2017- KShs. 292,790,830) against which no depreciation has been charged, as these are pieces of land.

(iv) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs 5,246,718,954 (2017- KShs 3,812,851,933), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs 886,435,730 (2017 - KShs 690,075,369).

(v) The Group has not pledged any item of property, plant and equipment as security as at 31 December 2018 (31 December 2017: Nil)

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

18. (b) PROPERTY AND EQUIPMENT-BANK

	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery, furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
COST/VALUATION							
At 1 January 2019	**2,408,791**	**497,687**	8,625,985	**1,284,818**	**142,662**	**6,185,419**	**19,145,362**
Additions	-	228,996	75,218	122,993	13,247	609,399	**1,049,853**
Disposals	-	-	-	(3,730)	(6,498)	(6,488)	**(16,716)**
Revaluation	(60,091)	-	-	-	-	-	**(60,091)**
Transfer from Work in Progress	-	(395,450)	104,292	-	-	291,158	-
Write Off	-	(7,311)	(116,232)	-	-	-	**(123,543)**
Asset Reclassification	-	-	(366)	366	-	-	-
At 31 December 2019	**2,348,700**	**323,922**	**8,688,897**	**1,404,447**	**149,411**	**7,079,488**	**19,994,865**
ACCUMULATED DEPRECIATION							
At 1 January 2019	**186,286**	-	6,718,970	**1,141,809**	**95,496**	**5,031,257**	**13,173,816**
Charge for the year	93,142	-	614,882	64,970	14,194	575,183	**1,362,371**
Revaluation	(279,428)	-	-	-	-	-	**(279,428)**
Disposals	-	-	-	(3,107)	(6,498)	(6,443)	**(16,048)**
Write Off	-	-	(90,055)	-	-	(76)	**(90,131)**
Reclassification	-	-	(343)	343	-	-	-
At 31 December 2019	-	**323,922**	**7,243,454**	**1,204,015**	**103,192**	**5,599,921**	**14,150,582**
NET CARRYING AMOUNT							
At 31 December 2019	**2,348,700**	**323,922**	1,445,443	**200,432**	**46,219**	**1,479,567**	**5,844,283**

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

(ii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs 292,790,830 (2018- KShs. 292,790,830) against which no depreciation has been charged, as these are pieces of land. If the freehold land and buildings were measured using the cost model, the carrying amount would be KShs. 170,289,185.17 (2018: KShs 129,813,710)

(iii) Land and Buildings were revalued on open market value basis by professional valuers (Realty Valuers, Mwaka Musau Consultants and Solomon & Associates Co Ltd) as at 31 December 2019. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs 2,129,363,324 (2018: KShs 1,284,818,514).

(iv) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 8,288,806,982 (2018- KShs 5,234,583,558), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs 1,386,488,916 (2018 - KShs 884,008,651)

(v) The write offs in PPE & Intangibles relate to abandoned projects during the year. Their book values were written off through the statement of Profit or Loss.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

18. (b) PROPERTY AND EQUIPMENT-BANK

	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery, furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
COST/VALUATION							
At 1 January 2018	**2,408,791**	**600,944**	**8,282,574**	**1,232,111**	**139,350**	**5,788,556**	**18,452,326**
Additions	-	83,657	208,123	59,097	24,027	399,436	**774,340**
Disposals	-	-	(8,353)	(6,663)	(20,715)	(45,573)	**(81,304)**
Revaluation	-	-	-	-	-	-	-
Transfer from Work in Progress	-	(186,914)	143,641	-	-	43,273	-
Asset Reclassification	-	-	-	273	-	(273)	-
At 31 December 2018	**2,408,791**	**497,687**	**8,625,985**	**1,284,818**	**142,662**	**6,185,419**	**19,145,362**
ACCUMULATED DEPRECIATION							
At 1 January 2018	**93,143**	-	**6,001,021**	**1,068,804**	**103,945**	**4,373,449**	**11,640,360**
Charge for the year	93,143	-	725,328	79,468	10,877	703,379	**1,612,198**
Disposals	-	-	(7,379)	(6,611)	(19,326)	(45,423)	**(78,739)**
Reclassification	-	-	-	148	-	(148)	-
At 31 December 2018	**186,286**	-	**6,718,970**	**1,141,809**	**95,496**	**5,031,257**	**13,173,816**
NET CARRYING AMOUNT							
At 31 December 2018	**2,222,505**	**497,687**	**1,907,015**	**143,009**	**47,166**	**1,154,162**	**5,971,546**

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

(ii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs 292,790,830 (2017- KShs. 292,790,830) against which no depreciation has been charged, as these are pieces of land. If the freehold land and buildings were measured using the cost model, the carrying amount would be Kshs 129 million (2017: Kshs 137 million)

(iii) Land and Buildings were revalued on open market value basis by professional valuers (NW Realite Limited, Seven Degrees North Valuers, Kiragu and Mwangi Valuers and Afriland Valuers Limited) as at 31 December 2016. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs 1,284,818,514 (2017: KShs 1,174,835,479).

(iv) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 5,234,583,558 (2017- KShs 3,812,851,933), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs 884,008,651 (2017 - KShs 690,075,369).

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

19. RIGHT OF USE ASSETS

(a) GROUP	Land and Buildings	Motor Vehicles	Total
	KShs'000	KShs'000	KShs'000
COST			
Effect of adoption of IFRS 16 as at 1 January 2019	5,948,748	170,323	**6,119,071**
Additions	-	-	-
Disposals	-	-	-
Exchange differences	-	-	-
At 31 December 2019	**5,948,748**	**170,323**	**6,119,071**
DEPRECIATION			
At 1 January 2019	-	-	-
Depreciation for the year	1,205,052	7,111	**1,212,163**
Disposals	-	-	-
Exchange differences	-	-	-
At 31 December 2019	**1,205,052**	**7,111**	**1,212,163**
NET CARRYING AMOUNT			
At 31 December 2019	**4,743,696**	**163,212**	**4,906,908**

Set out below are the carrying amounts of lease liabilities (included in other liabilities in note 26) and the movements during the period:

	2019
	KShs'000
As at 1st January-effect of adoption of IFRS 16	6,053,709
Additions	
Accretion of Interest	304,231
Payments	(1,348,900)
As at 31 December 2019	**5,009,040**

The Group's lease holdings include leased space where the bank's branches and subsidiaries conduct their business as well as twenty-three leased motor vehicles used by various departments and branches of the bank. The leased spaces have a tenor of six years while the motor vehicles have a tenor of four years. Some of the leases have termination or extension clauses. However, the lease contracts do not have a residual value guarantee. Some of the leases have escalations clauses after two years, which vary from contract to contract on the leases mentioned above.

The Group had total cash outflows for leases of Kshs 1.34B. The initial application of IFRS 16 resulted in non-cash additions to right of use assets and lease liabilities of Kshs 6.1B at 1st January 2019.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

19. RIGHT OF USE ASSETS

(a) BANK	Land and Buildings	Motor Vehicles	Total
	KShs'000	KShs'000	KShs'000
COST			
Effect of adoption of IFRS 16 as at 1 January 2019	5,624,694	170,323	**5,795,017**
Additions			
Disposals	-	-	-
Exchange differences	-	-	-
At 31 December 2019	**5,624,694**	**170,323**	**5,795,017**
DEPRECIATION			
At 1 January 2019	-	-	-
Depreciation for the year	1,113,083	7,111	1,120,094
Disposals	-	-	-
Exchange differences	-	-	-
At 31 December 2019	**1,113,083**	**7,111**	**1,120,094**
NET CARRYING AMOUNT			
At 31 December 2019	**4,511,611**	**163,212**	**4,674,823**

Set out below are the carrying amounts of lease liabilities (included in other liabilities in note 27) and the movements during the period:

	2019
	KShs'000
As at 1st January-effect of adoption of IFRS 16	-
Additions	5,795,017
Accretion of Interest	287,134
Payments	(1,261,634)
As at 31 December 2019	**4,820,517**

The bank's lease holdings include leased space where the bank's branches conduct their business as well as twenty-three leased motor vehicles used by various departments and branches of the bank. The leased spaces have a tenor of six years while the motor vehicles have a tenor of four years. Some of the leases have termination or extension clauses. However, the lease contracts do not have a residual value guarantee. Some of the leases have escalations clauses after two years, which vary from contract to contract on the leases mentioned above.

The Bank had total cash outflows for leases of Kshs 1.26B. The initial application of IFRS 16 resulted in non-cash additions to right of use assets and lease liabilities of Kshs 5.79B at 1st January 2019.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

20. DEFERRED TAX

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

GROUP	2019 Deferred tax assets KShs'000	2019 Through Profit or loss KShs'000	2019 Through reserves KShs'000	2018 Deferred tax assets KShs'000	2018 Through Profit or loss KShs'000	2018 Through reserves KShs'000
Collective allowance for impairment disallowed for tax purposes	(2,873,034)	(284,735)	-	(2,585,026)	(52,936)	(1,609,949)
Revaluation surplus	498,463	-	65,801	432,663	-	(12,493)
Excess of tax wear and tear allowance over depreciation	(1,087,094)	49,701	-	(1,136,311)	(12,413)	-
Unrealised exchange gains	183,188	45,753	-	137,434	(447,242)	-
Right-of-use asset	43,974	43,912	-	-	-	-
Other temporary differences	(81,163)	(30,585)	-	(51,194)	8,775	-
Deferred tax asset	**(3,315,666)**	**(175,954)**	**65,801**	**(3,202,434)**	**(503,816)**	**(1,622,442)**
Collective allowance for impairment disallowed for tax purposes	(89,904)	22,738	-	95,978	3,591	42,771
Excess of tax wear and tear allowance over depreciation	182,571	(430)	-	155,927	391	-
Right of use asset	(5,901)	(603)	-	-	-	-
Other temporary differences	14,012	1,261	-	5,591	(18,839)	-
Deferred tax liability	100,778	22,966	-	257,496	(14,857)	42,771
Net deferred tax asset	**(3,214,888)**	**(152,988)**	**65,801**	**(2,944,938)**	**(518,673)**	**(1,579,671)**

BANK	2019 Deferred tax assets KShs'000	2019 Through Profit or loss KShs'000	2019 Through reserves KShs'000	2018 Deferred tax assets KShs'000	2018 Through Profit or loss KShs'000	2018 Through reserves KShs'000
Collective allowance for impairment disallowed for tax purposes	(2,839,168)	(320,985)	-	(2,518,183)	(43,729)	(1,524,406)
Revaluation surplus	498,463	-	65,801	432,663	-	(12,492)
Accelerated wear and tear allowance over depreciation	(1,087,310)	49,672	-	(1,136,982)	(30,665)	-
Unrealised exchange gains	183,187	45,753	-	137,434	(447,242)	-
Provision for staff leave pay	(50,300)	(6,025)	-	(44,276)	11,014	-
Right-of-use asset	43,708	43,708	-	-	-	-
Other temporary differences	(24,010)	(24,010)	-	-	-	-
	(3,275,430)	**(211,887)**	**65,801**	**(3,129,344)**	**(510,622)**	**(1,536,898)**

The Group had unused tax losses in relation to Kingdom Securities Limited of KShs 30,437,533 (2018 – KShs 11,307,318) as at 31 December 2019. The deferred tax asset of KShs 9,131,260 (2018 – KShs 3,392,196) arising from the tax losses has not been recognised in the financial statements since it is unlikely that sufficient taxable profits will be available in the foreseeable future against which the un-used tax losses can be utilized. Unused tax losses expire in ten (10) years with effect from the year in which they were incurred.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

21. DEPOSITS AND BALANCES DUE TO BANKS

	Group		Bank	
	2019	2018	2019	2018
	KShs'000	KShs'000	KShs'000	KShs'000
Local banks	108,873	342,524	108,873	342,524
Foreign banks	68,102	100,736	625,931	497,097
	176,975	**443,260**	**734,804**	**839,621**

The weighted average effective interest rate on deposits from other banks at 31 December 2019 was 1.7% (2018- 0.00%). These current accounts do not accrue any interest.

22. CUSTOMER DEPOSITS

	Group		Bank	
	2019	2018	2019	2018
(a) Deposit category	KShs'000	KShs'000	KShs'000	KShs'000
Call deposits	40,755,000	39,827,623	40,755,000	39,827,623
Fixed deposits	62,717,083	65,011,989	62,920,566	64,988,567
Transaction accounts	104,488,507	105,653,662	104,488,654	105,165,208
Savings accounts	19,672,150	15,203,436	18,746,797	15,166,755
Current accounts	103,815,175	68,141,660	101,091,373	66,326,332
Foreign currency deposits	1,376,002	12,278,676	1,376,002	12,278,676
	332,823,917	**306,117,046**	**329,378,392**	**303,753,161**
(b) From government and parastatals:-				
Payable on demand	46,871,654	20,191,851	44,148,001	20,056,826
Payable within 30 days	5,405,679	6,219,809	5,405,678	6,219,809
Payable after 30 days but within 1 year	17,580,001	19,995,236	17,580,001	19,995,236
	69,857,334	**46,406,896**	**67,133,680**	**46,271,871**
(c) From private sector and individuals:-				
Payable on demand	165,699,093	165,060,333	165,001,796	162,891,576
Payable within 30 days	35,643,246	33,383,296	35,643,246	33,346,615
Payable after 30 days but within 1 year	61,624,244	61,266,521	61,599,670	61,243,099
	262,966,583	**259,710,150**	**262,244,712**	**257,481,290**
	332,823,917	**306,117,046**	**329,378,392**	**303,753,161**

Included in customers' deposits is an amount of KShs. 8,794 Million (2018- KShs 2,588 Million) that has been pledged to the Bank by customers as security for loans and advances. The weighted average effective interest rate on interest-bearing customer deposits as at 31 December was 3.71% (2018– 4.74 %).

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

23. LOANS AND BORROWINGS

	Group & Bank	
	2019	**2018**
Long-term borrowing	**KShs'000**	**KShs'000**
IFAD	-	30,000
DEG	1,070,929	2,155,536
International Finance Corporation (IFC)	22,024,201	17,550,881
European Investment Bank	742,126	1,113,396
AFD Microfinance & line of credit	2,587,010	3,105,015
KFW Loan –SIPMK	-	63,709
Loan accrual adjustment	-	(68,926)
	26,424,266	**23,949,611**
Movement in the year:		
At 1 January	23,949,611	25,156,054
Additional loan disbursement	7,600,238	7,638,458
Central Bank REPO	-	-
Accrued interest	89,092	107,173
Loan Repayment	(5,066,175)	(8,562,857)
Accrual adjustment	-	(68,926)
Foreign exchange difference	(148,500)	(320,291)
At 31 December	**26,424,266**	**23,949,611**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

23. LOANS AND BORROWINGS (Continued)

The long-term borrowings are loans received by the Bank for onward lending to customers in specific segments. The terms for these loans are described below: -

European Investment Bank

A loan agreement of Euros 50 million was entered in April 2012 between the European Investment Bank and The Co-operative Bank of Kenya Limited. The loan was to be disbursed upon request for onward lending to micro and small enterprises including self-employed entrepreneurs and sole proprietorships in income generating activities and productive sectors such as trade, retail, agro industries, fishing, food processing, manufacturing, construction transport, tourism. The interest on loan is 2.43% plus a currency risk premium determined over a period of time. As at end of 2019, Euros 35.39 Million had been disbursed to the bank. The outstanding loan amount unpaid as at end of 2019 was 6.67 Million Euros.

French Development Agency (AFD)

The bank entered into agreement with AFD in 2011 for a credit facility at fixed rate of 3.25% to finance investments in the fields of sustainable energy (energy efficiency & renewable energy) projects. As at the end of year 2019,the amount disbursed to the bank was USD 35,710,169. The bank secured an additional credit facility of USD 50 Million in year 2016 with variable interest rate which is pegged to the LIBOR rate and the first drawdown of USD 8 Million has already being disbursed.

International Finance Corporation

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

The loan has an element of fixed and variable interest rate which is pegged to the LIBOR rate. Repayment shall be in eleven (11) equal semi-annual instalments starting December 2013. The 1st disbursement of USD 30M was in March 2013 and the 2nd in March 2014. By 31 December 2019, the bank had drawn USD 60 Million from this facility.

In December 2015 the bank entered into agreement with IFC for a senior unsecured loan of USD 105 Million to finance the growth of SMEs portfolio, WOEs portfolio and affordable housing through expansion of mortgage & construction finance. The loan has an element of fixed and variable interest rate which is pegged to the LIBOR rate. The loan has a maturity period of 7 years and a 2-year grace period on principal repayment. As at the end of year 2019, the bank had received a drawdown of USD 105 Million.

In March 2019, the bank entered into a new agreement with IFC for a total of USD 150 Million. The loan is repayable in eleven equal instalments and will mature in December 2025.The loan was disbursed in two tranches, as at the end of year 2019, the bank had received a drawdown of USD 150 Million.

DEG - Deutsche Investitions- Und Entwicklungsgesellschaft Mbh

The Co-operative Bank of Kenya Limited signed a financing agreement with DEG - Deutsche Investitions - Und Entwicklungsgesellschaft Mbh of the Federal Republic of Germany in December 2013. The loan facility of USD 52,500,000 was disbursed in 2014. The facility is for onward lending to small and medium-sized enterprises. The loan will be repaid in 10 instalments ending in 2020. The agreement has an arrangement for interest computation on floating rate basis (pegged on LIBOR) or a fixed rate option based on mutual agreement.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

24. TAXATION

	Group		Bank	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
(a) Income Statement:-				
Current tax at 30% on the taxable profit for the year	6,547,494	5,937,854	6,282,524	5,679,263
Under provision in previous year	-	5,463	-	9,040
Hyper-inflationary adjustment	-	-	-	-
Deferred tax (credit) / charge	(152,988)	(518,672)	(211,887)	(510,622)
Income tax expense	**6,394,506**	**5,424,645**	**6,070,637**	**5,177,681**
(b) Statement of financial position:-				
Tax Payable				
Balance brought forward	303,280	(135,473)	294,555	(207,583)
Under provision in previous year	-	5,404	-	9,040
Charge for the year	6,547,494	5,924,009	6,282,523	5,679,263
Paid during the year	(6,826,421)	(5,472,487)	(6,547,273)	(5,186,165)
	24,353	**321,453**	**29,805**	**294,555**
Tax recoverable				
Balance brought forward	-	(21,222)	-	-
Under provision in previous year	-	59	-	-
Charge for the year	-	13,846	-	-
Paid during the year	-	(10,855)	-	-
	-	**(18,172)**	**-**	**-**
(c) Reconciliation of tax expense to tax based on accounting profit:-				
Accounting profit	**20,705,754**	**18,157,131**	**20,326,064**	**17,586,758**
Tax applicable rate at 30%	6,211,726	5,447,139	6,097,819	5,276,027
Under provision in previous year	-	5,463	-	9,040
Share of profit in associate	(12,011)	(51,425)	-	-
Unrecognized deferred tax asset on tax loss	3,770	(869)	-	-
Hyper inflationary adjustments	184,098	127,640	-	-
Tax effect of items not eligible for tax	6,923	(103,303)	(27,182)	(107,386)
Tax expense in the income statement	**6,394,506**	**5,424,645**	**6,070,637**	**5,177,681**

The opening balance in the tax reconciliation has been arrived at by offsetting the closing tax recoverable and payable positions from the prior year.

The corporation tax rate applicable to the Bank, subsidiaries and associates is 30% except for Co-operative Bank of South Sudan charged at a rate of 10-25% depending on the revenue of the tax payer.

Items not eligible for tax relates to items disallowed for purpose of calculating the income tax in accordance with the Income Tax Act. These mainly relates to donations, interest on infrastructure bonds

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

25. PROVISIONS

	Group		Bank	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Leave liability	151,426	151,147	147,774	147,582
Balance at 1 January	**151,147**	**187,793**	**147,582**	**184,297**
Movement through profit or loss	279	(36,646)	192	(36,715)
Balance at 31 December	**151,426**	**151,147**	**147,774**	**147,582**

This provision is for obligations in respect of annual leave entitlements not taken as at close of the period. The amount has been accrued at remuneration rates expected to apply when the obligation is settled.

26. OTHER LIABILITIES

	Group		Bank	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Bills payable	5,276,545	4,250,094	5,276,545	4,250,094
Lease liabilities	5,009,040	-	4,820,517	-
Sundry creditors and accruals	5,493,155	6,096,050	4,960,743	5,882,534
Allowance for credits losses for off balance sheet commitments	755,638	867,446	755,638	867,446
	16,534,378	**11,213,590**	**15,813,443**	**11,000,074**

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

27. GOVERNMENT GRANTS

	Group and Bank	
	2019 KShs'000	2018 KShs'000
Grant net of amortisation:		
At 1 January	**461,892**	**480,367**
Amortisation for the year	(18,476)	(18,475)
At 31 December	**443,416**	**461,892**

The grants relate to rehabilitation work on Co-operative House financed by USAID following the August, 1998 bomb blast. The grant is amortised in line with the depreciation on the building. The grant is amortised for the same period of the building since it was part of the cost to reconstruct the building.

28. SHARE CAPITAL

	Group and Bank	
	2019 KShs'000	2018 KShs'000
Authorised :-		
7.5 billion (2017: 7.5 billion) ordinary shares of KShs 1 each.	**7,500,000**	**7,500,000**
Issued and fully paid:-		
At start of the year	**5,867,180**	**5,867,180**
At the end of the year	**5,867,180**	**5,867,180**
Movement in the year:-		
At start of the year	**5,867,180**	**5,867,180**
At the end of the year	**5,867,180**	**5,867,180**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

29. SHARE PREMIUM

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

	Group and Bank	
	2019	**2018**
	KShs'000	**KShs'000**
At 1 January	1,911,926	1,911,926
At 31 December	**1,911,926**	**1,911,926**

30. RESERVES

(a) Revaluation reserve

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

(b) Retained earnings

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

(c) Fair value reserve

This comprises changes in fair value on debt instruments at fair value through other comprehensive income, excluding impairment losses, until the net investment is derecognised. This reserve is not distributable as it relates to unrealised fair value changes.

(d) Statutory reserve

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

(e) Foreign currency translation reserve

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

31. PROPOSED DIVIDENDS AND DIVIDENDS PER SHARE

	Group and Bank	
	2019	**2018**
	KShs'000	**KShs'000**
Proposed dividends	5,867,180	5,867,180

(i) Dividend per share is arrived at by dividing the total dividends by the weighted average number of shares in issue during the year.

(ii) Proposed dividends are accounted for as a separate component of equity at year end until they are ratified at an Annual General Meeting (AGM). At the AGM to approve year 2019 financial statements, a first and final dividend in respect of year 2019 of KShs 1 (2018 - KShs 1) for every ordinary share of KShs 1 each will be proposed by the directors and is subject to approval by shareholders.

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

32. NON-CONTROLLING INTERESTS

(a) Kingdom Securities Limited

Kingdom Securities Limited (previously Bob Mathews Stockbrokers Limited) was acquired in 2009 by the Bank through the purchase of 60% shareholding. The company offers brokerage services and is a registered broker with the Nairobi Securities Exchange.

(b) Co-operative Bank of South Sudan

Co-operative Bank of South Sudan was registered in partnership with the Government of South Sudan which holds 49% of the ordinary shares while the Bank holds 51%. The subsidiary is based in South Sudan and offers banking services.

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

Summarised statement of profit or loss and other comprehensive income for:-

	Kingdom Securities Limited		Co-operative Bank of South Sudan	
	2019	**2018**	**2019**	**2018**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Interest and other income	69,681	63,259	1,029,007	1,316,874
Interest and commission expenses	(3,674)	(750)	(39,638)	(39,380)
	66,007	**62,509**	**989,369**	**1,277,494**
Operating expenses	(92,814)	(69,743)	(931,252)	(947,160)
Loss on net monetary position	-	-	(409,716)	(361,113)
Profit / (loss) before tax	(26,807)	(7,234)	(351,599)	(30,779)
Share of profit of an associate	-	-	6,890	14,364
Income tax expense	(2,769)	857	(75,158)	(93,472)
Profit / (loss) for the year	**(29,576)**	**(6,377)**	**(419,867)**	**(109,887)**
Other comprehensive income	(11,200)	(40,250)	7,686	27,414
Total comprehensive income	**(40,776)**	**(46,627)**	**(412,181)**	**(82,473)**
Allocated to non-controlling interest	(16,310)	(18,651)	(201,969)	(40,411)

Summarised statement of financial position as at 31 December

	Kingdom Securities Limited		Co-operative Bank of South Sudan	
	2019	**2018**	**2019**	**2018**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Current assets	261,121	243,685	6,255,040	4,729,840
Non-current Assets	61,992	54,375	1,474,379	1,378,093
Liabilities	(155,017)	(89,188)	(4,621,850)	(3,379,022)
Total equity	**168,096**	**208,872**	**3,107,569**	**2,728,911**
Attributable to: -				
Equity holders of the parent	100,858	125,323	1,584,860	1,391,745
Accumulated non-controlling interests of the subsidiary	67,238	83,549	1,522,709	1,337,166

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

32. NON-CONTROLLING INTERESTS (continued)

(c) Hyperinflationary economy in South Sudan

With effect from 2016, the South Sudanese economy is considered to be hyperinflationary in accordance with the criteria in International Accounting Standards (IAS) 29 - *Financial Reporting in Hyperinflationary Economies*

IAS 29 requires that the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy, shall be stated in terms of the measuring unit current at the end of the reporting period. The corresponding figures for the previous period and any information in respect of earlier periods shall also be stated in terms of the measuring unit current at the end of the reporting period. The management applied this standard to prepare the financial statements for the Co-operative Bank of South Sudan. The corresponding figures for the previous reporting period for Co-operative Bank of South Sudan were restated. However, the Group did not restate the corresponding figures on the consolidated financial statements as its not required to do so. Following the application of IAS 29, the subsidiary recorded a loss on net monetary position of KShs 409.7 million (2018: KShs 361 million). In the application of IAS 29, the Group used conversion coefficients derived from the consumer price index (CPI) in the Republic of South Sudan. CPIs and the corresponding conversion coefficients are presented below:

Year	CPI	Conversion factor
2016	2,799	1
2017	4,502	2.2
2018	6,503	1.4
2019	7,751	1.2

33. INTEREST AND SIMILAR INCOME

	Group		Bank	
	2019	**2018**	**2019**	**2018**
Interest income calculated using the effective interest method	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Loans and advances to customers	32,765,280	33,522,342	32,498,554	33,173,217
Debt instruments at amortised cost	4,515,317	3,743,734	4,492,520	3,723,589
Debt instruments at FVOCI	4,130,270	4,619,041	4,130,270	4,619,041
Amortization of financial instruments	2,709,724	1,366,486	2,709,724	1,426,632
Deposits and balances due from other banks	477,320	261,878	385,096	190,969
Interest received repo placements	29,087	27,087	29,087	27,088
	44,626,998	**43,540,568**	**44,245,251**	**43,160,536**

34. INTEREST AND SIMILAR EXPENSE

Interest expense calculated using the effective interest method

Call deposits	1,680,559	1,774,420	1,680,559	1,774,420
Fixed deposits	6,452,797	6,816,649	6,452,783	6,816,582
Savings accounts	1,176,984	999,601	1,176,371	998,453
Current accounts	1,311,697	1,261,646	1,311,694	1,261,642
Deposits and balances due to banks	149,558	134,697	110,551	133,813
Lease obligations	304,231	-	287,134	-
Borrowed funds	1,564,552	1,253,102	1,564,552	1,215,825
	12,640,378	**12,240,115**	**12,583,644**	**12,200,735**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

35. FEES AND COMMISSIONS

	Group		Bank	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Fees and commissions income	12,817,634	8,941,686	11,316,397	7,569,878
Fees and commissions expense	(118,546)	(111,322)	(118,546)	(111,322)
Net fees and commissions income	**12,699,088**	**8,830,364**	**11,197,851**	**7,458,556**

Disaggregated fees and commission information for the year ended 31 December 2019

	Banking services KShs'000	Advisory & training KShs'000	Banc assurance KShs'000	Investment management KShs'000	Brokerage KShs'000	Total KShs'000
Fees and commission income						
Custodial	141,515	-	-	-	-	141,515
Share registration	138,148	-	-	-	-	138,148
Fund management	-	-	-	213,983	-	213,983
Brokerage	-	-	-	-	50,427	50,427
Consultancy	-	37,564	-	-	-	37,564
Training	-	59,334	-	-	-	59,334
Insurance agency	-	-	742,944	-	-	742,944
Ledger fees and service charges	1,299,486	-	-	-	-	1,299,486
Other fees & commissions	10,015,687	-	-	-	-	10,015,687
Total revenue from contracts with customers	**11,594,836**	**96,898**	**742,944**	**213,983**	**50,427**	**12,699,088**
<u>Timing of revenue recognition</u>						-
Services transferred at a point in time	11,315,173	96,898	742,944		50,427	12,205,442
Services that are provided over time	279,663			213,983		493,646
Total revenue from contracts with customers	**11,594,836**	**96,898**	**742,944**	**213,983**	**50,427**	**12,699,088**

36. NET TRADING INCOME

	Group		Bank	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Foreign exchange gain	2,148,844	2,284,412	1,933,761	2,052,864
Interest income on investment securities:				
- Held-for-trading	-	59,322	-	-
	2,148,844	**2,343,734**	**1,933,761**	**2,052,864**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

37. OTHER OPERATING INCOME

	Group		Bank	
	2019	2018	2019	2018
	KShs'000	KShs'000	KShs'000	KShs'000
Gain / (loss) on disposal of property and equipment	1,572	4,355	1,572	4,355
Dividend income	3,446	2,116	86,755	83,288
Rental income	103,670	99,028	103,670	99,028
Gain on sale of financial assets at Fair value	620,306	458,114	620,306	458,114
Sundry Income	573,741	371,760	416,742	348,298
	1,302,735	**935,373**	**1,229,045**	**993,083**

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

Rental income is accounted for on a straight-line basis over the lease terms on ongoing leases and is recognised on a monthly basis when it falls due.

38. EMPLOYEE COSTS

	Group		Bank	
	2019	2018	2019	2018
	KShs'000	KShs'000	KShs'000	KShs'000
Basic salaries	10,142,359	9,490,665	9,780,971	9,135,808
Allowances	415,361	422,000	400,359	362,741
Pension scheme contribution				
- Statutory Scheme	9,274	8,864	9,149	8,695
- Employee Scheme	766,562	684,841	730,463	652,565
Medical expenses	544,042	550,556	538,902	531,026
Education and training	72,420	87,249	70,164	83,718
Others	424,199	205,789	317,141	178,555
	12,374,217	**11,449,964**	**11,847,149**	**10,953,108**
The number of employees at the year-end was:	**2019**	**2018**	**2019**	**2018**
Management	616	622	584	583
Supervisory and unionizable	3,282	3,334	3,215	3,152
Others	524	295	421	295
	4,422	**4,251**	**4,220**	**4,030**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

39. OTHER OPERATING EXPENSES

	Group		Bank	
	2019	2018	2019	2018
	KShs'000	KShs'000	KShs'000	KShs'000
Rent and maintenance costs for branch premises	748,872	1,710,040	707,561	1,602,542
Motor vehicle running & other equipment maintenance	1,718,813	2,041,779	1,710,167	1,985,295
Stationery and printing	467,889	335,137	463,800	338,525
Travelling and insurance	638,161	604,449	565,530	526,048
Telephone, postage, electricity and water	603,097	601,474	573,258	572,472
Contribution to Deposit Protection Fund	447,153	420,060	447,153	420,060
Directors' emoluments	201,701	198,741	150,487	150,169
Auditors' remuneration	24,274	21,010	15,825	13,188
Loss on net monetary position	409,716	361,113	-	-
Other operating and administrative expenses	4,027,008	3,727,156	3,526,366	3,471,090
	9,286,684	**10,020,959**	**8,160,147**	**9,079,389**

40. ECL-OTHER FINANCIAL ASSETS

	Group		Bank	
	2019	2018	2019	2018
	KShs'000	KShs'000	KShs'000	KShs'000
Credit loss expense				
ECL-off balance sheet balances	-	35,363	-	35,363
ECL- Investments in Government securities	431,371	234,412	433,976	215,291
	431,371	269,775	433,976	250,654
Credit loss write back				
ECL- Local Bank balances	(4,543)	(3,026)	-	(3,026)
ECL-Foreign bank balances	(233,225)	(199,018)	(3,243)	-
ECL-off balance sheet balances	(111,808)	-	(111,808)	-
ECL- Sundry debtors	(122,563)	(199,021)	(122,563)	(147,948)
	(472,139)	(401,065)	(237,614)	(150,974)
Net credit loss expense/ (write back)	(40,768)	(131,290)	196,362	99,680

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

41. BASIC AND DILUTED EARNINGS PER SHARE

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

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

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

	Group		Bank	
	2019	**2018**	**2019**	**2018**
Profit for the year attributable to equity holder of the parent (KShs'000)	14,528,812	12,788,882	14,255,427	12,409,077
Weighted average number of ordinary shares for basic earnings per share (Thousands)	5,867,180	5,867,180	5,867,180	5,867,180
Weighted average number of ordinary shares for diluted earnings per share (Thousands)	5,867,180	5,867,180	5,867,180	5,867,180
Basic earnings per share (KShs)	2.48	2.18	2.43	2.11
Diluted earnings per share (KShs)	2.48	2.18	2.43	2.11

42. COMPONENTS OF OTHER COMPREHENSIVE INCOME

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Gains/(losses) arising during the year	7,362,277	9,235,008	7,382,917	9,307,806
Reclassification to profit or loss	(7,205,530)	(8,981,149)	(7,205,530)	(8,981,145)
	156,747	**253,859**	**177,387**	**326,661**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

43. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of profit before tax to cash generated from operations

CASH FLOWS FROM OPERATING ACTIVITIES:-	**Notes**	**2019 KShs'000**	**2018 KShs'000**	**2019 KShs'000**	**2018 KShs'000**
Profit before tax		**20,705,754**	**18,157,131**	**20,326,064**	**17,586,757**
Adjustments for: -					
Depreciation of property and equipment	18	1,523,591	1,817,946	1,362,295	1,612,195
Depreciation of right-of-use asset	19	1,212,163	-	1,120,094	-
Impairment on property and equipment		33,488	-	33,488	-
Amortization of prepaid lease rentals and write offs	17	610	610	610	610
Gain on disposal of associate shares		(57,274)	-	(57,274)	-
Write-off on intangible assets	16	2,085	(637)	2,085	(637)
Movement in provisions		2,380,827	(1,666,698)	2,290,500	(1,688,349)
Leave provision		280	(36,647)	192	(36,714)
Allowance for credit losses		(40,768)	(87,181)	196,363	99,680
Unrealised exchange difference		845,098	(784,617)	845,098	(784,617)
Amortization of intangible assets	16	594,476	562,328	568,045	488,392
Amortization of capital grants	27	(18,476)	(18,475)	(18,475)	(18,475)
Loss / (gain) on disposal of property and equipment		(1,572)	(4,355)	(1,572)	(4,355)
Share of profit in associates	15	(40,035)	(171,416)	-	-
Interest on lease liability		(304,231)		(287,134)	-
Exchange difference on borrowings		(148,500)	(320,291)	(148,500)	(320,291)
Accrued interest on borrowings	23	89,092	107,173	89,092	107,173
Loss on net monetary position		409,716	361,113	-	-
Cash flows from operating activities before working capital changes		**27,186,324**	**17,915,984**	**26,320,971**	**17,041,369**
Advances to customers		(23,683,223)	2,608,850	(24,076,894)	2,931,848
Other assets		7,081,982	(5,003,678)	6,615,649	(5,053,071)
Deposits from customers		26,706,871	18,745,338	25,625,231	18,186,925
Deposits from banks		(266,285)	69,796	(104,817)	415,920
Other liabilities		1,255,637	6,870,459	936,745	6,860,423
Central Bank of Kenya cash reserve ratio		(658,938)	(1,110,838)	(1,232,712)	(1,120,689)
Held-for-trading investments		-	639,950	-	150
Available-for-sale investments		(10,747,229)	(2,276,842)	(10,820,032)	(2,258,209)
Derivative financial instruments		284,769	99,026	284,769	99,026
Cash generated from operating activities		**27,159,908**	**38,558,045**	**23,548,910**	**37,103,692**
Cash and cash equivalents comprises of:-					
Cash on hand		8,959,634	9,809,390	8,258,223	9,064,099
Cash with Central Bank of Kenya		20,118,108	22,951,504	17,135,079	20,820,071
Deposits and balances due from banking institutions		9,713,096	18,089,539	8,029,547	17,602,839
Items in the course of collection from other Banks		1,344,671	722,345	482,790	450,856
		40,135,509	**51,572,778**	**33,905,639**	**47,937,865**
Less: Central Banks restricted Cash		(17,057,889)	(16,398,951)	(17,057,889)	(15,825,177)
Cash and cash equivalents		**23,077,620**	**35,173,827**	**16,847,750**	**32,112,688**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

44. RELATED PARTY BALANCES AND TRANSACTIONS

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

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

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

	2019 KShs'000	2018 KShs'000
Directors	330,753	450,895
Employees	9,117,557	8,425,634
Associates	6,123,845	1,946,051
	15,572,155	**10,822,580**
Interest income earned	**768,047**	**749,465**
Weighted average interest rate	**6%**	**7%**

The loans are secured by property and are repayable in less than 30 years. No impairment losses have been recorded against balances outstanding during the period and no specific allowance has been made for impairment losses on balances at period end (2018-Nil) as staff and directors are all active and currently in-service for the bank and recoveries are made directly through payroll.

All loan repayments are made through cash repayments.

During the year, the bank advanced CIC Limited, an associate, a loan of Kshs 4.5Bn for a tenor of 60 months with 1 principal bullet payment on the 60th month and interest payment after every 4 months

As at year end, the bank had an undisbursed loan commitment to a subsidiary, Kingdom Securities Limited, of Kshs 45M at arm's length. The terms of the facility are such that the facility is to be repaid in cash once the company's liquidity/capital has improved to above regulatory levels and the company is profitable.

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

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

	2019 KShs'000	2018 KShs'000
Directors and Employees (Key personnel)	834,041	638,154
Subsidiaries and Associate companies	1,097,043	948,168
Interest expensed	40,682	49,458
Weighted average interest rate	5%	7%

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

44. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

(c) Inter-company balances and transactions:-

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

	Relationship	Bank 2019 KShs'000	Bank 2018 KShs'000
Due from:-			
Co-optrust Investment Services Limited	Subsidiary	-	2,080
Co-op Consultancy & Insurance Agency Ltd	Subsidiary	13,595	18,447
Co-opholdings Co-operative Society Limited	Parent	1,369	31,665
Co-operative Bank of South Sudan	Subsidiary	46,712	19,780
		61,676	**71,972**
Due to:-			
Kingdom Securities Limited	Subsidiary	995	-
Insurance premium:-			
Co-operative Insurance Company Limited	Associate	158,461	124,951

Outstanding balances at the year-end are unsecured and no guarantees have been provided or received from any related party. The Bank has not made any provision for impairment losses on balances at period end (2018-124,951).

(d) Compensation of key management personnel

	Group 2019 KShs'000	Group 2018 KShs'000	Bank 2019 KShs'000	Bank 2018 KShs'000
Non-executive directors				
Directors' emoluments:				
-Fees	184,218	179,342	136,020	131,963
-Others	17,483	19,501	14,467	18,206
	201,701	**198,843**	**150,487**	**150,169**
Executive director				
-Short-term employee benefits	113,510	105,460	107,750	99,760
-Post-employment benefits/bonus	271,010	271,010	271,010	271,010
	384,520	**376,470**	**378,760**	**370,770**
Senior Managers:				
-Short-term employee benefits	1,188,610	951,645	1,129,208	912,754
-Post-employment pension	105,629	76,499	102,363	74,477
-Termination benefits	1,006	103,294	1,006	98,683
	1,295,245	**1,131,438**	**1,232,577**	**1,085,914**

(e) Co-operative Bank Foundation

The Foundation is a registered trust established to assist bright needy students from the Co-operative movement in paying school fees. In 2019, KShs 151,102,002 (2018-KShs 149,611,814) was disbursed to the Foundation. At 31 December 2019, the Foundation held deposits of KShs 3,709,744 (2018 - KShs 3,790,996) with the Bank.

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

This is a defined contribution scheme and provides, under the rules of the scheme, retirement benefits for the staff of Co-operative Bank of Kenya Limited and its subsidiaries. The Group contributed KShs 754 million (2018 - KShs 674 million) as at 31 December 2019. Under the terms of their appointment, Co-optrust Investment Services Limited, a subsidiary of the Bank, is responsible for the investment of funds.

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

	2019 KShs'000	2018 KShs'000
Rent paid to the scheme on leased property	8,273	7,095
Dividends paid on the Bank's ordinary shares	36,904	28,323

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

45. MATURITY ANALYSIS OF ASSETS AND LIABILITES

The Group and the Bank presents its statement of financial position in order of liquidity. The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	GROUP			BANK		
	Within 12 months KShs'000	After 12 months KShs'000	Total KShs'000	Within 12 months KShs'000	After 12 months KShs'000	Total KShs'000
As at 31 December 2019						
ASSETS						
Cash and balances with Central Banks	29,028,674	-	**29,028,674**	25,393,302	-	**25,393,302**
Deposits and balances due from banks	9,709,748	-	**9,709,748**	8,026,317	-	**8,026,317**
Investment in Financial Instruments	45,181,722	74,385,988	**119,567,710**	45,181,722	74,126,235	**119,307,957**
Loans and advances	69,206,941	197,505,755	**266,712,696**	67,827,021	197,505,755	**265,332,776**
Tax recoverable	-	-	**-**	-	-	**-**
Deferred tax asset	-	3,315,666	**3,315,666**	-	3,275,430	**3,275,430**
Prepaid Lease Rentals	-	34,522	**34,522**	-	34,522	**34,522**
Other assets	-	12,496,362	**12,496,362**	-	12,265,057	**12,265,057**
Investment in subsidiaries	-	-	**-**	-	2,512,920	**2,512,920**
Investment in associates	-	2,098,354	**2,098,354**		706,444	**706,444**
Property and equipment	-	6,514,328	**6,514,328**	-	5,844,283	**5,844,283**
Right of Use assets	-	4,906,908	**4,906,908**		4,674,823	**4,674,823**
Intangible assets	-	2,708,018	**2,708,018**	-	2,242,641	**2,242,641**
Total assets	**153,127,085**	**303,965,901**	**457,092,986**	**146,428,362**	**303,188,110**	**449,616,472**
LIABILITIES						
Customer Deposits	332,077,212	746,705	**332,823,917**	328,631,687	746,705	**329,378,392**
Deposits and balances due to banks	176,975	-	**176,975**	734,804	-	**734,804**
Tax Payable	24,353	-	**24,353**	29,805	-	**29,805**
Provisions	-	151,426	**151,426**			
Other Liabilities	16,534,378	-	**16,534,378**	15,961,217	-	**15,961,217**
Government grants	-	443,416	**443,416**	-	443,416	**443,416**
Loans and borrowings	1,070,929	25,353,337	**26,424,266**	1,070,929	25,353,337	**26,424,266**
Deferred tax liability	-	100,778	**100,778**	-	-	**-**
Total liabilities	**349,883,847**	**26,795,662**	**376,679,509**	**346,428,442**	**26,543,458**	**372,971,900**
Net	**(196,756,762)**	**277,170,239**	**80,413,477**	**(200,000,080)**	**276,644,652**	**76,644,572**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

45. MATURITY ANALYSIS OF ASSETS AND LIABILITES (continued)

	GROUP			BANK		
	Within 12 months KShs'000	**After 12 months KShs'000**	**Total KShs'000**	**Within 12 months KShs'000**	**After 12 months KShs'000**	**Total KShs'000**
As at 31 December 2018						
ASSETS						
Cash and balances with Central Banks	32,478,601	-	32,478,601	29,884,170	-	29,884,170
Deposits and balances due from banks	18,081,648	-	18,081,648	15,500,331	2,096,035	17,596,366
Investment in Financial Instruments	26,426,056	57,067,047	83,493,103	26,426,056	56,781,330	83,207,386
Loans and advances	54,830,337	190,579,965	245,410,302	53,898,378	189,648,006	243,546,384
Tax recoverable	18,172	-	18,172	-	-	-
Deferred tax asset	-	3,202,434	3,202,434	-	3,129,344	3,129,344
Prepaid Lease Rentals	-	35,132	35,132	-	35,132	35,132
Other assets	-	19,678,552	19,678,552	-	19,571,309	19,571,309
Investment in subsidiaries	-	-	-	-	2,512,920	2,512,920
Investment in associates	-	2,161,475	2,161,475		755,118	755,118
Property and equipment	-	6,614,048	6,614,048	-	5,971,546	5,971,546
Intangible assets	-	2,497,243	2,497,243	-	2,093,951	2,093,951
Total assets	**131,834,814**	**281,835,896**	**413,670,710**	**125,708,935**	**282,594,691**	**408,303,625**
LIABILITIES						
Customer Deposits	306,071,829	45,217	306,117,046	303,707,944	45,217	303,753,161
Deposits and balances due to banks	443,260	-	443,260	839,621	-	839,621
Tax Payable	321,453	-	321,453	294,555	-	294,555
Other Liabilities	11,364,737	-	11,364,737	11,147,656	-	11,147,656
Government grants	-	461,892	461,892	-	461,892	461,892
Loans and borrowings	4,881,819	19,067,792	23,949,611	4,881,819	19,067,792	23,949,611
Deferred tax liability	-	257,496	257,496	-	-	-
Total liabilities	**323,083,098**	**19,832,397**	**342,915,495**	**320,871,595**	**19,574,901**	**340,446,496**
Net	**(191,248,284)**	**262,003,499**	**70,755,215**	**(195,162,661)**	**263,019,790**	**67,857,129**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

46. OPERATING LEASE COMMITMENTS

As lessor:

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

	Group and Bank	
	2019 KShs'000	**2018 KShs'000**
Within One year	100,056	130,764
Between 2 and 5 years	210,143	188,702
Over 5 years	70,261	2,411
	380,460	**321,877**

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

As lessee:

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

	Group and Bank	
	2019 KShs'000	**2018 KShs'000**
Within one year	921,718	1,015,158
Between 2 and 5 years	2,161,873	2,607,644
Over 5 years	312,951	572,431
	3,396,542	**4,195,233**

Lease commitments relate to lease rentals payable by the group for its leasehold properties and are negotiated for an average term of six (6) years.

47. COMMITMENTS

	Group and Bank	
	2019 KShs'000	**2018 KShs'000**
(i) Capital: Authorised and contracted for	550,282	182,485
(ii) Capital: Authorised and not contracted for	4,530,475	4,127,399
(iii) Loans committed but not disbursed at year end	11,803,572	18,475,707

48. CONTINGENT LIABILITIES

	Group and Bank	
(a) Financial guarantees, Letters of credit and other undrawn commitments	**2019 KShs'000**	**2018 KShs'000**
Letters of credit	5,571,338	8,350,239
Guarantees	19,056,592	11,283,670
	24,627,930	**19,633,909**
Unutilised overdraft	1,967	288
Unutilised Credit Card	487,886	135,989
	489,853	**136,277**
Gross Carrying Amount	25,117,783	**19,770,186**
Allowance for credit losses	(755,638)	(867,446)
Net Carrying Amount	**24,362,145**	**18,902,740**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

48 CONTINGENT LIABILITIES (continued)

a) Financial guarantees, Letters of credit and other undrawn commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other commitments to lend. Even though these obligations may not be recognised on the statement of financial position, they contain credit risk and, therefore, form part of the overall risk of the Bank.

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

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

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

b) Impairment losses on financial guarantees, letters of credit and other undrawn commitments

An analysis of changes in the outstanding exposures and the corresponding ECLs are, as follows

Letters of credit

	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Gross carrying amount as at 1 January 2019	**8,350,239**	**-**	**-**	**8,350,239**
Disbursement	4,710,610	-	-	4,710,610
Repayment (excluding write-off)	(7,489,511)	-	-	(7,489,511)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2019	**5,571,338**	**-**	**-**	**5,571,338**

	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
ECL allowance as at 1 January 2019	**678,419**	**-**	**-**	**678,419**
ECL on disbursements	341,048	-	-	341,048
ECL on Repayment (excluding write-off)	(611,982)	-	-	(611,982)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2019	**407,485**	**-**	**-**	**407,485**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

47. CONTINGENT LIABILITIES (continued)

b) Impairment losses on financial guarantees, letters of credit and other undrawn commitments

Guarantees

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 1 January 2019	**11,283,670**	**-**	**-**	**11,283,670**
Disbursements	14,507,275	-	-	14,507,275
Repayment (excluding write-off)	(6,734,353)	-	-	(6,734,353)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2019	**19,056,592**	**-**	**-**	**19,056,592**

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
ECL allowance as at 1 January 2019	**176,217**	**-**	**-**	**176,217**
ECL on disbursements	(37,199)	-	-	(37,199)
ECL on Repayment (excluding write-off)	189,970	-	-	189,970
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2019	**328,988**	**-**	**-**	**328,988**

Undrawn commitment

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 1 January 2019	**134,279**	**1,997**	**-**	**136,276**
Disbursements	438,188	-	-	438,188
Repayment (excluding write-off)	(82,614)	(1,997)	-	(84,611)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2019	**489,853**	**-**	**-**	**489,853**

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
ECL allowance as at 1 January 2019	**11,122**	**1,688**	**-**	**12,810**
ECL on disbursements	14,885	-	-	14,885
ECL on Repayment (excluding write-off)	(6,843)	(1,688)	-	(8,531)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2019	**19,164**	**-**	**-**	**19,164**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

47. CONTINGENT LIABILITIES (continued)

c) Pending legal suits

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings, arising in the ordinary course of the Bank's business. When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosures in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

Some of the key pending legal suits include:-

(i) Kenya Continental Holdings

This is an injunction application seeking to stop the Bank from selling the company's security alleging fraud and misrepresentation on the part of the Bank with a claim for special damages for alleged loss of opportunities amounting to Kshs. 404,785,225. The Bank has a counterclaim amounting to Kshs 521,318,439 against the debtor. The matter is slated for mention in May 2020.

(ii) Boaz Mathews Ouma Awiti & three others

This is a claim for KShs 31,864,120 against the Bank relating to the sale and purchase of shares in Bob Mathews Stock Brokers Ltd (now Kingdom Securities Limited). The Bank has successfully applied for and obtained a stay of proceedings and referral of the matter to arbitration as per the terms of the Share purchase agreement. The plaintiffs have not been able to agree on an arbitrator.

(iii) Alice Anyona Mumo & Others vs. RBA & Co-operative Bank of Kenya Limited Retirement Benefit Scheme, 2007 RBA Tribunal appeal no. 8 of 2013 (NBI)

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

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

47. CONTINGENT LIABILITIES (continued)

d) Excise duty on financial transactions

In 2016, the Kenya Revenue Authority (KRA) demanded from the Bank tax amounting to KShs 621,537,611 relating to alleged non-payment of excise duty for the period 2013 to 2015. This amount is made up of principal excise duty of KShs 495,403,544 and interest of KShs 126,134,067 as shown below:-

Period	Principal KShs	Interest KShs	Total KShs
2013	134,213,458	51,167,844	185,381,302
2014	263,528,443	63,246,826	326,775,269
2015	97,661,643	11,719,397	109,381,040
	495,403,544	**126,134,067**	**621,537,611**

As at 31 December 2019, this amount had not been paid to KRA. The above interest amount is calculated up to 2015 and excludes any such amounts that may be demanded after this date.

The management, through the tax agent, disputed the demand on factual and technical grounds and the matter was referred to the Tax Appeals Tribunal. The subject of the dispute is industry-wide.

No provision has been made in these financial statements for the principal tax and interest shown above as the directors based on the advice by the tax consultant are of the opinion that no liability will arise.

49. FIDUCIARY ACTIVITIES

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

The Group at Custodial Services department holds assets on behalf of customers with a value of KShs 94.199 billion (2018 – KShs 61.728 billion). The income for the period for custodial services was KShs 107.054 million (2018- KShs 60.777 million) while the expenses amounted to KShs 52.868 million (2018- KShs 44.36 million).

The Group, through Co-op Trust Investment Services Limited manages securities with a value of KShs 102.09 billion (2018- KShs 40.54 billion) on behalf of customers. The total income for the period from fund management was KShs 208.91 million (2018- KShs 137.22 million), with total expenses amounting to KShs 147.16 million (2018 - KShs 121.30 million).

50. ASSETS PLEDGED AS SECURITY

As at 31 December 2019, there were no assets pledged by the Group to secure liabilities.

51. HOLDING ENTITY

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

52. INCORPORATION

The Bank is incorporated in Kenya under the Companies Act, 2015

53. CURRENCY

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

54. EVENTS AFTER REPORTING PERIOD

Outbreak of the Coronavirus Disease 2019 (COVID-19)

The coronavirus outbreak occurred at a time close to the reporting date. The rapidly spreading coronavirus outbreak continues to threaten life around the world and more countries have tightened quarantine measures.

On 15th March 2020, the Government of Kenya announced a nationwide partial lockdown following a positive test. The directors have determined that the country is in the early stages of the outbreak and the high level of uncertainty due to the unpredictable outcome of this disease may make it difficult to estimate the financial effects of the outbreak.

The directors are not aware of any other events after the reporting date that require disclosure in or adjustments to the financial statements as at the date of this report.

Disclaimer

Co-operative Bank of Kenya Group has acted in good faith and has made every reasonable report to ensure the comprehensiveness and accuracy of the information contained in this document, including all 'forward-looking statements'.

Forward-looking statements may be identified by words such as 'believe', 'anticipate', 'expect', 'plan', 'estimate', 'intend', 'project', 'target', 'predict' and 'hope'. ese statements have been made by the Management of Co-op Bank and are purely based on the current operating environment, estimates, assumptions, beliefs and projections hence undue dependence should not be placed on such statements.

Co-operative Bank of Kenya Group does not undertake to update any forward-looking statements contained in this document and hence does not assume responsibility for any loss or damage whatsoever and howsoever arising as a result of the reliance by any party.

In financing of Co-operatives and Saccos business, no one can do it better. These are our strong roots.

Twasema Asante Sana!

OVERALL BEST BANK
2019 Sustainable Finance Catalyst Awards

Best in sustainable financing Small & Medium Enterprises, case study,
Number One

Best in sustainable finance,
1st Runners up

Best sustainable finance in bank operations,
1st Runners up

Best in sustainable finance informal sector case study,
1st Runners up

Best sustainable finance commercial case study,
2nd Runners up

Best sustainable finance most innovative bank,
2nd Runners up

A deep felt appreciation to all our customers and stakeholders for your steadfast support and patronage of "The Kingdom Bank".
We reiterate our unwavering committment to offer you competitive services for our mutual sustainable growth and that of our dear Nation.

CO-OPERATIVE BANK
We are you

The Co-operative Bank of Kenya Ltd is Licensed and Regulated by the Central Bank of Kenya.

2019 INTEGRATED REPORT

For more information call our call centre on 020 277 6000,
0703 027 000, 0736 690 101, SMS 2020 or
email us at customerservice@co-opbank.co.ke