CO-OPERATIVE BANK
We are you

Integrated Annual Report 2021

emeafinance
African Banking Awards 2021

BEST BANK CEO IN AFRICA

Co-op Bank Group deeply appreciates the Award bestowed upon our Group Managing Director and CEO,

Dr. Gideon Muriuki CBS, MBS

The Board of Directors' bold decision to sustain the same level of dividend payments to shareholders despite the Covid-19 crisis offered a most timely relief, especially to the over 15 Million Member Co-operative Movement, whose livelihoods would have been severely impaired had the dividend been withheld.

The Bank notably also sustained a relentless focus on Staff Wellness with the unprecedented challenges occasioned by the Covid 19 pandemic; notably it undertook a bank-wide analysis to identify and address manpower inefficiencies spurred by the disruption, with a critical focus on staff redeployment/retention other than redundancies.

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African Banking Awards 2021

BEST BANK IN KENYA *and* BEST BANK (IN FINANCIAL INCLUSION) AFRICA

Co-op Bank Group is greatly affirmed on our unique business model with the Year 2021 Awards of Best Bank in Kenya and Best Bank in Financial Inclusion Africa; We are greatly honoured by these Awards granted to us for extending financial inclusion models to our customers and also offering shared prosperity, with consistent dividend payments notably to the over 15 Million-member Co-operative Movement that is the face of Kenya.

"I will give you every place where you set your foot..."
- Joshua 1:3




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 trade offs, and highlights material risks and opportunities that have arisen in our operating environment. The impact of the ongoing Covid-19 pandemic has been detailed in Material Matters section of this report highlighting the risks, strategies and the stakeholder support in place.

Our Scope & Reporting Boundary

This report covers the period from 01 January 2021 to 31 December 2021. 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, Coop Consultancy & Bancassurance Intermediary Ltd, Co-op Trust Investment Services Ltd, Kingdom Securities Ltd and Kingdom bank. By extension, we have covered some areas of our associate companies CIC Insurance Company Ltd and Co-op Bank Fleet Africa Leasing 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.

Kindly engage us through investorelations@co-opbank.co.ke We encourage our stakeholders to share their views on this report, our performance and our strategic roadmap for delivering sustainable value.

Glossary of Icons

Icons used throughout this Report

Our Capitals *(For more information on our capitals see page 44)*

To demonstrate how utilisation and trade-offs in the capitals lead to value creation.

- Financial Capital
- ManufacturedCapital
- Social & Relationship Capital
- Human Capital
- Intellectual Capital
- Natural Capital

Our Strategic Focus

Our Corporate Strategic Plan *(For more information on our Corporate strategic plan see page 57)*

- Aggressive deepening of our dominance in the Kenyan 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.
- Positive impact of Economy, Society & Environment.

Our Stakeholders *(For more information on our stakeholders see page 72)*

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 regulations

Suppliers
Responsible engagement

Community
Positive economic, social and environmental impact from all our activities

Sustainable Development Goals *(Creating Sustainable Value, ESG section see page 78)*

1 NO POVERTY
2 ZERO HUNGER
3 GOOD HEALTH AND WELL-BEING
4 QUALITY EDUCATION
5 GENDER EQUALITY
6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY
8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
10 REDUCED INEQUALITIES
11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION
14 LIFE BELOW WATER
15 LIFE ON LAND
16 PEACE, JUSTICE AND STRONG INSTITUTIONS
17 PARTNERSHIPS FOR THE GOALS

The Board's Support

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 16th March 2022.

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
Chairman

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

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

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 2021, Co-opholdings had 3,794 (2020:3,799) 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.

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

Top 10 shareholders as 31 December 2021

Shareholder	No. of shares	% shareholding
Co-op Holdings Co-operative Society Limited	3,787,720,812	64.56
GIDEON MAINA MURIUKI	102,528,400	1.75
NIC CUSTODIAL SERVICES A/C 077	56,166,543	0.96
KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 915B	46,564,339	0.79
STANDARD CHARTERED NOMINEES RESD A/C KE11443	45,011,370	0.77
AMARJEET BALOOBHAI PATEL & BALOOBHAI CHHOTABHAI PATEL	33,940,499	0.58
STANBIC NOMINEES LIMITED R6631578	27,380,400	0.47
EQUITY NOMINEE LTD A/C00132	20,957,560	0.36
STANBIC NOMINEES LTD A/C NR1030682	20,877,638	0.36
ICEA LION LIFE ASSURANCE COMPANY LIMITED-POOLED	20,643,585	0.35
TOTAL	4,161,791,146	70.93
Other Shareholders	**1,705,388,957**	**29.07**

Category summary of shareholders as at 31 December 2021

Category	No. of shareholders	No. of shares	% shareholding
Foreign Companies	23	44,829,758	0.76
Foreign Individuals	194	3,842,086	0.07
Local Companies	3,052	4,842,699,106	82.54
Local Individuals	96,356	962,728,421	16.41
East African Companies	42	12,577,217	0.21
East African Investors	76	503,515	0.01
		TOTAL	**100**

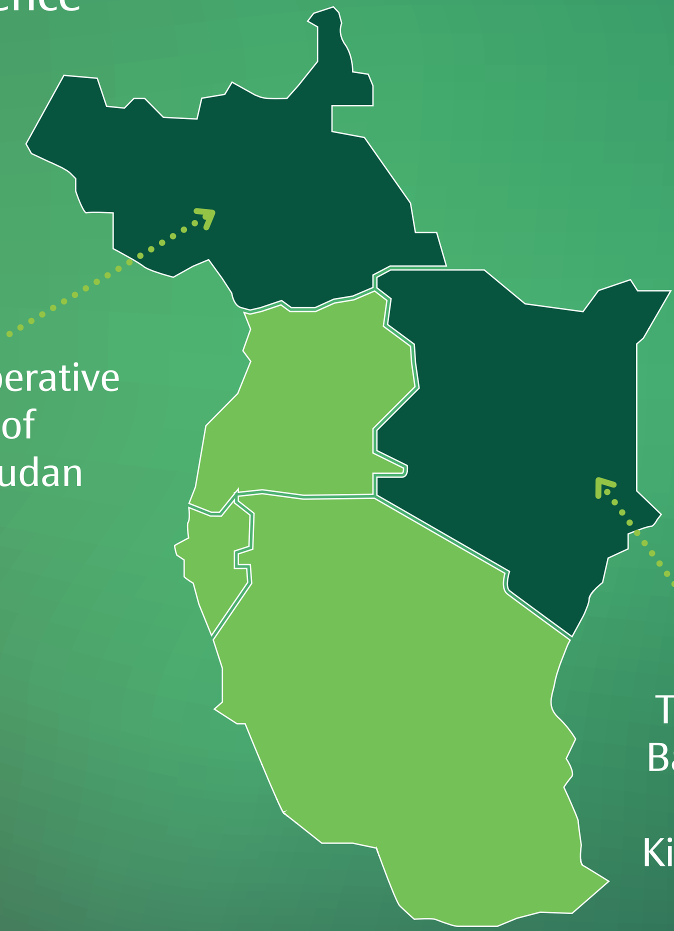
Category Shareholder distribution as at 31 December 2021

Shareholding	No. of shareholders	No. of shares	% shareholding
1-500	15,435	2,872,662	0.05
501-5,000	37,258	75,698,188	1.29
5,001-10,000	31,002	250,967,944	4.28
10,001-100,000	14,943	337,422,595	5.75
100,001-1,000,000	858	248,675,854	4.24
above 1,000,000	247	4,951,542,860	84.39
		TOTAL	**100**

Top 10 Co-op Holdings Shareholders as at 31 December 2021

Shareholder	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 Creditco-Operative Society Ltd	69,453,216	1.83
TOTAL	**1,055,142,693**	**27.87**

Regional Presence



178 Branches

5.3 Million Mco-op cash Customers

561 ATMs

464 Sacco Front Offices Branch network

26k+ Co-op Kwa Jirani Agents

88K+ CoopNet– Internet Banking

19K+ Diaspora Banking Customers

Group Structure

Minority Shareholders
35.4%

Coop Holdings Coop Society Ltd
64.6%

100%
Co-optrust Investment Services Ltd

51%
Co-operative Bank of South Sudan Ltd

60%
Kingdom Securities Ltd

33.4%
Co-operative Insurance Society Ltd

100%
Co-op Consultancy & Bancassurance Intermediary Ltd

90%
Kingdom Bank Ltd

25%
Co-op Bank Fleet Africa Leasing Limited

Milestones

We have over 50 Years' experience in Providing Financial Solutions

1966/1968
The Co-operative Bank of Kenya is establsihed 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 move 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
5.9M
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
KSH. 16.4B
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 Ksh. 20.7 B, a 14% growth. The Bank disburses Ksh. 43B through e-credit, a key lending focus area.

2020-2021
The Group demonstrates formidable resilience during the Covid-19 pandemic; restructures Kshs 49 billion to support customers affected through the pandemic, and 5.9 billion dividends in each year. The group reports a record Kshs 22.6 billion in PBT for 2021.

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. *(For a detailed analysis refer to The Strategic Focus Review section of this report. page 57)*

Our Mission

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 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

Our Purpose

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

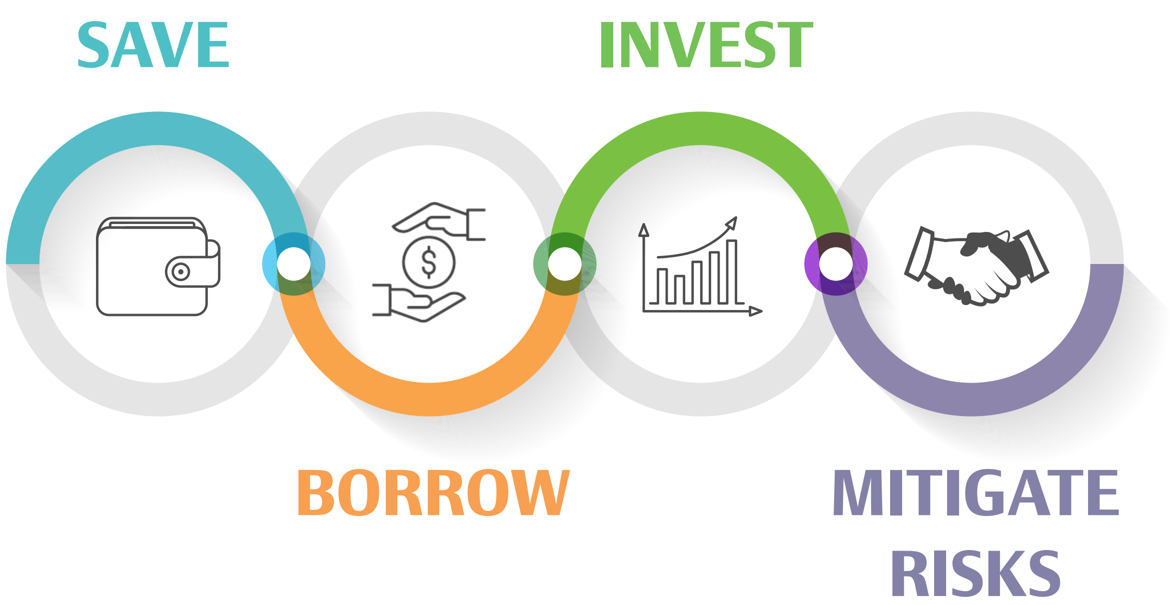
Our Key Business

What we do		
Retail and Business Banking Division	Providing financial solutions to individual Customers, Micro, Small and Medium Enterprises	
Corporate and Institutional Banking Division	Providing solutions to: • Corporate • Institutions • Government • Parastatals • Non-Government Institutions • International Financial Institutions	
Co-operatives Division	Providing financial solutions to: • Large saccos • Housing Saccos • Agricultural and other Co-operatives • PSV/Transport Saccos • Investment Saccos • Housing Saccos	
Kingdom Bank Ltd	A Niche MSME Bank	
Co-optrust Investment Services Ltd	Fund Management Service	
Coop Consultancy & Bancassurance Intermediary Ltd	• Bancassurance Services • Consultancy and capacity building services to Co-operative Societies	
Kingdom Securities Ltd	Stock Brokerage Services	
Co-op Bank Fleet Africa Leasing Limited	Leasing Solutions	

What we offer

- Deposit/Instance Access Accounts
- Saving Accounts
- Current Accounts
- Fixed/Call Accounts
- Forex Products
- Payment Solutions
- Funds Transfer
- Funds access across all our channels
- E-Credit
- Msamaria Women Loans
- Trade Finance
- MSME Loans
- Personal/Consumer Loans
- Working Capital Loans
- Asset Finance
- Insurance Premium Financing
- Mortgage Finance
- Executive Banking
- Diaspora Banking
- Investment Services
- Bancassurance
- Consultancy and Capacity Building
- Stock Brokerage
- Leasing

We enable our Customers to



Expand your biashara with unsecured loans of up to **Ksh.10 Million from Msamaria Women's Loan**.

Apply today at any of our branches countrywide.

@Coopbankenya
Co-op Bank Kenya (Official)

CO-OPERATIVE BANK
We are you

The Co-operative Bank of Kenya is regulated by Central Bank of Kenya

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 2021 KShs. 579.8B (2020 KShs. 537.0B)	Customer Deposits 2021 KShs. 407.7B (2020 KShs. 378.6B)	Borrowed funds 2021 KShs. 42.9B (2020 KShs. 46.0B)	Profit Before Tax 2021 KShs. 22.6B (2020 KShs. 14.3B)
Liquidity 2021 53.8% (2020 52.2%)	Retained earnings 2021 KShs. 84.2B (2020 KShs. 74.6B)	Total Capital 2021 KShs. 87.3B (2020 KShs. 79.4B)	

Human Capital

4505
(2020 4628) Diverse human resource capable of meeting our current and future needs

Social & Relationship Capital

An optimal relationship with all our stakeholders to ensure long term value addition.

Natural Capital

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

Intellectual Capital

- Skills/Knowledge of our staff
- Our brand positioning and reputation
- Dynamic policies and frame works covering all areas of our business
- Risk management framework
- Good governance and corporate planning skills
- Intellectual property
- Dynamic IT capabilities

Manufactured Capital

Efficient, innovative delivery channels and touchpoints that enable us to serve our 9 Million customers optimally. Adequate ICT infrastructure to support all our strategic initiatives.

Mcoop Cash mobile banking platform (5.3M)

Agency Banking (26K+)

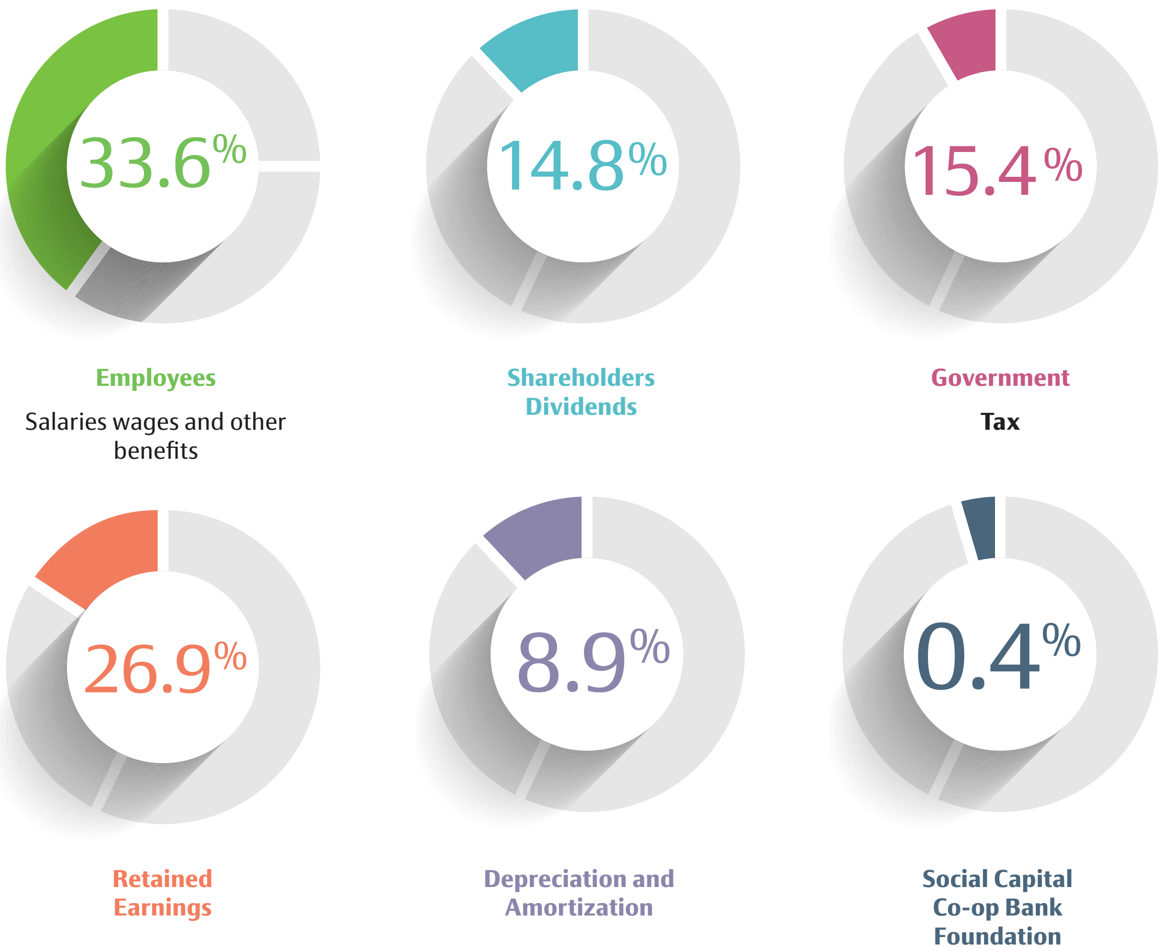
Coop-Net internet banking platform (88K+)

Omnichannel platform

Core Banking System & other infrastructure.

Wealth Creation and Distribution

Ksh. 39.6 Billion (2020 Kshs.31.8Billion)



(right-left) Co-op Bank board members namely, Mr. Macloud Malonza (MBS, HSC), Chairman Co-op Holdings Co-operative Society, Bank Chairman Mr. John Murugu (OGW) and the Group Managing Director & CEO Dr Gideon Muriuki (CBS, MBS) during last year's virtual AGM. Co-op Bank will this year pay out a total dividend of Sh5.86 Billion, out of which co-operatives will receive Sh3.79 billion for their majority 64.5% stake in the bank.

Key Performance Highlights

FINANCIAL (Kshs. Billions)

Profit Before Tax (Kshs. Billion) 2021-22.6 (2020-14.3)	Total Assets (Kshs. Billion) 2021-579.8 (2020-537)	Loan and advances (Net) (Kshs. Billion) 2021-310.2 (2020-286.6)	Customer Deposits (Kshs. Billion) 2021-407.7 (2020-378.6)
Non-Performing Loan % (Group) 2021-14.0% (2020-18.1%)	Dividend per share 2021-1.00 (2020-1.00)	Market Capitalization 2021-76.0 (2020-72.8)	Average ROA 2021-3.0% (2020-2.2%)
Non-Performing Loan % (Bank) 2021-12.7% (2020-16.5%)	Cost to Income (CIR) 2021-49.9% (2020-58.1%)	Debt to Equity 2021-42.8% (2020-50.7%)	Average ROE 2021-17.3% (2020-12.7%)

OTHER KEY INDICATORS

Staff numbers 2021-4505 (2020-4628)	Training spend (Kshs. Million) 2021-52.4 (2020-24.3)	Remuneration (Kshs. Billion) 2021-13.3 (2020-13.4)	Digital channel transactions (Kshs. Million) 2021-207 (2020-166)
Wide branch network 2021-178 (2020-177)	Branches County presence 2021-43 (2020-43)	ATMs 2021-561 (2020-581)	Water Cost (Kshs. Million) 2021-32.7 2020-32
Co-op Foundation students 2021-8368 (2020-7713)	Electricity cost (Kshs. Million) 2021-241.2 (2020-235)	Generator fuel cost (Kshs. Million) 2021-14.4 (2020-15)	

Our Business Model

(details page 42)

Input

- Financial Capital
- Human Capital
- Manufactured Capital
- Intellectual Capital
- Social & Relationship Capital
- Natural Capital

Our Purpose
Our Vision
Our Mission
Our Values

Value Adding Activities including

1. Comprehensive Corporate Governance
2. Integrated Corporate Strategic Planning
3. Soaring Eagle Transformation growth and efficiency initiatives
4. Integrated Enterprise Risk management
5. Sustainability/ ESG

Output

- PRODUCTS
- SERVICES

Lending, Deposit Taking, Investment Advisory, BancAssurance, Stock Trading

- SHARED SERVICES
- STAKEHOLDER ENGAGEMENT

Capital Trade-Offs

Outcome

- Financial Capital
- Human Capital
- Manufactured Capital
- Intellectual Capital
- Social & Relationship Capital
- Natural Capital

Chairman's Statement

Dear Shareholders,

I am delighted to present to you our bank's Integrated Report for the period ended 31st December 2021.

Overview of the Operating Environment

During the year, Kenya's economy rebound following the easing of measures aimed at curbing the spread of Covid-19. Services and industrial sectors are projected to have posted strong growth during the year. However, agriculture, forestry and fishing are estimated to have contracted owing to unfavorable weather conditions experienced in most parts of the country during the second half of 2021. The National treasury estimates economic growth of 5.9% for 2021.

While some sub-sectors, such as education, have bounced back strongly, others such as international tourism, have only partially resumed and face a much more protracted recovery. The anticipated further recovery of hotels and restaurants, trade, transport, and other services, depends on the vaccination progress to help prevent new waves of infections and avoid re-introduction of containment measures. At the start of March 2022 Kenya had received approximately 27 million doses of Covid-19 vaccines and administered close to 17 million doses since it kicked off the vaccination exercise in March 2021 and vaccination of its teenage population with Pfizer in November 2021. The country plans to fully vaccinate 19 million adults (70% of the adult population) by end of June 2022 and the entire adult population of 27 million people by the end of the year. It will also aim to fully vaccinate 2.9 million teenagers aged 15-17 years (50% of the teenage population) and the entire teenage population of 5.8million by end of December 2022.

The banking sector registered a strong performance in the year ended December 31, 2021. The asset base increased by 11.1 percent from Ksh.5.4 trillion at end of 2020 to Ksh.6.0

trillion. The performance was underpinned by banks reviewing their business models leveraging on technology and innovation, enhanced capital and liquidity buffers and a continued focus on customer centricity. Asset quality for the banking industry improved in 2021 with the gross NPL declining to 13.1% in December 2021 from 14.1% in December 2020. Growth in private sector credit increased to 8.6 percent in December 2021, from 8.4 percent in December 2020. Inflation has been moderate and monetary policy remains accommodative.

While economic activity is picking up, many challenges remain. Public health is still under pressure from COVID-19 and higher poverty has set back progress towards Kenya's development goals. Kenya's fiscal and debt positions have also worsened, adding to difficulties that existed even before the shock.

Regulatory Environment

Throughout the year the monetary policy committee maintained the Central Bank Rate at 7% and the cash reserve ratio at 4.25% opining that these measures remained appropriate and effective.
In response to the improving conditions, many of the tax and regulatory relief measures extended at the onset of the crisis have been discontinued. The reduction in value-added tax and corporate income tax rates announced following the pandemic expired at the end of December 2020, though the personal income tax relief for the lowest-earning taxpayers continues.
The central bank decreased capital adequacy risk weighting for all residential mortgages to 35% from 50% effective July 1st 2021. This will enable the industry to increase lending to domestic residential mortgage market.
The regulator also suspended listing of borrowers' negative credit information for borrowers with loans below 5 Million whose loans were performing previously but were non-performing from 1st October 2021. This is aimed at cushioning MSMEs from adverse effects of Covid 19 pandemic.
The CBK also published guidelines on climate-related risk management indicating that banks and mortgage finance companies ought to integrate the risks and opportunities arising from climate change in their risk management, strategy, and governance structures. We have always observed and integrated ESG issues in our strategy and we welcome the new guidelines from our regulators. We strongly believe in compliance and ethical code of conduct. The value of ethics and responsibility is indisputable as stakeholders are now increasingly interested in building sustainable partnerships with businesses and markets which uphold such values. Our underlying corporate objective is thus to always be an ethical partner as we pursue business and relationships with our stakeholders.

Performance and Strategic Overview

Our balance sheet expanded by 8% to Kes.579.8 Billion as at the close of 2021 from Kes.536.9 Billion in 2020. Our shareholder funds grew by 10.5% to Kes.100.2 Billion placing the bank in a strong footing to pursue its expansion and market dominance strategy aggressively. Profit Before Tax grew by 58.6% to Kes.22.6 Billion compared to Kes.14.3 Billion the previous year buoyed by a 12.9% and 11% growth in net interest income and non-interest income respectively.

This strong performance exceeds pre-pandemic performance and is in line with the Group's strategic focus that supports growth, resilience, and agility. The group will continue to focus on improving operational efficiencies, leveraging on innovative customer delivery channels to serve our growing customer base, which currently stands at 9 million.

The bank has undertaken substantial digital transformation in the last 5 years to serve this growing customer base efficiently and seamlessly from all touch points. We have invested immensely in fortifying our digital channels which now execute over 94% of our transactions and our financial results are a testament to efficiencies we are deriving from these investments. Going forward we intend to pursue scaled-up adoption and utilization of the digital channels coupled with innovative product offering and improved targeting to realize full benefits of these investments.

The Group continues with its strategy for continued deepening and dominance in Kenya while harnessing opportunities for expansion of its other services like Bancassurance and Leasing business which are being done through our various other subsidiaries. Our strategy is to continue to identify opportunities to create new streams of revenue, enhance operations and optimize our physical footprint alongside the structure of our businesses.

Dividend and the Annual General Meeting

Our strong performance is a clear indication of our strategy to growing our shareholders value. As such, the board of directors is recommending a dividend of Kes.1 per share subject to approval by the regulators and the shareholders. A virtual General Meeting will be held on Friday, 27th May 2022.

Corporate Governance

The Board is responsible for corporate governance practices and embraces its responsibilities to shareholders and other stakeholders upholding the highest ethical standards and ensuring that the Bank conducts its business in accordance with global best practices.

The Bank recognizes and embraces the benefits of a diverse Board and acknowledges that diversity at the Board level is an essential element in enhancing the decision making process and the resultant policy and strategy direction. This is also to ensure a balanced mix of capabilities and competences in the Board in order to remain relevant in a fast changing, dynamic and competitive market environment. Our Board consists of thirteen directors, with one of them, the Managing Director as executive, and twelve non-executives. The Directors have a variety of skills, experience and competences in their relevant fields of expertise and are well placed to drive the bank's business forward. Having the appropriate governance mechanisms and pillars that support ethical behaviour are foremost in our business.

The directors are committed to excellence in corporate governance and support the principles of Good Corporate Governance as the basis for enhancing credibility and transparency in the financial services industry.

Accolades

The bank has continued to attract recognition both locally and globally for its impact in fostering growth, reducing poverty, and improving financial inclusion and shared prosperity in Kenya.

The bank received global recognition in the year. We were honored by the EMEA African Banking Awards 2021 as the Best Bank in Kenya, the best Bank in Financial inclusion in Africa and our subsidiary Co-optrust Investment Services Ltd as the best asset manager in Kenya. During the same event, our GMD and CEO was also recognized as the CEO of the year Africa for his outstanding effort in steering the bank during the Covid-19 crisis. He has also been awarded his 2nd honorary doctorate from the Co-operative University of Kenya. The Board and the entire Co-operative Bank of Kenya Group celebrates him for his leadership.

Board Changes

Mr. David Obonyo joined the board of the Bank in 2021 following his appointment as commissioner for Co-operative development, replacing Mr. Geoffrey Njang'ombe. Mr. Obonyo brings a wealth of experience to the board. He has over 27 years working experience in Co-operative Movement having worked as District Co-operative Officer in Kiambu, Maragua, Nyandarua and Machakos, Provincial Co-operative Officer-Eastern Province, County Commissioner for Co-operatives-Embu County head of Extension Services at the Ministry of Industry, Trade and Co-operatives and Ag.Chief Executive Officer/Secretary at the Ethics Commission for Co-operative Societies Board.
We are confident the entire organization will benefit from his contribution. Please join me in welcoming Mr. Obonyo to the Board. We wish him wisdom and God's guidance in executing his duties. We are also greatful to Mr. Njang'ombe for his dedication and service to the Co-operative Bank fraternity and wish him success in his future endeavors.

Looking Ahead

Uncertainties in the global economic outlook are high, indicating increased risks from COVID-19 variants, supply chain disruptions, oil price volatility, inflationary pressures and the effects of the Russian-Ukrainian conflict. These uncertainties heighten the risk of increased volatility in the global financial markets.
In Kenya, the growth outlook is positive. The economy is expected to remain strong in 2022, supported by continued strong performance of the services sector, recovery in agriculture, and an improvement in global demand. The economy is projected to grow by 5.9% in 2022. The rebound assumes economic activity will normalize following the full reopening of the economy, the Economic Recovery Strategy being pursued by the government and capitalizing on an expected improvement in external liquidity and other initiatives including debt refinancing, restructuring and debt service relief, and additional concessional loans.
Downside risks to the outlook could emanate from unfavorable weather conditions, failure to secure external financing to execute the budget, a slowdown in global economic growth, and disruptive social conditions during the run-up to the 2022 General Elections.

Acknowledgement

On behalf of the Board of directors, I wish to recognize the unwavering support and dedication shown by the Board of Management led by the Group Managing Director & CEO Dr. Gideon Muriuki, CBS, MBS and the entire Co-operative Bank of Kenya Group team. I would also like to appreciate our customers whose patronage of our services has generated these results. I thank our shareholders who have given me and the entire Board of Directors an opportunity to serve in the Board.

May God bless The Co-operative Bank; may he bless you all.

Mr. John Murugu, OGW
Chairman

Taarifa ya Mwenyekiti

Wapendwa Wamilikihisa,

Niko na furaha kuu kuwasilisha kwenu kwa mara nyingine tena Ripoti Jumuishi ya benki hii yetu kwa kipindi kilichomalizikia tarehe 31 Disemba 2021.

Muhtasari wa Mazingira ya Uendeshaji shughuli

Katika mwaka wa 2020, janga la COVID-19 lilileta mshtuko mara tatu kwa uchumi wa Kenya, athari za kiafya za virusi hivyo, athari za kiuchumi za hatua za kudhibiti, na athari za mdororo wa uchumi duniani. Hii ilisababisha ukuaji mbaya zaidi wa uchumi nchini Kenya tangu 1992. Pato la Taifa linakadiriwa kupungua kwa asilimia 0.6. Walakini, mnamo 2021, uchumi ulionyesha kustahimili majanga haya, huku Pato la Taifa la 2021 likikadiriwa kufikia viwango vya kabla ya janga, na kurekodi ukuaji wa 5%, moja ya ufufuzi ulio wa haraka zaidi miongoni mwa nchi za Afrika Kusini mwa Jangwa la Sahara.

Wakati ambapo baadhi ya sekta ndogo, kama vile elimu, zimerejea kuwa imara, zingine kama vile utalii wa kimataifa, zimerudi kidogo na zinakabiliana na ufufuzi utakaochukua muda mrefu zaidi. Afueni inayaotarajiwa katika hoteli na mikahawa, biashara, usafiri, na huduma zingine, unategemea kutekelezwa pakubwa, utoaji chanjo ili kusaidia kuzuia mawimbi mapya yamaambukizi na hatua nyingine zinazohusiana na kinga. Kufikia Desemba 5, 2021, Kenya ilikuwa imepokea jumla ya chanjo 16,201,670, huku 7,583,134 zikiwa tayari zimedungwa watu. Bado kuna safari ndefu ya kufikia lengo la serikali la kuchanja kikamilifu idadi ya watu wazima wapatao milioni 30 ifikapo mwisho wa 2022.

Mfumuko wa bei umekuwa wa wastani na sera ya fedha inaendelea kuwa sawa. Kwa ujumla mfumuko wa bei ulisalia ndani ya kiwango kilicholengwa na serikali cha hadi wastani wa 5.4% katika mwaka wa 2020. Kupanda kwa mfumuko wa bei kulidhihirishwa na kuongezeka kwa bei za bei mafuta duniani, hatua za utozaji kodi za humu na kutatizwa kwa usambazaji wa baadhi ya bidhaa za chakula kutokana kuwepo kwa hali ya hewa ya ukame hapa nchini.

Licha ya shughuli za kiuchumi kuanza kupata afueni, bado kuna changamoto nyingi. Sekta ya afya ya umma ingali inakabiliwa na shinikizo la utoaji wa chanjo za COVID-19 unaokwenda polepole sana. Umaskini uliokithiri umerudisha nyuma hatua za dhamira ya malengo ya maendeleo ya Kenya. Hali ya kifedha na ya deni la Kenya pia imezidi kuwa mbaya, na kuongeza ugumu uliokuwepo hata kabla ya mshtuko.

Mazingira ya udhibiti Kanuni

Ili kuwania fursa ya kuboreka kwa hali, hatua nyingi za kutoa msamaha wa ushuru na udhibiti zilizotolewa pale janga lilipoingia zilikatizwa. Kupunguzwa kwa ushuru wa ongezeko la thamani na viwango vya ushuru wa mapato ya kampuni vilivyotangazwa kufuatia janga hilo kumalizika mwishoni mwa Desemba 2020, ingawa msamaha wa ushuru wa mapato ya kibinafsi kwa walipa kodi wanaopata mapato ya chini zaidi unaendelea. Kusimamishwa kwa miezi sita kwa sharti la kuorodhesha taarifa hasi za mikopo kwa Ofisi ya Marejeleo ya Mikopo kuliisha mnamo Septemba 30, 2020, na kufuatia taratibu za kawaida za uainishaji wa hatari za mikopo zilianza tena. Vile vile, hatua za dharura za Benki Kuu ya Kenya (CBK) kuhusu upanuzi na urekebishaji wa mikopo ili kupunguza athari mbaya za kiuchumi za janga hili kwa wakopaji wa benki zilikamilika mnamo Machi 2, 2021. Hatua za kuhimiza matumizi ya miamala ya pesa kwa simu badala ya malipo ya pesa taslimu. katika muktadha wa janga hili pia zimeondolewa hatua kwa hatua, isipokuwa kwa msamaha wa malipo baina ya pochi za pesa za rununu na akaunti za benki.

Dhima na Uzingatiaji

Tunaendesha shughuli zetu katika mazingira yaliyo na uthibiti mkubwa wa kanuni na tunahitajika kutii masharti, sheria na vigezo. Kundi hili la Benki ya Co-operative linatambua vyema haja ya kuhakikisha kwamba tunazingatia na kufuata kanuni nzuri za humu ndani na kimataifa. Kundi hili linaendelea kuwa na msimamo wa kutostahimili utoovu wa nidhamu wa aina au ukubwa wowote. Bodi ya wakurugenzi na wafanyikazi wetu wote hupitia mafunzo mara kwa mara juu ya maswala ibuka ya udhibiti na uzingatiaji, tuishio la dhima na kupambana na ulanguzi wa pesa na kukabiliana na ufadhili wa ugaidi (AML/CFT) ili kuwaweka katika hali ya tahadhari na kufahamu masuala ibuka katika tasnia hii. Kundi hili linaendelea kuweka na kutekeleza mifumo na udhibiti imara unaosaidia kugundua, kuzuia na kusitisha uhalifu wa kifedha, rushwa na hongo. Hatua hizo endelevu tunaamini zitadumisha utamaduni wa uadilifu na uwajibikaji wa shughuli za benki ndani ya msingi wa taasisi yetu.

Tunaamini sana katika kutii na kufuata kanuni za maadili. Thamani ya maadili na uwajibikaji ni jambo lisilopingika kwa vile washikadau sasa wanazidi kudhamiria kujenga ushirikiano endelevu na biashara ndani ya masoko yanayozingatia maadili hayo. Lengo letu kuu la shirika ni kuwa mshirika mwenye maadili tunapofuatilia biashara na mahusiano na washikadau wetu.

Muhtasari wa Utendaji

Mizania yetu ya hesabu ilikuwa kwa 17.5% hadi Kes.Bilioni 536.9 ilipofika mwisho wa 2020 kutoka Kes.Bilioni 437 katika 2019. Faida baada kulipa ushuru ilipungua kwa 22.8% hadi Kes.Bilioni 10.8 ikilinganishwa na Kes.Bilioni 14.3 katika mwaka uliotangulia. Hii ni baada ya utoaji wa dharura wa Ksh.Bilioni 8.1 kwa hasara ya mkopo inayotarajiwa kutokana na athari za janga la Covid-19 kutatiza biashara na hali ya maisha ya watu.

Haya no matokeo yanayostahili sifa. Yanaakisia mafanikio ya mipango yetu ya mabadiliko amayo yamehami upya na kupatia zana bisahara yetu za kuwa na mikakati nyumbufu na ustahimilivu wa kufikia malengo yake licha ya kuwa katika mazingira magumu ya kufanya kazi. Kundi hili litaendelea kutilia mkazo katika kuboresha utendakazi na kutumia njia bunifu za kuwasilishia huduma wateja wetu muhimu wanaozidi kuongezeka, ambao kwa sasa wamefika milioni 8.8.

Benki imeendelea kupata umaarufu hapa nchini na kimataifa kwa athari zake katika kusisitiza ukuaji, kupunguza umaskini na kuboresha ushirikishwaji wa kifedha na ustawi wa pamoja nchini Kenya. Benki hii ilitunukiwa kuwa Benki Bora nchini Kenya katika Tuzo za Mabenki za 2020 na Financial Times ya London na Benki Bora nchini Kenya katika tuzo za EMEA African Banking Awards 2020. Mnamo Mei 2020, benki hii pia iliongezwa kielelezo cha MSCI Index chini ya Frontiers Small Index. Hii ikiongeza mwonekano wa Benki hii katika Soko la Kimataifa.

Kundi hili limeendelea na mkakati wa kudumu katika kukuza na kongoza kwenye kitengo cha soko letu kuu huku tukitumia fursa za upanuzi wa huduma zingine kama vile Bima ya Benki na biashara ya ukodishaji ambazo zinafanywa kupitia kampuni zingine zetu tanzu mbali mbali. Mkakati wetu ni kuendelea kutambua fursa za kuunda njia mpya za mapato, kuimarisha shughuli na kuboresha uwepo wetu pamoja na muundo wa biashara zetu.

Usimamizi wa Shirika

Bodi ya wakurugenzi wanawajibika kwa kanuni za usimamizi wa shirika na wanayakubali majukumu yao kwa wamilikihisa na washikadau wengine na wanazingatia viwango vya juu zaidi vya maadili na kuhakikisha kwamba Benki inaendesha shughuli zake kwa mujibu wa kanuni bora za kimataifa.

Benki inatambua na kukubali manufaa ya Bodi anuwai na inakubali kwamba tofauti katika kiwango cha Bodi ni kipengele muhimu katika kuimarisha mchakato wa kufanya maamuzi na upangaji wa sera na mwelekeo wa mkakati. Hili pia ni la shukrani za dhati ili kuhakikisha mchanganyiko uliosawazishwa katika uwezo na umahiri katika Bodi ili kusalia kuwa muhimu katika mazingira ya soko yanayobadilika kwa kasi, yanayozidi kugeuka na yenye ushindani. Bodi yetu ina wakurugenzi kumi na watatu, mmoja wao, Mkurugenzi Mkuu kama mtendaji, na kumi na wawili wasio watendaji. Wakurugenzi wana ujuzi mbalimbali, uzoefu na umahiri katika nyanja zao husika za utaalamu na wako katika nafasi nzuri ya kuendeleza biashara ya benki. Kuwa na ufahamu wa taratibu zinazofaa za utawala na nguzo zinazounga mkono desturi ya kimaadili ni jambo muhimu sana katika biashara yetu.

Wakuregenzi wa benki hii pamoja wa mashirika tanzu wanajitolea kudumusha ubora katika usimamizi wa shirika na wanaunga mkono kanuni za Utawala Bora wa Biashara kama msingi wa kuimarisha uaminifu na uwazi katika tasnia ya huduma za kifedha.

Mabadiliko katika Bodi

Katika mwaka huu Bi. Rose Simani alistaafu kutoka kwa Bodi na nafasi yake ikachukuliwa na Bi. Weda Welton. Bi. Simani alijiunga na bodi ya benki hii mnamo 2009 na ametumikia benki kwa bidii kwa miaka 11 iliyopita. Tunamshukuru kwa kujitolea kwake na huduma yake isiyo na ubinafsi na tunamtakia mafanikio katika juhudi zake za baadaye. Ungana nami katika kumkaribisha Bi. Weda Welton kwenye bodi. Anatuletea uzoefu wake mkubwa katika Usimamizi wa Wafanyikazi katika Sekta za Benki na Fedha na amewahi kuhudumu katika nyadhifa mbalimbali za kiwango cha juu katika benki ya Co-operative Bank of Kenya ikiwa ni pamoja na Mkurugenzi wa Usimamizi wa Wafanyikazi. Tunamtakia mafanikio na mwongozo wa Mungu katika kutekeleza jukumu hili lake jipya.

Mgao wa Hisa na Mkutano Mkuu wa Mwaka

Utendaji wetu imara licha ya kuwepo hali mbaya inayotukabili katika 2020 ni ishara tosha ya kujitolea kwetu kuongeza thamani na faida kwa wanahisa wetu. Kwa hivyo bodi ya wakurugenzi inapendekeza mgao wa Kes.1 kwa kila hisa kutegemea idhini ya wadhibiti kanuni na wanahisa.

Mkutano Mkuu wa Mwaka

Mkutano Mkuu wa Kumi na Mbili Benki ya Co-operative Bank of Kenya Limited utafanyika baadaye, mtajulishwa siku itakapothibitishwa.

Mtazamo wa Siku Zijazo

Ukuaji dhaifu wa uchumi ulimwenguni unatarajiwa katika 2022 na 2023, ikichochewa na ukuaji dhaifu unaotarajiwa katika nchi mbili kubwa kiuchumi (Marekani na Uchina). Kutokuwa na uhakika katika mtazamo wa kiuchumi wa kimataifa pia kumezidi, kunaonyesha hatari kubwa kutoka na athari anuwai za COVID-19, kukatizwa kwa ugavi, mabadiliko ya bei ya mafuta na kuendelea kwa mfumuko wa bei. Hatari ya kuongezeka kwa hali tete katika masoko ya fedha ya kimataifa inasalia kuwa juu kutokana na hali ya kutokuwa na uhakika kuhusu hatua za sera katika nchi zilizoendelea kiuchumi.

Nchini Kenya, mtazamo wa ukuaji ni mzuri. Uchumi unatarajiwa kusalia imara katika mwaka wa 2022, ukisaidiwa na kuendelea kwa ufanisi katika sekta ya huduma, kuimarika kwa sekta ya kilimo, na kuimarika kwa mahitaji ya kimataifa. Uchumi unatarajiwa kukua kwa asilimia 5.9 mwaka wa 2022. Kurudi kuwa imara kwa uchumi huo kunategemea iwapo shughuli za kiuchumi zitaimarika kutokana na kufunguliwa upya kikamilifu kwa uchumi, Mkakati wa Kufufua shughuli za Kiuchumi kutekelezwa kwa mafanikio, na Kenya ikitumia vyema uboreshaji unaotarajiwa wa ukwasi kutoka nje na kufaidika na mipango ya kukidhi mahitaji yake ya ufadhili wa nje ikijumuisha ufadhili wa deni, urekebishaji na huduma ya msamaha wa deni, na mikopo ya ziada ya masharti nafuu.

Mfumuko wa Bei unatarajiwa kusalia ndani ya lengo la Benki Kuu ya Kenya la 2.5% hadi 7.5%, na nakisi ya fedha na ya akaunti ya current inatabiriwa kuwa finyu kutokana na kuboreshwa kwa ukusanyaji wa mapato na mauzo ya nje.

Hatari za kwenda chini kwa mtazamo huu zinaweza kutokana na hali mbaya ya hewa, kushindwa kupata fedha kutoka nje za kutekeleza bajeti, kupungua kasi ukuaji wa kimataifa, na kutatizwa kwa hali ya kijamii wakati wa maandalizi ya uchaguzi wa 2022.

Shukrani

Kwanza, ningependa kuwatolea shukrani zangu za dhati kwa wateja wetu na wanahisa, ambao imani na matumaini yao kwetu yamesababisha mafanikio yetu yote yawezekane.

Kwa niaba ya Bodi ya wakurugenzi, ningependa pia kutambua usaidizi usioyumba na wa kujitolea wa Bodi ya Usimamizi wakiongozwa na Mkurugenzi Mkuu wa Kundi na Afisa Mkuu Mtendaji Dkt. Gideon Muriuki, CBS, MBS na timu nzima ya Kundi la Co-operative Bank.

Kutamatisha, ningependa kuwashukuru Wanachama wenzangu wa Bodi kwa utumishi wao, uaminifu na kujitolea kwao katika kutumikia Benki hii pamoja nami.

Mungu aibariki Co-operative Bank; na awabariki nyinyi wote.

Mr. John Murugu, OGW
Chairman

Board of Directors

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

John Murugu, OGW
Chairman (71)

John Murugu OGW Chairman (71) Joined the Board of Directors on 27th May 2015 and became Bank Chairman on 1st 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, MBS, HSC
Vice Chairman (53)

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. He is a director in Kingdom Bank Ltd.

Dr. Gideon Muriuki, CBS, MBS,
Group Managing Director & CEO (57)

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. 22.6 Billion In 2021. 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 2011. He has over 33 years' experience in banking and finance and he was voted CEO of the year Africa 2014 by the International Banker. 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'ordre 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.Awarded Banking CEO of The Year by EMEA Finance - African Banking Awards, 2021. Awarded a 2nd honorary doctorate from the Co-operative university of Kenya to recognize his contributions to banking and the co-operative sector.

Patrick K. Githendu, Director (68)

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 and Bancassurance Intermediary 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).

Weda Welton (Mrs.), Director, Independent (63)

She is currently an independent Human resources consultant / Private business. She has 35 years' experience in Human Resource Management in banking and financial sectors.

Mrs. Welton holds a Bachelor's degree in Arts from the University of Delhi, a diploma in International Law and Diplomacy and a Masters degree in Human resources management and development from Manchester University, UK. She is the Chairperson Board Audit Committee

Lawrence Karissa, Director, Independent (66)

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 PricewaterhouseCoopers, Kenya Commercial Bank and Co-operative Bank of Kenya. 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 (67)

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. He is a director in Kingdom Bank Ltd.

Benedict W. Simiyu, Director (60)

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 non executive Board member of Ng'arisha Sacco (Former Bungoma Teachers Sacco). He is a Director of Coop holdings Co-operative Society Limited.

Richard L. Kimanthi, Director (65)

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 (66)

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 (66)

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 Coop holdings Co-operative Society Limited.

Margaret Karangatha (Mrs.), Director (61)

She was appointed as a director of the Bank on 24th September, 2020. 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. 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 and is a director in Kingdom Bank Ltd.

Samuel M. Kibugi, Company Secretary (45)

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 (65)

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. WHe is a Director of Co-opholdings Co-operative Society Limited and the Chairman of Kenya Cooperative Coffee Exporters (KCCE).

Francis Ngone, Director (67)

Appointed Director on 27th April 2018. He has extensive knowledge and experience in the Cooperative 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 (53)

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 (54)

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, Chairman of Nawiri Sacco and Cooperative Insurance Society

Scholastica Odhiambo (Mrs.), Director (62)

Joined the boards of Co-optrust Investment Services Ltd in 2005 and Co-op Consultancy and Bancassurance Intermediary 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

Mr. David. K. Obonyo, Director (54)

Mr. David K. Obonyo is a career civil servant who joined the Board of Directors in year 2021. He is a holder of Masters of Arts (Rural Economics and Co-operation) from Bundelkhand University, India, Bachelor of Arts in Sociology and Political Science from Agra University in India and a Diploma in Industrial Relations from Indian School of Labour Relations. He has also attended various local and international courses on strategic leadership, Co-operative and SME Management. He is the current Commissioner for Co-operatives Development. He has over 27 years working experience in Co-operative Movement having worked as a District Co-operative Officer in Kiambu, Maragua, Nyandarua and Machakos, Provincial Co-operative Officer – Eastern Province, County Commissioner for Co-operatives – Embu County, Head of Extension Services at the Ministry of Industry, Trade & Co-operatives and Ag. Chief Executive Officer /Secretary at the Ethics Commission for Co-operative Societies Board.

He is also a Board member at New Kenya Co-operative Creameries Limited and Sacco Societies Regularity Authority (Sasra) and a former Council Member of the Co-operative University of Kenya.

Geoffrey M'Nairobi, Director (66)

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 (52)

Mr. Michael Muriithi was appointed a Director on 26th April 2020. 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 (59)

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 (48)

He has over 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 (63)

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, (64)

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 Master of Science, Qualifying Certificate in Business Administration from the University of Khartoum.

Rosemary M. Githaiga, (Mrs.), Director (58)

She 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

Dear Shareholders,

Introduction

It is my honor to present our Integrated Report for the year 2021.

Looking back at the past year, we are excited to highlight the key milestones, challenges, and achievements that we faced together as an institution and as a nation. Against the backdrop of unprecedented challenges occasioned by Covid-19 pandemic, 2021 was a phenomenal year of fortitude and recovery. As the global economy aligned with the 'new normal', agility and resilience became the key drivers of our business that ensured that we delivered uninterrupted services to customers, enabling the business to record impressive financial performance in the period under review.

Our enduring commitment to support growth, financial inclusion and shared prosperity continued to attract wide recognition. I note with humility that your Group Chief Executive Officer was named the Best Bank CEO in Africa at the EMEA African Banking Awards 2021, while the Bank was named Bank in Kenya and the top financial institution in Financial Inclusion in Africa at the same awards. Further, our subsidiary, Co-op Trust Investment Services Ltd with Kshs. 189 billion in Assets Under Management was named Best Asset Manager in Kenya. These achievements re-affirm our transformation agenda of building a dominant position in our domain market anchored in the 15 million-member Co-operative movement.

State of the Market

The year 2021 began with uncertainty carried on from the previous year as the globe grappled with Covid-19, the subsequent lockdowns, delayed access to vaccines, and depressed economic activity. Gladly, the Kenyan economy demonstrated considerable resilience, with economic output recovering and rising above pre-pandemic levels. It is heartening to note that the gallant efforts by the Government to roll out mass vaccination have given way to the re-opening of the economy, restoration of normalcy and the rekindling of overall optimism about the future.

The financial sector has remained resilient and pivotal in supporting businesses and households to stabilize from the ravages of the pandemic. On our part, we continued supporting customers on a case-by-case basis even after the lapse of the Covid-related loan restructuring period, as some sectors demonstrated slower signs of recovery than others.

We are proud to note that despite this accommodation, the performance of our loan book has progressively improved well above industry averages in the year under review. In the coming year, we are optimistic that the upward recovery trajectory that the Kenyan economy has assumed shall be sustained as both the local and global economy fully re-opens and recovers.

To fortify our business and ensure the delivery of uninterrupted service to customers, we invoked our enterprise risk management policy to guarantee the safety of our customers and staff as well as the stability of our systems. Vaccination of entire Bank teams and their families was carried out while work-from-home was enabled including putting in place social distancing measures as provided for in the Ministry of Health protocols. A year and a half into the pandemic, lessons learned and new practices embedded into our Business Continuity Plan were implemented, enhancing the agility of all teams to anticipate, mitigate and surmount disruptions.

Performance Overview

The group delivered a record Profit Before Tax of KShs. 22.6 Billion for the year ended 31 December 2021, a remarkable growth of 59 percent compared to KShs. 14.3 Billion recorded in 2020. Deposits increased to KShs. 408.5 Billion in 2021 from Kshs. 378.9 Billion in 2020. Loans and advances grew by KShs. 23.6 billion from KShs. 286.6 billion in 2020 to KShs. 310.2 billion in 2021, an 8 per cent growth. Our total operating income grew by 12.3 per cent to KShs. 60.4 Billion driven by a 18.1 per cent growth in fees and commission income. Net interest income increased by 13% to KShs. 41 Billion due to increased yields arising from government securities. We improved our cost management by reducing operating expenses by 3 percent from Kshs. 39.4 Billion to KShs. 38.1 Billion. Our performance is a testament of a sustainable business model that is founded on proactive strategies executed by a talented and exceptional team that has overcome the difficulties of the operating environment to drive shareholder value.

Transformational Journey

Our transformation journey embarked in 2014. The underpinning focus of the journey is on operational efficiency, digitization and analytics, Sales Force Effectiveness, Cost management, NPL, and credit process improvement. We have been able to give a distinctive customer experience to our now 9 million customers. Our transformational journey has enabled us to double our profitability, from KShs. 10.9 Billion in 2014 to KShs. 22.6 Billion in 2021. These gains have bolstered our retained earnings that have driven Shareholder funds past the KShs. 100 Billion mark, affirming the trust our shareholders have in the Bank.

Our multi-channel strategy has moved 94% of all customer transactions to alternative channels, underpinned by our unique Mcoop Cash platform which hosts 5.3 Million customers. Our investments in digitization have been critical in this Covid-19 environment as we have decentralized banking services and continue to drive the financial inclusion agenda. The platform has enabled the disbursement of loans worth KShs. 70.5 Billion in the reporting period and an impressive KShs. 192.7Billion since inception. Looking to the future we anticipate all our customers will transact with us primarily through alternative channels. To achieve this, we shall continue to drive innovation around our alternative channels, business intelligence and data analytics to provide apt solutions to drive growth. Branches remain a cornerstone of the physical interaction with our customers and they will remain at the heart of our distinguished customer experience.

In 2018, we developed the MSME Proposition after assessing the market gap for MSMEs in the banking industry, with a focus on customer experience, efficiency, and understanding the customer's needs. We are committed to walking the journey with our MSME customers. The proposal has led us to dominate as a leading MSME Bank. Beyond lending, we continue to segment our customers on curated packages (Gold, Silver and Bronze), with over 144,000 businesses onboarded. We continue to support our customers with Non-financial services where over 19,900 customers were trained during our clinics. A thematic focus has been upskilling our customers with requisite knowledge and tools enabling our customers to adapt to the environment and further thrive. E-Credit has gained tremendous traction in this segment because of ease of delivery, leading to KShs. 28 Billion being disbursed through our Mcoop Cash. Our understanding of the eco-systems our MSME's operate has grown our Supply Chain financing which hosts 91 Anchors and 512 counterparties.

The Group launched the Corporate Strategic Plan in 2019, which was to guide our value proposition, growth, and trajectory from 2020 to 2024. Nearly halfway through the set period, we have witnessed tremendous gains on our strategic objectives to serve our customers and bring value to the shareholders.

Risk and Compliance

At the beginning of 2021, regulatory guidance was centered around the pandemic. The Bank was aligned and proactive with the regulatory guidance to support the financial sector's stability and the financial wellness of our customers. Our commitment was to support our customers with uninterrupted financial services on digital platforms to minimize physical contact and cash handling. Further still, loan restructures and availing working capital to customers were critical for customers to make it through the pandemic.

We carried out a risk assessment which was approved by the board risk committee and submitted to the Central Bank. We also did sensitivity analyses of Covid-19 impact on our operations and reviewed our ICAAP strategy and requirements to ensure we were operating on a strong foundation. These reviews were all shared with our regulators.

We continue to sensitize our staff on AML/CFT issues which remains a global and regional concern for financial institutions. All bank staff were sensitized through several core briefs and team talks on AML/CFT during the year with front-line staff undergoing in-depth training with the Compliance team. Our branch staff are all undergoing training on AML/CFT issues and emerging trends. All our service managers attended a forum on AML/CTF. Our e-learning content was reviewed and updated with common and emerging AML/CTF issues.

Credit deterioration in the Kenyan banking industry, which was already on a persistent rise, was exacerbated by the impact of Covid-19 on the economy and business operations. Capital adequacy, provision buffers, and recovery efforts became emerging areas of enhanced focus across the entire industry. Our proactive approach to asset quality led to Credit Risk Adaptation project in collaboration with Mckinsey. Having identified our weaknesses and streamlined our credit processes, we have witnessed an improvement in our NPLs by 400 basis points, positioning us below the industry average. Building on the efforts of Project 3C's (Connect, Collect and Cure) and Project Build and Connect, we are excited to support our customers in the post-pandemic era through quality asset growth and further improvement to our NPL. Our budding strategies synergize the efforts on the continuing 'Soaring Eagle Pillar' that emphasizes efficiency, NPL management and growth. These facets have been embedded within the organization.

ESG issues have also gained regulatory prominence considering the fast-changing environment we operate in. Global Climate Change is a reality that is permeating every area of our lives and there are emergent risks for our customers. Global concerted efforts to take corrective actions to build a cleaner and greener environment that is habitable for generations to come was the focus of the UN Climate Change Conference (COP26) in Glasgow. The Central Bank of Kenya issued Guidance on Climate-Related Risk Management in October 2021 which seeks to embed opportunity identification & risk mitigation into the bank's enterprise risk framework. The culmination of these activities will equip banks across the sector to calculate and develop disclosure frameworks for risks associated with climate change. The Nairobi Securities Exchange affirmed this effort through the issuance of the ESG Disclosure Manual in November 2021. Listed companies are required to have their ESG situational assessment and stakeholder engagement driven by the Board of Directors and Board of Management. As an organization, we are cognizant of the environment and the social issues we operate in which is affirmed by our strategic objective stating that "we shall have positive impact on the Economy, Society and the Environment".

Acknowledgement

On behalf of the entire Co-operative Bank Group, I extend my most sincere appreciation to our shareholders and customers for their steadfast loyalty that has seen us through the historically challenging Covid-19 operating environment. You have proven indeed your worth as our all-weather partners.

I also wish to most sincerely thank the Bank Chairman, Mr. John Murugu (OGW) and the entire Board of Directors for their wise counsel in steering the bank. My thanks also go to the entire Co-op Bank Group teams for their diligence and commitment that saw us prevail in 2021. Our challenge and shared purpose is to build on that good work and maintain the momentum into 2022 and beyond.

I have every confidence we can do so. May God richly bless you all.

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

TAARIFA YA MKURUGENZI MKUU NA AFISA MKUU MTENDAJI

Wapendwa Wamilikihisa,

Ni kwa heshima na taadhima kwangu kuwasilisha Ripoti Jumuishi ya mwaka wa 2021. Tukiangalia nyuma mwaka uliopita, tunafuraha kuangazia na kuleta kwenu hatua muhimu, changamoto, na mafanikio ambayo tumekabiliana nayo pamoja kama shirika na hata taifa.

Kukiwepo na changamoto ambazo hazijawahi kushuhudiwa tena, kimataifa na humu ndani, zilizosababishwa na janga la Covid-19, mwaka wa 2021 ulikuwa wa ajabu, mwaka wa kupatikana afueni, bidii na ujasiri. Wakati ulimwengu, taifa letu na jumuiya tukikubali hali yetu mpya,uvumbuzi na wepesi vilikuwa uti wa mgongo wa kuhakikisha huduma zisizokatizwa na kukabiliana na mahitaji ya dharura kote katika biashara yetu ambayo ilikuza utendakazi wa kifedha na ukuaji katika historia ya Kundi letu.

Juhudi na ushujaa wetu zimetusababishia kutambuliwa kimataifa na humu nchini kwa athari zetu katika kukuza ukuaji, kupunguza umaskini na kuanzishwa kwa ujumuishaji wa kifedha nchini Kenya.

Benki ilitunukiwa heshima ya kuwa Benki Bora nchini Kenya, na tuzo ya Pan-African Financial Inclusion Award pamoja na tuzo ya Mkurugenzi Mtendaji bora wa mwaka na tuzo ya EMEA Awards 2021. Kampuni yetu tanzu, Co-op Trust Investment Services Ltd pia ilipatiwa tuzo ya

Meneja Bora wa Mali nchini Kenya. Mafanikio haya yanathibitisha juhudi za pamoja katika kuwasilisha thamani bora kwa wanahisa wetu, taifa letu na kanda hii na kutoa huduma bora. Licha ya kuwepo maelfu ya changamoto zinazokabili katika msimu, bodi yetu na dhamira ya wafanyikazi imekuwa thabiti.

Hadithi ya Ushirika, inayoungwa mkono na wanachama-milioni 15

Hali ya Soko

2021 ilianza na hali isiyo na uhakika na wasiwasi mwingi kwa vile ulimwengu ulikuwa unapambana na kukabiliana na janga la Covid-19, ambayo ilisababisha taifa zima kufungiwa kutotoka nje, kuanzishwa kampeni ya chanjo na shughuli za uchumi kudorora. Hata hivyo, uchumi wa Kenya ulionyesha uwezo mkubwa wa kustahimili mishtuko ya Covid-19, huku pato la kiuchumi likipanda juu ya viwango vya kabla ya janga. Shughuli za kiuchumi zilichukuana na hali iliyokuwepo ya janga na vizuizi vilivyoibuka baadaye, kama vile amri ya kutotoka nje usiku ambayo ilitumika kwa sehemu kubwa mwakani. Juhudi kubwa za serikali za kutoa chanjo, licha ya kuchelewa kuanza, Juhudi kubwa za serikali za kutoa chanjo, zimeboresha matarajio ya kiuchumi na kwa jumla matumaini ya kurejea katika hali ya kawaida.

Sekta ya fedha imebakia katika uthabiti na hii ni muhimu katika kusaidia viwanda na jumuiya kukabiliana na athari za kijamii na kiuchumi za janga hili. Kufuatia kukamilika kwa urekebishaji wa harakati za Covid, tuliendelea kusaidia wateja wetu kulingana na kila tatizo lilivyo kwani baadhi ya sekta zilianza kuonyesha dalili za kupata afueni. Kwa ajili ya athari hii, mikopo iliyoshindwa kulipa katika tasnia hii ilipungua kidogo japo sio kwa usawa

kote katika sekta zote. Hili lilidhihirika katika vipengee vyetu vilivyotengwa vya hasara ya mkopo katika mwaka wa 2021. Katika mwaka ujao, tunatarajia kwamba mwelekeo wa kuimarika kwa uchumi wa Kenya utadumishwa na kutakuwa na ongezeko la shughuli za kiuchumi ili kusaidia sekta zilizochelewa ambazo zingeboresha uwezo wa ulipaji. katika biashara zote husika.

Kama shirika, usimamizi wetu wa dhima ya biashara ulikuwa muhimu ili kuendelea kuwa na uwezo wa kubadilika na kustahimili. Tuliazimia kutumia mbinu za kulenga vitu viwili, za kujihami na kukera, ili kuhakikisha usalama wa wateja na wafanyakazi wetu pamoja na uthabiti wa mifumo yetu na kuhakikisha tunatoa huduma zisizokatizwa. Shughuli za chanjo ili kuwachanja wafanyikazi wetu na familia zao tulizifanya humu ndani. Pale ilipowezekana, mpango wa watu kufanya kazi wakiwa nyumbani uliwezeshwa na wafanyikazi wetu wa mstari wa mbele walisaidiwa kwa vifaa vinavyohitajika ili kuzingatia itifaki za Wizara ya Afya. Mwaka mmoja na nusu katika janga hili, mafunzo tuliyojifunza na mazoea mapya yaliwekwa katika Mpango wetu wa Kuendeleza Biashara ulitekelezwa kwa urahisi na kuimarisha zaidi wepesi wa timu zote kutazamia, kupunguza na kufaulu katika misukosuko. Mifumo yetu iliyo ongezwa nguvu na kuimarishwa iliendelea kuzuia madhara ya Mtandao ambayo yanakuwa jambo la kwanza huku miamala na huduma za benki zikizidi kutekelezwa kwenye suluhisho zetu za kidijitali.

Kundi liliwasilisha Faida kabla ya Ushuru ya KShs. Bilioni 20.71 katika mwaka uliomalizika tarehe 31 Disemba 2019, ikiwa ni ukuaji wa kuridhisha wa asilimia 14 ikilinganishwa na KShs. Bilioni 18.16 iliyorekodiwa mwaka wa 2018. Amana za wateja wetu ziliongezeka hadi KShs. Bilioni 332.8 katika 2019 kutoka Kshs.Bilioni 306.1 za mwaka wa 2018 huku Mikopo mikubwa na midogo ilikua kwa KShs.Bilioni 21.3 kutoka KShs. Bilioni 245.4 bilioni katika mwaka wa 2018 hadi KShs. Bilioni 266.7 katika mwaka wa 2019, ikiwa ni ukuaji wa asilimia 8.7. Jumla ya mapato yetu ya uendeshaji shughuli yalikua kwa asilimia 10.6 hadi KShs. Bilioni 48.2 hii ikichochewa na ukuaji wa asilimia 43.3 wa ada na malipo ya faida. Mapato halisi ya riba yaliongezeka kidogo kwa 2.2% hadi KShs. Bilioni 32 kutokana na viwango vya chini vya Benki Kuu (CBR) katika 2019, kigezo ambacho viwango vya mikopo viliegemezwa. Mnamo Januari 2018 kiwango cha CBR kilikuwa 10% na kufikia Januari 2019 kilishuka hadi 9%; na hivyo kusababisha marekebisho ya chini ya viwango vya mikopo kutoka 14% hadi 13% katika kipindi hicho.

Mfumo wetu wa biashara hutoa ukuaji endelevu wa biashara unaoungwa mkono na mikakati tendaji, mizania ya hesabu iliyo dhabiti na timu zenye umaahiri ambazo zote hizi zimewezesha Kikundi kusajili matokeo yanayostahili sifa licha ya kuwepo mazingira magumu ya uendeshaji shughuli.

Safari yetu ya Mabadiliko

Tulianza safari yetu ya mabadiliko katika mwaka wa 2014. Maeneo muhimu tuliotilia mkazo na bado tungali tunayazingatia: Ufanisi wa Utendaji ulioimarishwa kupitia uwekaji dijitali na uchanganuzi, Ufanisi wa Mstari wa mbele wa Tija na Ufanisi wa Nguvu ya Mauzo, Udhibiti Ulioboreshwa wa Gharama (CIR), NPL na uboreshaji wa michakato ya mikopo na Usimamizi Bora wa Utendaji. Sasa, kwa manufaa ya kufikiria nyuma, hali halisi za covid-19 imeimarisha kujitolea kwetu na imani yetu kuwa tuko kwenye mwelekeo uliyo sahihi.

Tutazidi kuwekeza katika uvumbuzi ili kuchochea ukuaji. Tunadhamiria kuendeleza uvumbuzi kwa bidii zaidi, hasa kuhusu njia mbadala, uchanganuzi wa data na ufahamu wa kina wa biashara, ili kuharakisha ukuaji na kuhifadhi uongozi wetu katika soko. Mnamo mwaka wa 2018, tulizindua Pendekezo letu la Biashara Ndogo Ndogo na za Kati (MSME) ambalo limetufanya sisi kuwa Benki inayoongoza katika nyanja ya MSME kukiwa na maboresho makubwa haswa katika uzoefu wa wateja kwa huduma zetu, ukuaji wa biashara, mchakato mzuri na wa haraka wa kutoa mikopo.

Kupitia Mfumo wetu wa utoaji Mikopo Kielektroniki (E-Credit Platform), tulitoa Shilingi Bilioni 58.5 katika mwaka wa 2020. Kupitia huduma zetu za mafunzo yasiyo ya kifedha, tumewapa zaidi ya wateja 19,963 ujuzi wa kifedha na usimamizi. Zaidi ya MSMEs 144,956 zimeingia kwenye vifurushi vyetu vya huduma (Gold, Silver, Bronze). Hivi ni viwango vilivyoundwa kulingana na mzunguko wa mauzo ya biashara kwa bidhaa na huduma zilizobinafsishwa.

Ufadhili wetu wa mfululizo wa ugavi umepata msukumo kwa Nanga 91 na Kaunta 512 zilizojumlishwa.

Hii ndiyo sababu bado tunafuatilia ajenda yetu ya mabadiliko; ili kudumisha wepesi wetu katika kurekebisha muundo wetu ili kukithi haraka mahitaji ya soko na pia, kuimarisha mafanikio ambayo tayari tumefaulu kuyafikia hadi sasa.

Mpango wa Mkakati

Kundi lilizindua Mpango wa Mkakati wa Biashara mnamo mwaka wa 2019, ambao ulikuwa wa kuongoza pendekezo la thamani, ukuaji na mwelekeo wetu kuanzia 2020 hadi 2024. Japo tumefikia nusu tu ya kipindi kilichowekwa, tumeshuhudia mafanikio makubwa kwenye malengo yetu ya kimkakati ya kuwahudumia wateja wetu na kuongezea thamani kwa wanahisa.

Dhima na Uzingatiaji

Mnamo 2020, mipango yetu mingi ya udhibiti ililenga katika kutoa misaada kwa wakopaji walioathiriwa na janga hili na upitishaji wa hatua za kichocheo ili kuauni uchumi. Benki ilichukua ari ya kujituma katika kupitisha na kutekeleza hatua za dharura zilizopendekezwa na benki kuu. Hatua hizi zilidhamiria kupunguza athari mbaya za janga la COVID-19 zilizokabili wafanyabiashara na jumuiya waliotatizika kulipa madeni yao na pia kupunguza gharama ya kufanya miamala kwenye njia zetu za kidijitali ili kuunga mkono miongozo ya wizara ya afya ya kupunguza kusafiri na ziara za ana kwa ana za kuja katika matawi yetu na pia kupunguza kushikashika pesa taslimu.

Tulifanya tathmini ya dhima ambayo iliidhinishwa na kamati ya bodi inayosimamia dhima na kuituma benki kuu. Pia tulifanya uchanganuzi wa unyeti wa athari za Covid-19 kwenye shughuli zetu na tukapitia mkakati na mahitaji yetu ya ICAAP ili kuhakikisha kuwa tunafanya kazi tukiwa kwenye msingi thabiti. Tathmini hizi zote zilijulishwa kwa wadhibiti kanuni wetu.

Tuliendelea na jitihada zetu za kuhamasisha wafanyakazi wetu kuhusu masuala ya AML/CFT ambayo yanaendelea kutia wasiwasi kimataifa na tatizo kubwa la kuzingatia utiifu kwa taasisi za fedha.

Wafanyakazi wote wa benki walihamasishwa kupitia kupewa arifa za kimsingi na mazungumzo miongoni mwa timu kuhusu masuala ya AML/CFT mwakani huo. Wafanyakazi 2,486 kutoka maeneo yenye dhima kubwa walipewa mafunzo ya kina kupitia mikutano ya kupitia simu kuhusu AML/KYC ili kuwaweka katika tahadhari ya juu. Wafanyakazi wetu wote waliyo katika matawi wanaendelea na mafunzo kuhusu masuala ya AML/CFT na mienendo inayoibuka. Manejai wetu wote wa huduma walihudhuria kongamano la AML/CTF. Maudhui yetu ya elimu ya kielektroniki yalikaguliwa na kusasishwa na masuala ya kawaida na yanayojitokeza ya AML/CTF

Kuzorota kwa mikopo katika tasnia ya mabenki nchini Kenya, ambayo tayari ilikuwa ikiongezeka mara kwa mara, kulichochewa na athari za Covid-19 kwenye uchumi na shughuli za kibiashara. Utoshelevu wa mtaji, uwekaji hifadhi za utoaji na juhudi za uokoaji sasa ndio maeneo ibuka yaliyohitaji kuzingatiwa zaidi na tasnia hii yote. Kama Benki, tuliazimia kwamba kulikuwa na haja kubwa ya kuzama kwa kina kwenye dhima ya mikopo ili kuhakiki na kushughulikia udhaifu wowote uliopo na pia kurekebisha sera zetu za mikopo na mifumo ya uendeshaji na miundo yetu ya biashara. Tulishirikisha kampuni ya Mckinsey ili kusaidia juhudi zetu za kukagua Mradi huu wa Kurekebisha Dhima ya Mikopo. Huu ni muundo wa kimkakati unaojenga juu ya Ajenda yetu inayoendelea ya Mabadiliko inayoitwa 'Soaring Eagle' ambapo mikopo na usimamizi wa NPL ni nguzo kuu.

Kutamatisha Shukrani

Ningependa kutoa shukrani zangu za dhati kwa Mwenyekiti wa Kundi, Bw. John Murugu, OGW pamoja na Bodi nzima ya Wakurugenzi kwa ushauri wao wa busara wa kuongoza benki hii.

Shukrani zangu pia ziwaendee familia nzima ya wana-Co-op Bank kwa kuhudumu katika benki hii ya Co-operative Bank kwa uadiifu na kujitolea ambako kulitupitisha salama katika 2021. Changamoto yetu na madhumuni ya pamoja ni kuendeleza kazi hiyo nzuri na kudumisha kasi yetu hadi 2022 na hadi siku zijazo.

Nina matumaini makubwa kuwa tunaweza kutimiza hayo. Mungu awabariki nyote.

Shukran na naomba Mungu awabariki zaidi.

Dkt. Gideon Muriuki, CBS, MBS

Mkurugenzi Mkuu na Afisa Mkuu Mtendaji wa Kundi

TOP MANAGEMENT TEAM

Dr. Gideon Muriuki CBS, MBS Group Managing Director & CEO (57)

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. 22.6 Billion In 2021. 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 2011. He has over 33 years' experience in banking and finance and he was voted CEO of the year Africa 2012. Awarded Banking CEO of The Year by EMEA Finance - African Banking Awards, 2021. Awarded a 2nd honorary doctorate from the Co-operative university of Kenya to recognize his contributions to banking and the co-operative sector.

Samuel Birech, Director, Human Resource & Administration (58)

He joined the bank in 2002. He is a career banker with over 25 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.

Caroline Karimi, Director, Finance and Strategy (44)

She joined the bank in 2012 and has overall group responsibility of Finance and strategy. Previously she oversaw financial reporting and information management of the business. She has a career spanning 20 years as Finance professional and has worked in key corporates including Unilever, Safaricom and Toyota East Africa. She holds an MBA in strategic management, Bachelor of Commerce degree from the University of Nairobi, Certified Public Accountant and certified public secretary. She is also a Certified productivity coach CEPC (ICF) and is a graduate of Harvard Kennedy School leadership program. She is a member of the institute of Certified Public accountants of Kenya (ICPAK)

Charles Washika, Director, ICT & Innovations Division (45)

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 (56)

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 (48)

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 15 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, Director, Corporate & Institutional Banking Division (45)

A career Corporate Banker with over 19 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 (42)

He joined the bank in 2003 and has wide experience in business and financial advisory working with cooperatives and rural finance sectors as Head ofCoop Consultancy & Bancassurance Intermediary 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 (45)

He has over 18 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 Cooperative Bank Foundation, a corporate social responsibility vehicle of the Bank.

Arthur Muchangi, Director, Credit Management Division (52)

He joined the Bank in 2003. He is in charge of Credit Management driving proactive Credit Management including supporting asset book growth, proactive NPL management and implementation of enhanced credit management frameworks under the Covid-19 Pandemic crisis. He has previously held the Role of Director Retail & Business Banking, Director Compliance and Chief Risk Officer whereby he was in charge of Retail & Business Banking growth and supporting the Group's Compliance and Risk functions. He has over 25 years banking experience, spanning extensively across corporate, retail banking, Risk and Compliance. He holds a Bachelor of Arts Degree in Economics and has attended a number of courses both locally and internationally. He is also a director of Kingdom Securities Ltd.

Andrew Wanjau, Head Transformation (40)

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 Cooperative 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.

Mutahe Karuoro, Treasurer (41)

Joined the bank in 2010 and has over 15 years experience in Treasury management. She is responsible for the banks Treasury management and growth objectives.

Prior to her appointment she was the Head of Trading for the bank. She previously worked for Stanbic Bank for five years. She has held various leadership positions in the industry during her career, including President of ACI Financial markets Association of Kenya for 5 years.

She holds an MBA from Strathmore Business School and a bachelor's degree in Economics from Moi University. She is a certified dealer and a member of the financial markets Association of Kenya (ACI Kenya)

James Kaburu,
Chief Risk Officer (52)

He has a wealth of experience spanning over 20 years in Financial Management and Strategy in Financial Services sector, having worked with a number of International and local banking institutions in the Country. James is a full member of the Institute of Certified Public Accountants of Kenya (ICPAK). He Holds a Master's in Business Administration (Strategic Management), a bachelor's degree in business administration (Accounting), both from the United States International University (USIU), and a Global Diploma in Engagement and Productivity Coaching from CDI-Africa Coaching Group Limited.

Joseph Gatuni,
Chief Internal Auditor (50)

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

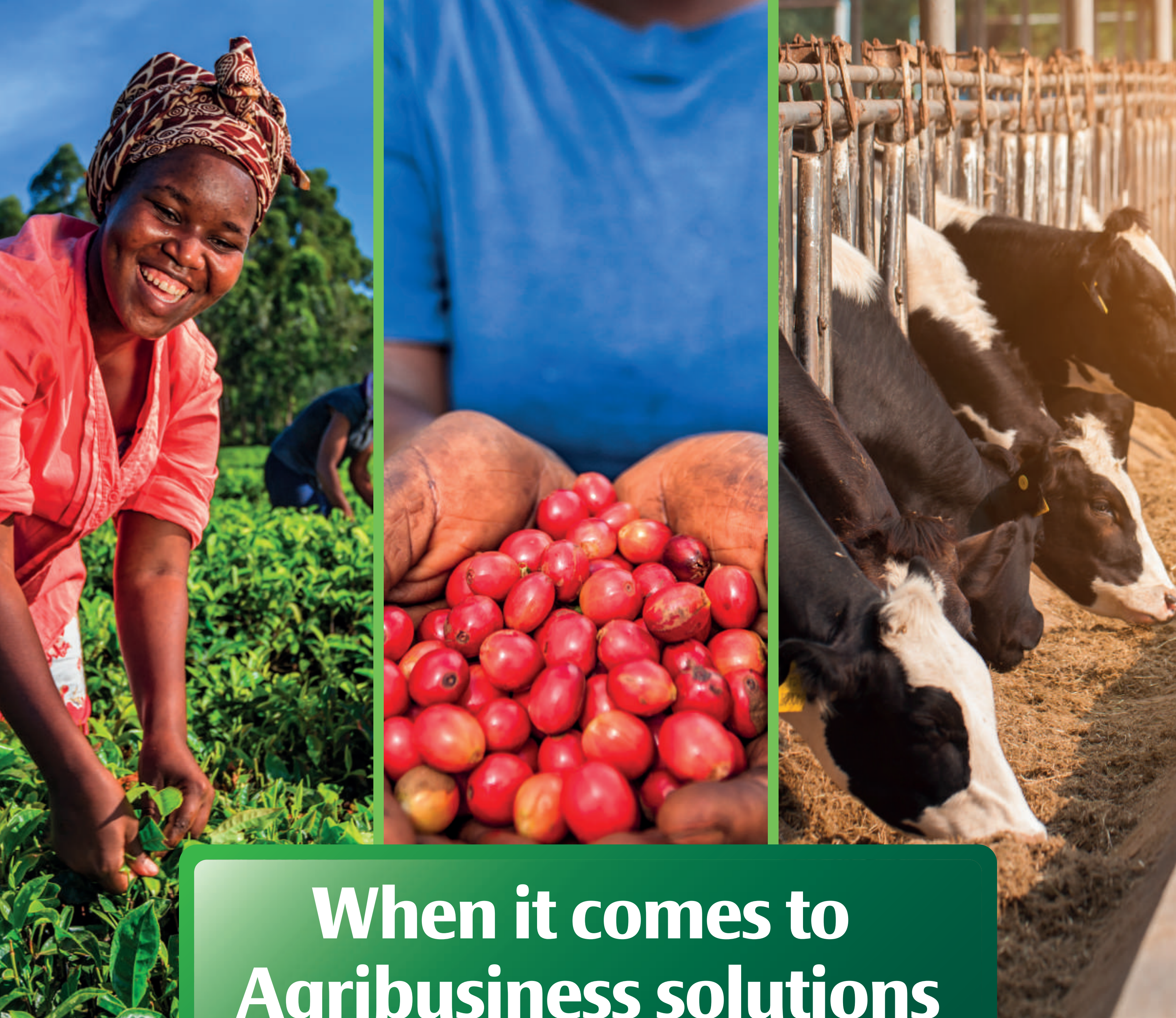
Henry Karanja,
Head of Compliance (45)

He is responsible for the AML/CFT compliance function for the bank, its subsidiaries and related companies. He is an e xperienced professional in Risk, compliance and Anti-money Laundering. He holds a bachelor's 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).

Anthony Mburu,
Managing Director & CEO,
Kingdom Bank Ltd (56)

He is a leading credit specialist in the banking industry with over 27 years of banking experience both in Kenya and the region. Most of these years were spent in the line of Credit and Risk Management as the Director Credit Management division of Co-operative Bank of Kenya and previously with Standard Chartered Bank. He holds a Bachelor's degree in Commerce and has attended various professional and international Credit courses.

Appointed Managing Director and CEO of Kingdom Bank in August 2020.



The Co-op Bank Model

How we create value using the model

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		KEY OUTPUTS
Financial Capital • Total Assets KShs. 536.9B • Total Regulatory Capital- KShs. 79.4 Billion • Dynamic, up to date ICAAP • Liquidity- 52.2% • KShs. 74.6 Billion in retained earnings • External Rating- B2 (stable outlook) by Moodys **Human Capital** • 4,628 empowered staff members • High Performance Management and Reward culture • High-impact leadership culture • Strong Employer Value Proposition **Manufactured Capital** • Branches 177 • Digital Channels- Mcoop Cash, CoopNet, Coop kwa Jirani (Agency) • Shared Services -support departments • (KShs.12.3Billion 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** • Optimal engagement with all our stakeholders • Strategic partnerships. Kshs.46 Billion in long term funding from our partners. **Natural Capital** • Electricity • Water • Paper / stationery • Eco -environmental lending in special environmental credit lines	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 4. ESG/ Sustainability strategy implementation 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 too 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 178 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 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 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.	• Lending products • Deposit taking products • Optimal Customer experience • Transactional services • Payment solutions • Foreign Exchange • Banc assurance • Trade finance • Investment services • Custodial services • Advisory services • Staff Performance and reward Management • Staff Training • Regulatory engagement • Compliance and risk management, including BCP & Covid-19 response strategy • Stakeholder engagement • Investor relations • Corporate strategy processes • Shared and other support services
Our Capital Stocks	"Soaring Eagle" Transformation initiatives as enablers	

The Co-op Bank Model

How we create value using the model

THE OUTCOMES OF OUR VALUE ADDING ACTIVITIES

Financial Capital

- Total Assets KShs. 579.8 Billion
- Total Capital - KShs.87.3 Billion: Dynamic, up to date ICAAP Liquidity - 53.8%
- KShs. 84.2 Billion in retained earnings
- External Rating Moodys - B2 (Negative)

Human Capital

- 4505 empowered staff members
- High Performance Management and Reward culture
- High-impact leadership culture Strong Employer Value Proposition

Manufactured Capital

- Branches 178 Digital Channels- Mcoop Cash, CoopNet, Coop kwa Jirani (Agency)
- Shared Services -support departments (KShs. 10.3 Billion in Property and equipment)
- Efficient ICT infrastructure (Core Banking, ORCS, ERP, CRM etc.)

Intellectual Capital

- Dynamic ICT capabilities
- Strong Brand Positioning- 'Co-op Bank'
- Tacit Co-op Bank Knowledge and specialized talent
- Integrated Enterprise Risk Management
- 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.42.9 Billion
- Socio - economic - Environmental Sustainability Initiatives as described in the Sustainable Value section of this report

Natural Capital

- We consumed Energy, Water and paper (Stationery)
- Eco- environmental lending Book. (KShs 1.7 Billion balance as at FY2021) in environmental credit lines

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

KEY IMPACT ON OUR KEY STAKEHOLDERS:

>>Economic >>Social >>Environmental

Shareholders

Dividend of KShs. 1 per share held, Strong balance sheet KShs.579.8 Quarterly investor briefing on performance and strategy.

Customers

Deposit taken — Over KShs. 407.7 Billion, Loans extended- Over KShs. 310.2 Billion, Increased Channel transactions- 94% on alternative channels i.e. over 207 Million transactions, Digitalized and ethical processes and products Kshs. 49 billion restructured facilities to support Covid-19 impacted customers.

Employees

Salary and Bonus paid — Over KShs. 13.3 Billion, Jobs created —Total Staff 4505, Training spend- KShs. 52.4 Million.

Co-operative Movement

Dedicated co-operative banking division, Specialized Co-operatives products, 20 dedicated consultants, Over 3057 consultancies since inception. Kes. 3.8B dividend paid to co-opholdings

Strategic Partners

Over KShs.42.9Billion 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,
CBK guidance on climate related risk management NSE - ESG disclosures guidance manual.

Suppliers

Overs KShs. 13.7 Billion paid to suppliers. 88% to local suppliers. ERP system implemented for faster payments processing Vendor Propositions improved through Vendor relations office and Sourcing Department

Community

Over 3057 Co-op consultancies done 8368 Students supported by co-op foundation, Over Kshs. 6. I Billion , in taxes to improve community, promoting economic social and environmental sustainability. Ksh. 100 Million donated to the National Covid-19 task force

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

Our Capitals

To demonstrate how utilization of our capitals leads to value creation

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. 579.8 Billion as at end of year 2021 . The group has pursued a balanced funding strategy with an attractive dividend payout ratio (Averaging 43.6% over the last 5 years) that enables us to reward shareholders while at the same time reserving sufficient funds to fuel our growth strategy. This has seen shareholders' funds grow steadily to KShs.100.2 Billion. Apart from the retained earnings most of the banks funding comes from customer deposits which make up approximately 90.3% of our funding liabilities. Borrowed funds comprise 9.5% 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. We closed the year at a cost to income ratio of 49.9% (2020 58.1%) mainly as a result of absorbing currency translation loss from our South Sudan Operation.

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. In the Material Matters Management section of this report we show how we are supporting our staff in the Covid-19 Pandemic environment.

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.10.3 Billion in property, plant and equipment to ensure all our customers and other stakeholders are adequately catered for. Our delivery channels are key, up to 94% of our transactions are carried out in the alternative channels;

Mco-opcash

Mco-opcash 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.

Internet Banking

This is the bank's internet-banking solution. In 2020, 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. 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 88K .Coop-Net enables customers to do full end to-end banking through a web-based channel.

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 464 FOSA branches in operation. The bank has also invested in the Sacco Link 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.

Agency Banking & Point of Sale (POS) Terminus

The Bank has been at the forefront in implementation of agency banking model, currently working with over 26,000 POS terminuses countrywide. Our agents who include co-operative societies, supermarkets, ordinary shops, petrol stations among other outlets enable customers to access banking services including making deposits, withdrawals and bill payments 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 38.9 Million transactions were carried out through our agents in 2021.

Branch Network and ATMs:

This is our footprint across the region consisting 178 branches. From our branches our customers can access much more than banking services to include those offered by our subsidiaries. In Kenya, we have 174 branches (17 in Kingdom Bank Ltd) spread in 43 counties while 4 are in South Sudan. We also have 561 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;

Core banking Systems (BFUB, BankMaster – South Sudan, Loan Track and Credit Desk). The Bank is in the process of changing the core banking system to enhance efficiency, innovation and customer satisfaction.	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).

Customer Relationship Management (CRM)	Debt management system	Business Process Management & Workflows	Risk Management system	Shared Services Service Desk Request System
Enterprise Service Bus- Service Oriented Architecture	Data integration, quality and visualization	Wealth Management System	Enterprise Resource Planning (ERP)	Treasury systems

Key ICT Infrastructure enhancements in 2021

	Enterprise Backup and Archiving Solution	Sacco Instant Card issuance project
IBM P9 upgrade	Kenswitch Message Authentication Coding Mandate	Biometric Payment Solution
Till Solution	MSME Business Process Digitization	MTO Transaction Monitoring & OTC FX Sanction screening for non-customers
MasterCard Acquiring	Project Portfolio Management Solution	Agent to Agent Float Purchase
M8 Supercluster Capacity Upgrade	Swift GPI Platform	Zain Intergration for South Sudan
Business Process Management System (BPMS)	Development of API integration and E-credit Loan system enhancement for External Debt Collectors	Diaspora Programme - Thunes Integration
Microsoft Office 365	E-Collect Enhancements delivery	Card Management System Upgrade Project
Visa Contactless Project	Online Portal For Bank Repossessed Vehicles on Corporate Website	Internet Connectivity Capacity Upgrades
MPESA withdrawal on POS	Money Transfer Organization Onboarding Phase 2	Queue Management System Implementation
Online portal for MSME	Web Application Firewall- External applications	Sacco API Sacco Link - Mco-op Cash API integration
Provide E-Credit for joint accounts via Mobile & Internet banking platforms	Co-op Foundation Impact Assessment	

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 24-hour contact Centre which handled approximately 2.2 Million customer engagements in 2021. Over 1,722 staff members underwent training on distinctive customer experience delivery, customer communications and engagements 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 optimize the investments the bank chooses, with an aim of always maintaining sufficient liquidity, maintaining a balanced mix of optimum earning assets and ease of marketability in case of changes in market dynamics.

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:

1.Architecture ICT strategy focuses on

2.Software (Application) Management

3.Resource Management integrating effective ICT

4.IT Infrastructure Management Governance and fostering an

5.IT Change Management environment that facilitates for

6.Contracting and Outsourcing innovation in delivering quality

7.Incident & Problem Management solutions and functionalities that

8.Project Portfolio Management

9.IT Performance Measurement the business leverages on to

10.Information Security & Compliance create value.

11.Business Continuity Planning

12.Financial Management

13.ICT Organization Structure

14.Skills upgrading, training and exposure

Social & Relationship Capita

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 section of this integrated report shows in detail how we engage various stakeholders 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
- Coop Consultancy & Bancassurance Intermediary Ltd
- Community Dialogue
- Labor standards compliance
- Responsible competition
- Responsible supply chain and supplier relations
- Responsible marketing and advertisement
- Responsible Product Stewardship

Stakeholder support in the Covid-19 pandemic period is also covered in detail in the Material matters management section of this integrated report.

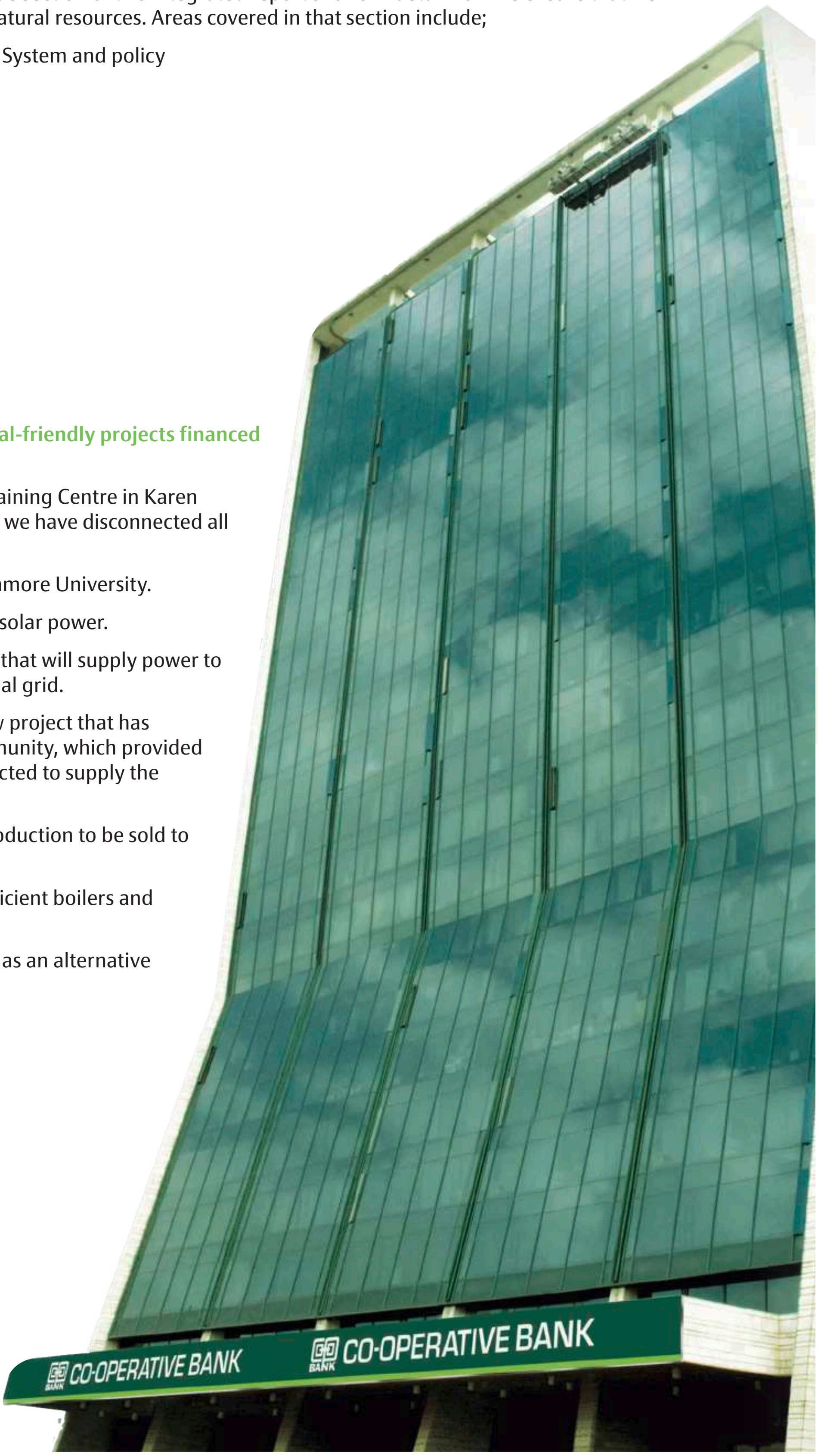
Natural Capital

The natural resources that we employ in our value creation to our stakeholders. This is done in a way that minimizes 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:

1. Solar system at our Leadership and Training Centre in Karen (heats up to 3,000litres of water daily, we have disconnected all instant showers.
2. A 600kW solar power project at Strathmore University.
3. Two Rivers Mall generating their own solar power.
4. Hydro Power project - A 6MW project that will supply power to 5 KTDA tea factories and to the national grid.
5. Regen Terem Hydro Project - A 5.2Mw project that has provided livelihoods to the rural community, which provided human labour to the project and expected to supply the power to the national grid.
6. A greenfield project in solar power production to be sold to the National Grid.
7. A project to purchase more energy efficient boilers and conversion for a factory.
8. All ongoing projects have solar power as an alternative source of power.



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 our six (6) strategy focus areas. Capital trade-off decisions are made depending on;

1. The impact of the capital stock on strategic achievements;
2. How available the capital is;
3. The stability of our long term and short-term goals as is evidenced by the impact of the ongoing Covid-19 Pandemic.

The decision to employ/decrease one capital in order to increase another is a tough one because Capital is a limited resource and hence we carefully prioritize. The group holds an annual senior leader's strategy forum whereby the strategic focus and hence optimal capital allocation is discussed and agreed upon. During the year careful considerations are made as the environment is dynamic. The illustration below shows how key capital trade offs were made and the impact (increase/decrease) these trade-offs had on our capital stocks. In supporting our stakeholders through the ongoing Covid-19 pandemic the Bank had to commit all its capitals and the result has been an increase in our stakeholder relationships that will see us continue to create value into the long term. Material matters management section of this report details this support.

Aggressive deepening of our dominance in the Kenya Market.

To grow our market share in Kenya and give a competitive return to our shareholders.

Capital Increase achieved

Financial Capital:

- Funded and non-funded revenue. Growth in Customer Deposits by Kshs. 29 Billion
- Growth in our loan book by Kshs. 23.6 Billion
- Retained earnings as a result of growth in earnings.

Human Capital

- An optimal, well trained, motivated number of staff to serve our customers.

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 Funded and non-funded

- Enhanced returns for our shareholders.
- Enhanced customer value propositions and product stewardship.

Key Capital Decreases

Financial Capital

- Capital ratios had to be maintained to cater for the growth in market share. People, process and technology investment to support growth

Manufactured Capital

- Depreciation, Amortization of equipment The maintenance costs for all our systems and channels

Natural Capital Capital

- In order to grow our market-share natural resources were consumed as indicated in the Creating Sustainable Value section of this report.

Dominant provider of financial services to the Co-operative Movement in Kenya and the region

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.

Capital Increase achieved

Financial Capital

- Funded and nonfunded revenue from the Co-operatives.

Intellectual Capital

- Increase in the tacit knowledge by our staff on Co-operatives banking.
- Implementing the digital strategy for Co-operatives.

Manufactured Capital

- Digital Co-operatives initiative under our Transformation project leading to service satisfaction. Key gains include B2B Integration and data hosting, A fully functional Internet Banking, Coffee DSS, Open Banking (SaccoLink API, Sacco MCo-op Cash API, Pesalink API and Sacco Credit API)

Human Capital

- Enhancing the divisional structure with adequate staff.

Social & Relationship Capital

- Enhanced strategic relationship with the key stakeholder through our value proposition and enhanced returns.
- Kshs. 5.9B Dividend -critical support/income to the 15-million-member Co-operative Movement

Key Capital Decreases

Financial Capital

- Capital outlay to cater for the co-operative movement current and future needs.
- Kshs. 5.87Billion Dividend payment to the movement that predominantly owns the Bank.
- Additional staff expense

Manufactured Capital

- Depreciation, Amortization
- Natural Capital.
- In order to serve the co-operative-movement, natural resources were-consumed as indicated in theCreating Sustainable Value sectionof this report

Customer Experience that is seamless across all our touch points.

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.

Capital Increase achieved

Financial Capital

- Income and deposit growth from satisfied growing customer numbers.

Intellectual Capital

- A proactive customer experience strategy well trained and knowledgeable staff. A stronger Brand. Banking Sector Charter implementation PWDs (People living with Disability) digital accessibility roadmap 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 and Relationship Capital

- The higher the customer satisfaction, the higher the customer loyalty.
- 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.

Human Capital

- An optimal, well trained and motivated number of staff to serve our customers

Key Capital Decreases

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. In 2021 this was done virtually through Webinars.

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

Operating efficiency driven by digitization, innovative products & Processes, efficient business models, and staff productivity.

Digitization. Innovation. Efficiency. Staff productivity

Capital Increase achieved

Financial Capital

- Income, deposit book, loan book and customer growth as shown in the audited financials.
- Optimal costmanagement (CIR- 49.9%, 2014 59%) in light of increased loan loss provisions and monetary loss from South Sudan.

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

- Branch opening in strategic areas. Channel and ICT platform enhancements.
- Ongoing Core Banking Project Omnichannel rolled out in 2020.

Natural Capital

- Optimal stationery, electricity, water and diesel consumption. See Creating Sustainable Value section of this report.

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. As detailed in the material matters section of this report support was given to all stakeholders in light of the ongoing Covid-19 pandemic impact.
- Regulatory compliance is key in all our decision making: AML/KYC, Kenya Banking Charter, PWD digital accessibility road map, CBK Prudential guidelines, , Data security, key guidelines geared towards customer support and Covid-19 containment measures. etc.
- We have consulted widely with our strategic partners. Key consultations with IFC and Mckinsey (See Transformation section of this report).
- We maintain an optimal relationship with our ICT vendors and other suppliers who are key to the achievement of this objective

Key Capital Decreases

Financial Capital	Manufactured Capital	Natural Capital
• People, process and technology expense to ensure efficiency, digitization, innovation and staff productivity.	• Depreciation, Amortization	• In order to ensure-operating efficiency natural resources were consumed as indicated in the Creating Sustainable Value section of this report.

Optimal Enterprise Risk and Compliance in the dynamic environment

Enterprise Risk Management and Compliance

Capital Increase achieved

Financial Capital	Human Capital	Intellectual Capital	Manufactured Capital	Social and Relationship Capital
• Capital adequacy that is necessary for growth and risk management. Risk management has a direct link to the increase of this capital. • Loan loss provisions and hence optimal coverage for our NPL – Ksh. 8.1Billion in 2021 Kshs 7.9B (2020 2.5 Billion)	• Adequately resourced control departments. • Staff training.	• Enterprise risk management including Business continuity plan execution skills in light of a Pandemic. • Internal capital adequacy process that was conducted by knowledgable 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.	• Adequate infrastructure to ensure all our assets and staff are safe. **Natural Capital** • Optimal selection of how and to whom we lend to preserve natural capital. We have a well documented exclusion list.	• Ensured optimal risk management with our stakeholders. • Cordial relationship with our regulators

Key Capital Decreases

Financial Capital	Manufactured Capital	Natural Capital
• Capital ratios had to be maintained to cater for the growth in market share. • People, process and technology investment to support growth.	• Depreciation, Amortization of equipment.	• In order to ensure optimal enterprise risk management natural resources were consumed as indicated in the Creating Sustainable Value section of this report.

Positive impact on Economy, Society & Environment

To ensure that the group operates as a responsible corporate citizen by investing in the communities, engaging sustainable programs particularly on education, agriculture and environment, and financial deepening in the Cooperative 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. (See creating sustainable value section of this report)

THE OPERATING ENVIRONMENT

1. Brief Overview of Global Economic Developments and Outlook

The global economic recovery that started in the fourth quarter of 2020 after the great lockdown continued to hold up in 2021 mainly attributed to improved vaccine uptake, accommodative policy measures, improved business investment and an uptick in consumer spending. According to the IMF, the global economy is projected to post a strong full year growth of 5.9% In 2021 and 3.6% In 2022, given the Russia-Ukraine conflict. The pace of the ascent is however varied across countries and regions on account of uneven distribution of vaccines, high levels of supply chain stress and the varying levels of policy support. As of 6th december 2021, almost 70% of the population in high-income countries were fully vaccinated compared with only 3% of the population in low-income countries. Additionally, high and persistent levels of inflation in both advanced and emerging economies majorly driven by rising global oil prices continue to put policy actors at crossroads on whether to withdraw policy support and reign in on inflation and thereby lead to tighter financing conditions. The emergency of new variants, vaccine hesitancy and renewed waves pose downside risks to the recovery prospects.

2. Domestic Economic Performance

In 2020, Economic activities were hugely disrupted by the emergency of Covid-19 pandemic which necessitated the institution of measures geared towards containing the spread of the virus. These measures included restriction of movement in and out of some counties, closure of learning institutions, closure of some businesses especially in Accommodation and Food services and near cessation of international travel among others. As a result, Real GDP is estimated to have contracted by 0.3% in 2020. The scarring occasioned by the pandemic was spread across all sectors of the economy but more pronounced in accommodation and food services, education and transport and storage sectors.

In 2021, the general health of the economy has improved with continued adaptation to the pandemic and the attendant restrictions. Data from the Kenya national bureau of statistics indicate the economy has climbed out of the depths it descended into in 2020 mainly reflecting the easing of containment measures globally. Real GDP growth is estimated to have averaged 7.8% in the first three quarters of 2021 compared to a contraction of 0.8% in a similar period in 2020 reflecting the strong recovery of the services sector in transport and storage, education, information and communication, wholesale and retail trade, and the improved performance of the construction and manufacturing sectors. High frequency data points to a continued recovery in the fourth quarter of the year majorly driven by the reopening of the economy, improved vaccination rates, improved consumption & employment levels, growing global demand and the resilient international remittances. Full year (2021) growth is forecasted at 8.0% and 6% in 2022 period according to the Central bank of Kenya.

Overall inflation remained within the government target range of between 2.5% to 7.5% at 6.1% compared to 5.4% in 2020. The uptick in inflation captured the general rise in global oil prices, domestic tax measures and supply disruptions of some food items on account of dry weather conditions in the country. For instance, fuel inflation averaged 12.2% in 2021 compared to 7.9% in 2020. In 2022, we forecast inflation to remain within the target band with policy actions on possible second round effects from rising global oil prices expected to provide a calming effect.

The Kenyan shilling has generally depreciated against major currencies. In 2021, the KES depreciated by 3%,11% & 8% against the US dollar, the Sterling pound and the Euro respectively compared to 2020. The shilling was however, supported by strong remittance inflows and External financing drawdowns. In 2022, the local unit is expected to continue to face pressure as dollar demand increases on imports outpacing exports, rising global commodity prices especially energy and greater demand for intermediate goods as the domestic economy heals from the Covid-19 effects.

The Central bank of Kenya maintained an accommodative monetary policy in 2021 noting the need to help the economy pick-up from the Covid-19 induced slump with inflation expectations remaining anchored. The regulator is expected to continue on a similar path in 2022 with room for policy action on price stability disturbances especially from fuel inflation. The 91,182 & 364 government papers averaged 6.95%, 7.58% & 8.52 in 2021 compared to 6.85%,7.51% & 8.56% in 2020. Growth in private sector credit stood at 7.8% in 2021 compared to 8.1% in 2020. Strong growth was witnessed in manufacturing, transport and communication, finance and insurance and consumer durables. Lending rates have remained sticky due to the delayed implementation of risk-based pricing models which have curtailed effective pricing by players hence the slight decline in credit growth.

Kenya's public debt grew by 13% YoY to KES 8,207 billion in December 2021, driven by 10% growth in external debt and 16% in domestic debt. The proportion of external to domestic debt stood at 50.9% to 49.1% in 2021 compared to 51.4% & 48.6% in 2020.

As of 20th March 2022, Kenya had received a total of 27,087,910 vaccines, with 17,327,143 doses administered, those having at least one dose at 7,958,937 while those fully vaccinated coming in at 7,932,715. The proportion of adults vaccinated stood at 29.1 % as of 20th March 2022.

Downside risks to the recovery prospects abound and featuring prominently is the uncertainty in the future course of the pandemic with the fifth wave currently in play. The emergence of new and more transmissible variants such as delta and now omicron amidst vaccine hesitancy threatens to derail the recovery. The general election in 2022 with investors adopting a wait and see approach, intensifying drought conditions with the drought cycle becoming shorter, frequent, and intense due to global climate change and environmental degradation has meant farmers have no time for rebuilding stocks of food, livestock and crops before the next drought posing significant risks to the recovery prospects.

1.3 Our Response

The loosening of some of the regulatory measures put in place to ensure stability in the financial services sector has enabled players in the sector to play an active role in ensuring the economy is on a strong footing following the disruptions in 2020.The bank has continued to offer relief to its customers who are yet to pick themselves up from the ramifications of the pandemic and offer trainings to the MSMEs customers on various aspects. The bank continues to implement and follow the ministry of health protocols to ensure the safety of our customers, staff, and other stakeholders like availing of masks to all staff members and sanitizers in all our premises

Legal/Regulatory Environment

The regulatory environment in 2021 was loosened with the scaling back of some of the regulatory measures put in place at the onset of the Covid-19 pandemic. The scaling down of these measures was on account of an improved business environment with the economy strongly rebounding to record an impressive growth of 7.8% in the first three quarters of the year. The tightening of the regulatory environment in 2020 had ensured proper functioning of the sector as it brought stabilizing effect amidst the pandemic. The main highlights on the regulatory space in 2021 include the suspension of the listing of negative credit information for borrowers with loans below KES 5 million, whose loans were previously performing but had become non-performing from 1st October 2021, for a period of twelve months through 30th September 2022. In the regulations, Credit Reference Bureaus, would not include in any credit report, any negative credit information for loans of a customer less than KES 5 million submitted to the CRB from October 1, 2020, to September 30, 2021, for a period of 12 months from 1st October 2021 to 30th September 2022. This move is aimed at shielding MSMEs from the adverse effects of the pandemic. The second move from the regulator in 2021 was on the guidance to commercial banks on climate -related- risk management. The intention is to enable banks integrate the opportunities and risks arising from climate change in their governance structure, strategy, risk management frameworks and in disclosing climate-related information to their stakeholders.

Our Response

As a bank, we have continued with our proactive and continuous training and sensitization of our staff on key and emerging trends approach. We have a dedicated compliance department whose responsibility is to track all emerging trends and ensuring compliance internally.

Political Environment

Political temperatures were high in 2021 partly due to the constitutional amendment drive under the Building Bridges initiative and the political realignments in preparation for the August 2022 general election. Political activities will be in full swing in 2022 as the campaign season for various seats begins. The campaigns are expected to be highly charged, competitive and emotive. With investors adopting a wait and see approach during election cycles, this might pose a significant risk to the recovering economy and drag the recovery process.

Our Response

The bank continues to monitor the political environment and maintains its neutral stance.

Digital Banking for Enhanced Competitiveness

Demand for digital services have continued to rise. For instance, according to 2021 FinAccess Household Survey, the usage of traditional banking has dropped from 29.6% in 2020 to 23.8% in 2021. Over the same period, mobile banking usage has risen from 25.3% to 34.4% partly driven by the need to adopt safe practices to limit the spread of the Covid-19 virus in 2020 and 2021. This trend is expected to continue as financial technology and digitization continue to transform the banking industry. Kenya's high mobile subscription and a younger population means the demand for digital services will continue to rise as customers seek convenience and flexibility in their transacting lifecycle. This has come with its own share of challenges; Cyber security risks & customers airing their grievances on social media platforms.

Our Response

The bank through its strong digital journey framework, continues to adapt to technological changes without compromising on security, usability, and stability. In order to re-invent and catalyze its performance the bank has:

a. Maintained a strong social media presence to address queries raised by customers with a team to analyze social media trends daily.

b. Enhanced automation of processes to improve efficiency,

c. We have acquired systems, knowledge, and skills to defend our systems, networks, and data from cyber-attacks,

d. Enhanced system connectivity and interoperability to create unrivalled user experience,

e. Leveraging on data & analytics in decision making,

f. Continuous innovations to meet customer needs and changing expectations,

g. Exploring opportunities for collaboration with fintech and system developers with a view to deploring the best of breed in terms technology platforms.

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f. Continuous innovations to meet customer needs and changing expectations,
g. Exploring opportunities for collaboration with fintech and system developers with a view to deploring the best of breed in terms technology platforms.

DEPOSIT TO ANY CO-OPBANK ACCOUNT FROM M-PESA

USE PAYBILL 400200

Go to Lipa Na M-Pesa, Paybill option

1. Enter Business Number: **400200**.

2. Enter Account Number: the **Co-opBank account** you wish to deposit to.

3. Enter the **amount** you want to deposit.

4. Enter your **M-Pesa PIN** and confirm the transaction.

5. You will receive a confirmation SMS from M-Pesa immediately.

6. Co-operative Bank will then send you a confirmation SMS with details of the deposit.

CO-OPERATIVE BANK
We are you

The Co-operative Bank is regulated by the Central Bank of Kenya

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 a central 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.

Covid-19 pandemic impacted our short-term plans, but the bank was agile in its response as well articulated in our material matters section. We continue to proactively monitor the trends of the disease and impact on the Bank's strategic objectives, business operations and work plans. We have adopted and implemented proactive enterprise risk management initiatives to ensure uninterrupted business operation.

CORPORATE STRATEGIC PLAN 2020-2024

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 has also led to 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 9 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.

Strategic Theme	Key Strategic Performance Indicator	Key achievement

Aggressive deepening of our dominance in
 	
the Kenya Market
	• Return on Assets (ROA)
	• Return on Equity (ROE)
	• 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.
		• ROA 2.96% (2020: 2.18%)
		• ROE 17.3% (2020: 12.7%)
		• Dividend per share Kshs.1.00
		• Market share top nine Banks
		  • Asset Size 2021: 12%
		  • Customer Deposit (2021: 12.6%)
		  • Net Loans (13.2%)
		• Market Capitalization 2021: 76.0 B (2020: 73 B)
		• Our Market share for all business segments, product houses and Channels maintained a positive outlook.
		• Most Sustainable Bank (Kenya Bankers Catalyst Awards 2020)
		• 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 details.
		• Undertook a Credit Risk Adaptation Project aimed at End-to-end assessment of credit risk, strengthen portfolio assessment and risk frameworks, enhance Collections (detailed later in this section of the report)

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 Co-operatives is on track. We have specific focus on Co-operatives as detailed in the section below on our Transformation Project. • The Co-operatives deposits and loan book grew in 2021. • Co-operative Bank of South Sudan monetary loss of Kshs.421.7M (1.65Bn loss in 2020)
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 (94% of transactions were on digital channels). Key customer project rolled out was the Omnichannel (Discussed in the Capitals Section of this report) • 1722 Staff members underwent training virtually and at our Leadership and management Centre 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 road maps • 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, Pro-active Risk management has led to cost management, revenue generation and optimal risk uptake. • Our cost to income ratio has decreased from 58% to 49.9% in 2021. System and Channels service availability and Uptime Averaged 99.02% • 94% (93% 2020) of our transactions were performed on digital channels. • E- Credit deployed to support Business growth. Disbursement of Kshs. 70.5 B in 2021. • Digitization progressing as per the roadmap. Key digitization projects are; Omnichannel and Core banking. • 95% of staff met and exceeded targets • Corporate Wellness plan for 2021 key focus was on financial & family health wellness (Detailed in the Creating Sustainable Value section of this Integrated Report.)

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. In the intervening period, the Group has continued to reap many benefits from an institutionalized transformation including:

Key Milestones

19,963 customers trained on business management and financial skills	144,956 clients onboarded on the new packages (Gold, Silver, Bronze)	Supply chain financing: 91 Anchors and 512 counterparties on boarded to date.
Non-Financial Services (NFS): 231 NFS clinics, 13 Networking forums,3 international business trips.	Average Product holding within MSME packages stand at 3.4	Development of the new E-credit score card.

- E-credit growth focus – Kshs 70.5 Billion disbursed by FY2021.
- Implemented a customer centric relationship model: One RM, One Customer, Many products.
    1. Re-organized our relationship management model for Corporate Banking
    2. Re-tooled our Co-operatives banking teams
    3. Our tellers are now Sales and Service advisors
- Centralized operations support and Digitization through shared services
    1. Omni-channel/seamless digital offering Implementation
    2. CRM 365 implementation as single source of sales information. Fully adopted across the bank.
    3. Business Process Management System (BPMS) system implementation.
    4. E-commerce business growth through secure online payments through Verified By Visa enablement
    5. Money Transfer Organizations partnerships to drive international remittances
    6. Innovations and partnerships framework of engagement with fintechs developed
    7. Business to Business (B2B) integration developed.

- Proactive management of our cost to income ratio – 49.9% FY2021
- 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 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 178-branch network potential for Asset, deposit and NFI growth by segments and product houses. • Leverage on Channels for Sales and non-funded income (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. Operational Efficiency	• Distinctive Customer Experience initiatives - Process automation focusing on top 20 customer journeys for automation through Business • Process Management System (BPMS) and continuous process improvement • Ensure implementation of Compliance, Risk and Anti money Laundering (AML) initiatives to meet all regulatory guidelines • Data governance • Continuous review of the 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
5 Digitization and innovation	Drive implementation and full benefit realization of the ongoing 8 Digital initiatives in partnership with IFC; • Omni-channel • Digital Hub and Innovation Framework • Digital Technology Capability Review • Core Banking System • Product Rationalization • Open Banking • CRM & BPM (Automation) Support • Digital Co-operatives
6. NPL Management	• 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

- **Credit Risk Adaptation Project "Project Kilele"**

In October 2020, the Bank engaged McKinsey & Co to conduct a Credit Risk Adaptation project dubbed 'Project Kilele'. The purpose of the project was to undertake an end to end assessment of credit risk management practices through a diagnostic of the risk governance, credit risk appetite, origination and underwriting processes, credit approval process, credit scoring & rating models, as well as pricing. The team was tasked to enhance portfolio management which includes reporting and nonperforming loan management to strengthen the risk framework. On the backdrop of the on-going pandemic, in-depth portfolio analysis was undertaken to test against different scenarios on a granular level (client and sector analysis) to bolster proactive decision making to alleviate our customers in distress. The collection platforms were also enhanced to ascertain sustainability of debt management and encompassed client support in the new operating environment.

'Project Kilele' in conjunction with the Transformation Office, has resulted in unparalleled reinvention in credit risk management in the following ways:

  - Stress Testing and Monitoring
  - Project Connect & Build and Strategic Collections to address the current NPL in Retail and MSME Segments.
  - Growth of MSME & Retail Segments
  - Growth and heightened support in Corporate & Co-operatives.

- **Decentralization of Loan Portfolio Management Enabling Project 3C**

In August, the Bank approved the decentralization of the loan portfolio management to the Branches, Lending Units and Relationship Management / Officers with the aim of enhancing collection activities. The project Connect & Build entails proactive management of the Credit book re-assigned from Remedial Credit to Branches & Business Segments. The main objective of the decision was for Business units to:

  - Closely pursue the little and or irregular loan payments from the customer. This is further enabled through the wide resource base comprising of Personal Bankers, Business Bankers, Relationship Managers/Officers and Direct Sales Teams.
  - Restructure the facility in liaison with Credit Management Division where necessary

- **Project Connect & Build (CB). The project is aimed at:**
  - Identifying more business opportunities for loan book growth.
  - Engaging existing & potential customers with a view to establishing/enhancing their needs and co-create solutions.
  - Increasing customers' product-holding.
  - Sustaining the best practices learnt under the Decentralization of Loan Portfolio Management and Project Kilele above.

7. Key enablers of our transformation

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.

MATERIAL MATTERS

COVID-19 Assessment, Impact & response

The first case ofCOVID-19 was confirmed in Kenya on March 12th, 2020. The effects of the pandemic and the resultant containment measures severely affected businesses and economic activities. As a result, the economy contracted by 4.7 percent in the second quarter of 2020 from a growth of 4.4 percent in the first quarter of 2020 largely due to significant contractions in the services and industry sub-sectors. Kenya's annual GDP growth for 2020 is estimated at only 0.6%.

At the onset of the pandemic, the group analyzed the internal and external environment to identify material issues that were or could impact our business positively or negatively in order to establish appropriate response. We were agile in our response; fast, resilient & adaptable in creating value and protecting that value in the new environment: We looked at:

1. Strategy reconfiguration in terms of our priorities.
2. Organization Structure optimization.
3. People/workforce productivity and wellness.
4. Customer relationship management.
5. The products/services we offer.
6. The way we deliver products/services.
7. Technology optimization.
8. Our relationship with other key stakeholders (Co-operative movement, suppliers, regulators, Long term funding partners).
9. Our role in the community.

How we support our stakeholders on Covid-19 matters

We undertook the following measures to ensure there's co-ordination on Covid-19 matters throughout the bank's subsidiaries, departments and branches:

1. The Bank put in place a Business Crisis Management Team, consisting of key executives and functional heads of critical operational and functional areas who are responsible for dealing with crisis management and business continuity during the pandemic and any other crisis.
2. The Bank set up a multidepartment emergency response team, for critical functions, should the pandemic accelerate and result to total lockdown.
3. The Bank kept communication and reviews on an ongoing basis, its pandemic preparedness strategy and procedures to employees and other relevant parties to ensure they understand the plan and their roles and responsibilities.
4. Ongoing risk assessments are being conducted to monitor trends of the disease and impact on the Bank's strategic objectives, business operations and work plans, and has implemented robust monitoring and reporting tools capable of collecting, analyzing and reporting case-based information.

Customers	Staff
• Availed thermometers and sanitizers and ensured their use by all persons accessing our offices/branches/ ATMs. • Controlled the number of customers ac-cessing bank offices to ensure social dis-tancing. • Re-aligned servicing of facilities, funding and transactional needs per customer needs; restructured loans worth Kshs.49 Billion due to Covid-19 • Bank met all costs related to the extension and restructuring loans • Fortification of our digital channels to support uninterrupted access to banking services; over 94% of our transactions were on alternative channels. • Loan approvals through Business Process Management System (BPMS). • Partnerships with merchant aggregators to facilitate online purchases and payments. • 4-hour contact center to support excel-lence in customer service. • Open banking solutions for instant pay-ment notifications and bank transfers. • Virtual communication, education, train-ing and guidance.	• Remote working to support the density reduction of staff working in the offices. • Formed teams to ensure no cross contamination. While one team is in the office, the other is working from home. • Provision of PPEs (masks, sanitizers, gloves) to staff working physically in offices. • Availed thermometers and sanitizers and ensured their use by all persons accessing our offices/branches/ATMs • Constant communication on measures to undertake in order to protect oneself and others from Covid-19. • Introduced hotline and on boarded trained medical personnel to handle any Covid related queries. • Implemented teleconferencing/virtual meeting platforms to avoid physical meetings. Introduced Telemarketing for sales staff to engage their customer. • Digitization of internal processes and engagement platforms to build contactless capabilities for both customers and staff.
Co-operative Market	**Shareholders**
• Kept actively engaging our Co-operatives to support them through this period. • Re-aligning the servicing of facilities, funding and transactional needs. • In 2021 CCBI had over 3057 business advisory mandates and conducted 87 physical trainings and 16 virtual individuals from 183 different societies reached through 32 virtual events. Of the 5.8 billion dividends paid, Kes.3.8 billion was paid to Co-op Holdings for onward remittance to over 3300 member Co-operatives.	• Implemented teleconferencing/ virtual meeting platforms such WebEx and Microsoft Teams. • We held a virtual AGM to update our shareholders during the year . • Paid Kes.5.9 Billion dividend. • Held a virtual AGM to update our shareholders during the year. • We continued creating value for our shareholders; We acquired Kingdom bank during the period. • We Kept our shareholders informed by timely updates through newspapers, social media, press releases and our website. • We continued our investor briefing virtually.

Regulators	Community
• We implemented relief measures granted under the emergency by CBK • We documented and keep records of all the extended and restructured facilities under the emergency measures. • Deployed monitoring tools to keep track of the Covid-19 restructures. • Reported all loans extended and restructured under emergency measures to CBK on a monthly basis as required • We maintained constant engagement with the regulators to ensure full compliance and support for all stakeholders.	• We availed thermometers and sanitizers at all bank entrances and ensured that they are used by all persons accessing our offices/branches/ ATMs. • We were the first bank to donate Kes.100 million to the Covid-19 task force. • Continued our operations as a responsible corporate citizen to support the society and the economy recover • We posted regular updates on our website to keep our community informed • We deployed and enhanced our social media presence to keep the community engaged • We continued our engagement with investors through virtual briefings and press releases
Suppliers	**Strategic Partners**
• Implemented teleconferencing/ virtual meeting platforms with suppliers • We adopted virtual engagements with suppliers in our procurement processes to ensure everyone's safety. • We continued our transparent procurement and tendering practices • We maintained our supplier relationships even when we shifted our requirements towards those that enabled remote working and conferencing. • We engaged our regular suppliers to supply PPEs that were required in our premises. • We observed our contractual agreements with our contractors and suppliers during those challenging times. Strategic Partners	• We adopted virtual meeting platforms to keep our partners engaged. • We observed contractual agreements with our strategic partners throughout the pandemic • We partnered with them to reach out and train our customers e.g. IFC in our MSME clinics. • We continue our partnerships with our development funding partners.

POST COVID-19 OUTLOOK

At the height of the pandemic, with bricks and mortar offices closed and people sheltering at home, customers were left with few options, mainly revolving around virtual service. All types of businesses raced to avail their products and services remotely. The result was a significant disruption in the customer journey. Various interactions between customers and businesses, delivery channels and products and services most likely has changed forever. This accelerated a shift in consumer behavior and transformed customer expectations across various touch points.

We are rapidly turning our attention to 'What Next', a period of unpredictable but hopefully modest economic recovery with new competitive threats and opportunities, and quite possibly an era of the New Normal, a new era defined by fast changing shifts in cultural norms, societal values and behaviors, such as increased demand for remote convenient service, responsible business practices and renewed brand purpose. The one thing that seems certain is that when it comes to serving the customer of the future, the answers lie in being customer centric.

Key Impact

Recovery: • 59% PBT growth from Ksh.14.3B in 2020 to Ksh.22.6 in 2021. • 8% Balance Sheet growth, from Ksh.537 B in 2020 to Ksh. 580 B in 2021.	**USD 300M** - In partnership with IFC and Phillips toward Health area Sector. **USD 85M** - We secured USD 85 Million from our long-term funding partners towards supporting our customers in the MSME segment, the health sector and Businesses undertaking Climate-Smart Projects.	**Ksh.70.5B** - The amount of credit advanced through our E-Credit solution in 2021.
50 MSME Webinars: Virtual Clinics Trained 19,963 entrepreneurs. Onboarded to date 144,956	**32** virtual workshops trained 3084 individual from 209 Co-operatives.	**Ksh.100M** – Donated to Covid-19 taskforce

11% growth in our Non- funded revenue year on year	**Cost Absorption** - The Bank continues to meet some costs related to Covid-19 stakeholder support.	**94%** - Of our transaction through alternative channels to reduce human contact. Mobile Banking transactions increased by 40% Year-on-Year. Additional investment: Personal Protective Equipment including masks & sanitizers.

We took several emergency measures on implementing Banking circulars provided by CBK specifically banking circular No.3 of 2020 on implementation of the emergency measures to mitigate the adverse impact of COVID-19 pandemic on loans and advances.

CBK Guidelines implemented in full

- The relief granted under the emergency measures will only apply to borrowers whose loan repayments were up to date as at March 2,2020 and classified under the normal category in accordance with the CBK Prudential Guideline on Risk Classification of Assets, Provisioning and Limitation of Interest on Non-performing Loans(CBK/PG/04).
- Banks will engage individual borrowers who request for relief on their personal loans and based on their individual circumstances which are directly attributable to the pandemic to determine the best relief to offer. The relief granted should be based on the assessment of the borrower's capacity to pay under the proposed new terms.
- Where a determination is made to grant a request for relief on personal loans through extension of the payment period, the extension should not exceed one year from March 2, 2020.
- Micro, Small and Medium -sized Enterprises (MSMEs) and corporate borrowers may also make requests to banks for relief due to circumstances related to the Pandemic. Banks will make an assessment and restructure the loans based on the respective circumstances arising from the pandemic.
- Personal loans whose repayment has been extended for up to one (1) year and the other loans restructured due to the pandemic shall not be subject to Clauses 3.2(Classification of loans), 3.3 (Classification categories) and 3.5 (Classification of renegotiated loans and advances) of CBK/PG/04 for a period of up to one (1) year from March 2,2020.
- Banks will be required to document and keep records of all the extended and restructured facilities under the emergency measures. The records should contain details of the circumstances in relation to the pandemic, monitoring measures adopted and the set timelines for reverting to normal requirements.
- Banks will meet all costs related to the extension and restructuring of loans
- All loans extended and restructured under emergency measures shall be reported to CBK on a monthly basis in the CBK format.

Business Continuity Plan (BCP) activated by the Bank in order to deal with the pandemic

- The Board is constantly monitoring the operations of the Bank through regular and constant communication with the Group Managing Director & CEO. In addition, the Board has held several virtual board meetings to discharge its mandate as required by law and also to ensure that there is business continuity.
- The Board has been regularly updated on the progress of performance of the Bank during this Covid 19 season.
- The Bank put in place a Business Continuity Management Team (BCMT), consisting of key executives and functional heads of critical operational and functional areas who are responsible for dealing with crisis management and business continuity during the pandemic and any other crisis.
- The Bank set up a multi department emergency response team, for critical functions, should the pandemic accelerate and result to total lockdown.
- The Bank kept communication and reviews on an ongoing basis, its pandemic preparedness strategy and procedures to employees and other relevant parties to ensure they understand the plan and their roles and responsibilities.
- Ongoing risk assessments are being conducted to monitor trends of the disease and impact on the Bank's strategic objectives, business operations and work plans, and has implemented robust monitoring and reporting tools capable of collecting, analyzing and reporting case-based information.
- Establishing Human Resource & Administration Division as the centralized communication channel for all covid-19 matters.
- The bank conducts regular communication through circulars as well as information bites/nuggets/e-shots on Covid-19.
- Display of information posters in all bank offices, bank entrances, bank social media platforms and shared facilities on how to protect oneself from Covid-19.
- Constant health talks aligned with Ministry of Health (MOH) guidelines on Covid-19 management.
- Trained security guards manning all bank entrances on Covid-19.
- The bank began and still has been holding virtual meetings internally to share information on the symptoms and infection prevention. Governance forums (BCMT and Crisis Management Team-CMT) have also been conducted virtually.

- Establishing a 24-hour hotline number that has been availed to all staff by Human Resources to guide on Covid-19 related concerns. This team offers counseling and emergency response guidelines.
- The bank updated all call trees and duty officers lists.
- Establishing a localized BCP invocation for all units in the bank
- The bank has 2 qualified medics and 1 wellness officer based at Human Resources department who are ready to handle any Covid-19 medical emergencies.
- Postponement of non-essential events and movements. Provision of masks and sanitizers in all bank offices
- Temperature monitoring at all the bank offices and entrances.

OTHER MATERIAL MATTERS IN OUR OPERATING ENVIRONMENT

Aggressive deepening of our dominance in the Kenya Market

Material Matters	Our Response
• Macro-economic indicators • Economic activity increased significantly rebounding from the effects of Covid-19 in 2020. Real (GDP) growth in the first three of 2021 averaged 7.8%. • Monetary policy stance remained loose in 2021 • Money market fairly stable in 2021 • Operationalization of credit guarantee scheme (de-risk lending to MSMEs). • Inflation remained within MPC range in 2021. • Strong positive growth rates witnessed in Agriculture, construction, health, real estate, Information and technology, and financial services. • Favorable regulatory environment & government policy. • Covid relief restructures lapsed in 2021 • Public debt grew by 13% year on year. • Kenya Shilling depreciated by 3% against the US dollar.	• Ongoing transformation initiatives which are key enablers in market dominance. We are constantly optimizing our business models underpinned by our institutionalized transformation
Opportunities	**Risks**
• Opportunity to increase lending to the MSMEs space (lending de-risked) • Opportunity to deepen the use of our alternative delivery channels. • Lower costs due to efficiency. • Opportunity to invest in government projects through partnership. • Support rebounding sectors in post-pandemic period	• Reduced earning margins In sectors still subdued by Covid (Hospitality & Tourism). • General Elections expected August 2022. • Increased competition from Bank and Non- Bank competitors.

Dominant provider of financial services to the Co-operative Movement in Kenya and the region

Material Matters	Our Response
• Covid-19 pandemic impact on the movement • Continued strategic partnership with the cooperative movement. • Continuous digitization and innovation of co-operative products, services and processes. • Optimal returns to the movement that predominantly owns the Bank	• Credit facilities restructures to support struggling Co-operatives. • We have a dedicated Co-operatives division. • In partnership with IFC we started a Cooperatives sector focus initiative in May 2018. • Implementation of data driven campaigns for growth. • 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 3057 consultancies have been carried out.
Opportunities	**Risks**
• Increased value creation through being the primary banker for the co-operative movement. (Co-operative movement value chain optimization)	• Credit risk for Co-operatives in impacted sectors. • Other normal risks that come with serving the strategic shareholder and customer of the Bank.

Customer experience that is seamless across all our touch points.

Material Matters	Our Response
• Covid-19 Pandemic has shifted customer preferences further to the alternative channels away from the brick and mortar. • Customer Centricity in all financial solu-tions is paramount. • High expectations on quality service across all touch points (Distinctive Customer Ex-perience). • Demand for innovative, convenient and affordable digital solutions. 90% of the population is financially included. • Confidentiality and data safety. Cyber se-curity. • Effective communication and complaints resolution mechanism.	• Throughout the pandemic period, we have provided safe banking channels and restructured facilities for customers who are unable to service their facilities. This response is detailed above in the Covid-19 assessment, impact and response section of this report. • Sustained Customer Centricity • Implementation of the Kenya Banking Sector Charter is on course. • Implementation of the recommendations of the Banking Industry PwDs (People living with disabilities) Pilot Project Report, by InABLE in collaboration with Kenya Bankers Association and Financial Sector Deepening (FSD Kenya). Cooperative bank Ltd was among the 7 banks that participated in the PWDs digital accessibility study. • Continued financial inclusion through all our channels; (178 branches spread in 43 counties, Mobile, Internet and Agent banking channels) to reach our customers in the most convenient and efficient manner. • 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 to ensure proactive management of cyber/data risks. • Proactive resolution of system exceptions. • Optimum systems availability (over 99%) • The bank trained over 1722 staff on offering supreme customer service to both internal and external customers. • Queue time of less than 15 minutes. • Dedicated social media resources to respond to customer feedback, queries and complaints.

Opportunities	Risks
• Opportunity to grow our brand equity through the customer support during this difficult pandemic environment. • Opportunity to 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	• 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.

Operating efficiency driven by digitization, innovative products & Processes, efficient business models, and staff productivity

Material Matters	Our Response
• Digitization and innovation focus for growth and efficiency. • The ongoing pandemic has impacted business models requiring Banks to swiftly adapt to continue providing financial services. • 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.	• Transformation initiatives that continue to enhance growth and efficiency. • ICT infrastructure that supports growth and efficiency. We have an ICT strategy tha guides us on optimal ICT Investment. The Bank is currently in the process of changing the core banking system to en-hance innovation, customer satisfaction and cost efficiency. • Adequate skills to meet current and future needs. • Business Process Management System for enhanced efficiency. • Rolled out Omnichannel: A robust digital platform that enables us to offer en-hanced digital experiences to our customers. (Coop online/internet banking for corporates and MSMEs with enhanced fea-tures) • Channels and system service availability and uptime of over 99%. • Over 94% of our transactions were done on alternative channels in 2021 • Continued leveraging on data analytics and Business Intelligence. • E- Credit uptake, over Kshs. 70.5 B disbursed. Successful Fintech engagement framework that guides all our fintech partnerships, current and potential. • The Bank has in place a cybersecurity strategy that drives its Cybersecurity pro-gram. 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 noti-fication, and incident management • Optimization of the SAP Enterprise Resource Planning (ERP) solution • Performance rigor & rhythms (DILO activation) to enhance staff productivity

Opportunities	Risks
• Optimize the bank's huge investment in digitization and digital channels to deepen penetration in the market. • Growth in business sectors that are still vibrant Increased nonfunded income from increased business volumes and enhanced products and services. • Opportunity to enhance operating, process and overall cost efficiency as customer preferences shift. • Leveraging on data analytics to grow business in focus areas such as E-Credit, E-collect and data driven campaigns. • Competitive Employee value Proposition enabling retention of specialized skills.	• Continuous changes in ICT are costly. • Competition for specialized skills In ICT and data analytics. • Information security and cyber security challenges.

Optimal Enterprise Risk and Compliance in the dynamic environment

Material Matters	Our Response
Proactive enterprise risk management framework that is capable of managing the risks in our enterprise risk universe. Credit risk- Non-Performing Loans. Enhanced regulatory and compliance environment (AML/KYC, Guidelines to manage the effects of Covid-19) Well trained and knowledgeable staff on risk and compliance issues. Demand for specialized skills in Data protection and cyber security.	• 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. Key projects are detailed in the strategic focus section of this report. • Strict enforcement of regulatory guidelines. • 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. • Reviewed Bank Policies and Procedures to ensure compliance
Opportunities	**Risks**
• 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.	Identified Risks are optimally managed: • 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 Strict enforcement - AML/KYC, Large cash transactions. Over 5,813 staff trained on sanctions & enhanced due diligence. • Continuous staff training and engagement on risk and compliance issues. • Well-resourced Internal Audit, Compliance, Risk management and ICT Risk departments in place.

Positive impact on Economy, Society & Environment

Material Matters

- 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.

Our Response

- Sustained stakeholder support to ensure that we continue to support economic, social and environmental sustainability.
- Kshs. 39.6 Billion Economic Value added and distributed in 2021. Sustained financial performance (PBT Kshs. 22.6 B in a tough operating environment) and inclusive products and services through good governance, proactive strategies and optimal enterprise risk management. Over Kshs. 310B in lending and Kshs. 409B in deposits supporting key sectors.
- Taxes paid- Kshs. 6.1 Billion in 2021.
- Employment to 4505 well trained, motivated and diverse staff members. Staff welfare program is a key priority.
- 144,956 (with 19,963 customers trained) MSMEs on board-ed on our new offering that seeks to support MSMEs to have resilient businesses through financial and non-financial services. We are participating in the MSME Credit Guaran-tee Fund.
- The Bank conducted a total of 50 webinars networking forums in 2021 whereby the bank helps MSMEs identify available opportunities, the economic outlook and possible challenges and solutions in the operating environment.
- Co-op foundation support to bright but needy students (8,368 since inception).
- Capacity building of the co-operative movement (3,057 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 to ensure sustainable responsible lending.
- Engagement in social initiatives towards charity, sponsor-ship and donations (Covid-19 emergency fund (Kshs. 100 Million)
- Responsible Business practices and compliance to set rules and regulations
- We publish a Sustainability and integrated report annually on our website

Opportunities

• Partner with various stakeholders and adopt strategies geared towards addressing economic, social and environmental challenges and emerging areas for long term value creation.

• 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 resourceefficient business models, compliance with regulations, staff welfare and initiatives geared towards environmental resource efficiency.

Risks

• 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 concerted effort by both private and public enterprises in terms of policy and financial investment.

(Left)The President and CEO of the International Finance Corporation (IFC) Mr. Makhtar Diop together with his executive leadership team visited the bank in February 2022 and was hosted by the Goup Managing Director & CEO Dr. Gideon Muriuki, CBS, MBS and the Bank's executive team. Mr Diop's tour of the country was intended to reinforce and re-affirm existing partnerships with key institutions in the country. Co-op Bank has a long-standing and a most productive partnership with the IFC in many areas including provision of lines of credit and advisory support for MSME development.

H.E. European Investment Bank President, Dr. Werner Hoyer (center), H.E. European Union Ambassador to Kenya, Henriette Geiger, (left), together with Co-operative Group Managing Director & CEO, Dr. Gideon Muriuki, CBS, MBS during the ceremony to announce a Euros 50 Million credit line to support business sectors most affected by Covid-19 pandemic.

Stakeholder Engagement

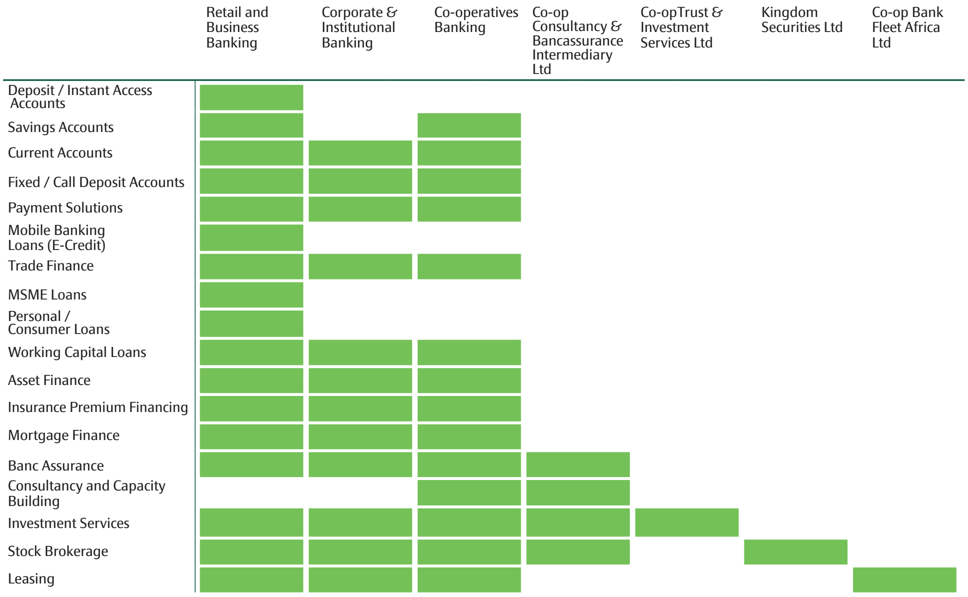
Customers

How we engage our customers: Co-op Bank has 9 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, webinars, 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

1. The key expectations of our customers are as follows:

- ▪ Exceptional customer experience: Our customers want to have a positive experience across all our channels/ touch points, across all our products and with all our staff at all times.
- ▪ Fortified our channels to handle transactions and limit branch visits due to Covid-19 safety precautions
- ▪ Convenient and safe access to banking services around the clock.
- ▪ We provided sanitization points and temperature measurement at all our premises to ensure our customers safety
- ▪ Value added banking that is competitive and transparent in pricing.
- ▪ End-to-end banking solutions and innovative digital banking solutions.



2. We are currently implementing branch transformation that will see our customers access more value-added products through innovative products and bundling and multiple channels.

3. Over 600 Sales and Service Advisors who engage in branch service and operations support, business growth and development.

4. Processes improvement for increased efficiency and hence enhanced customer experience.

5. Proactive and fair dispute resolution.

6. 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.

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

- ▪ Internal Rating Models: Consumer Scorecard and Business Scorecard
- ▪ CRB Scores in Digital lending to consumers and MSMEs
- ▪ Risk based pricing
- ▪ Key Facts Statement (KFS)
- ▪ Complaints Handling

- ▪ Charges Uploaded on Websites
- ▪ Banking Services Pricing Index
- ▪ Cost of Credit Disclosures
- ▪ Technical Assistance for MSMEs
- ▪ Financial Literacy to MSMEs
- ▪ Business models and Channels
- ▪ Customer Inclusion in Product Development
- ▪ Credit Enhancement to MSMEs
- ▪ Approval of Implementation Plan
- ▪ 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	How we respond to the key expectations
1. Regular information. 2. Accurate information. 3. Timely information. 4. To be able to discuss the performance and strategy of the bank.	We have a dedicated Investor Relations and Strategy department and to respond to our investors' expectations we have engaged as follows; 1. We held a virtual Annual general meeting in accordance with Covid-19 containment measures. 2. Despite the uncertainty, we maintained our dividend payment at Kshs.1 per share. 3. International virtual conferences where we met various existing and potential shareholders. 4. Quarterly investor briefings. 5. One on one meetings on M-teams with the investment professionals. 6. Timely information updates on our website in regard to our performance and strategy. 7. Investor briefings released every quarter. 8. Regular press releases though mainstream and social media and on our website. 9. Analyst Research notes published on our website.

Our Staff

At Coop Bank, 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;	Key Expectations
1. We have dedicated Human resource business partners who support our staff through focused performance discussions, embedding new ways of working, coaching support & productivity enhancement measures on a continuous basis. 2. We also communicate with our staff through the following methods; Virtual and in-person meetings in our offices. Regular departmental meetings. Training sessions, conferences and summits. Online staff engagement surveys. Circulars on key issues and Core briefs to all staffTraining sessions, conferences and summits. Online staff engagement surveys. Circulars on key issues and Core briefs to all staff	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. Telephone discussions on issues of concern. 6. Equal opportunities for all staff. Email communications. 7. Upheld labour 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;

- Facilitate remote working / Work from home model.
- 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. Implement corporate wellness plan; in 2021 the key focus was on financial & family health wellness 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.
- Inspire employee experience journeys and employee engagement.
- Reward differentiated performance and recognition.
- Incorporate Diversity, inclusivity and corporate wellness.
- Have an innovative, positive and inspiring work environment.
- Proactively comply with regulatory requirements on staff matters.
- Maintain cordial relations with the staff union.
- We continue to foster partnership to ensure that staff interests are addressed timeously.
- Have a proactive policy framework on HR issues as detailed in the sustainability section of this report.

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. Virtual and in-person discussions with our dedicated Co-operatives relationship managers.
2. Our branch's relationship officers and managers.
3. Regular visits to their offices.
4. Discussions and engagement through our consultants in the Co-op Consultancy & Bancassurance Intermediary Ltd.
5. Telephone discussions.
6. Participation in their meetings and events.
7. E-mail correspondence.
8. Our 24-hour contact center.
9. Service feedback questionnaire.

Key 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 labour standards.

How we respond to the key expectations ;

We have shifted our approach from product centricey to be customer centricity in order to effectively and wholesomely serve our Cooperatives. This involves 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.

1. Offer excellent customer experiences.
2. Leverage on digital transformation to add more value to our propositions.
3. Engage in strategic partnerships to strengthen our Cooperatives engagement.
4. Avail continuous capacity building and training through Coop Consultancy.
5. Attend regular forums for cooperative leaders.

Strategic Partners

The Bank has collaborated with our strategic partners in provision of long-term funding aimed at specific projects or sectors;

How we engage our Strategic Partners;

- Meetings.
- E-mail.
- 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 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 financial stability. Our regulators include but are 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 in the industry.

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.

In 2021 we engaged 1378 local suppliers and 63 foreign suppliers. We paid over Kshs 13.7 Billion to our suppliers. Of this amount, 88% 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. The ICT Vendor Relations Office Manages specifically ICT supplier relationships due to the technical nature of the services provided.
2. 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 meetings 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 institutions in Kenya and the Region. We engage the community through various ways to ensure that our business plays a role in bettering of the communities in which we operate;

- 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

Africa Guarantee Fund Group Director of Business Development Franck Adjagba with the Director - Corporate & Institutional Banking at Co-op Bank Jacquelyne Waithaka at the sign-off the Loan Guarantee Agreement to support green financing in Kenya.

Key Expectations

1. Accessibility of our consultancy and advisory services.
2. Accessibility of our Co-opBank 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. 3057 consultancies done at concessionary rates.
3. 8368 bright and needy students supported through our fully funded Co-opBank Foundation.
4. Financing green initiatives. Renewable energy lending KShs 5 Billion (1.7 Billion balance as at FY2021)
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; Our net loans and advances book stands at Kshs.310.2 Billion (2021 286.6 Billion).
9. We contribute to the creation of prosperity and to the stability of our country through paying taxes. In 2021, the Group paid Ksh.6.1 Billion 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 finance provision of greenhouse technology to small scale farmers in the country.
12. To extend the quality of health services, the bank collaborated with the Kenya Diabetes Management and Information Centre as well as the Kenya Psychological Association.
13. 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) and contributed Ksh.100 Million to the national covid-19 response fund.

Branch network expands: Cutting the ribbon to open the branch - Mr. William Ndumia, Director Retail & Business Banking, Relationship Manager in Government Banking, Mr. Samuel Mukiti and Regional Manager, Ms. Linda Mango.

Creating Sustainable Value

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.

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. 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 environmental impact. We do this by continually engaging our stakeholders and ensuring that our operations mutually benefit the bank and the community. Sustainability strategy is integrated in our business model and consists of a three-pronged approach;

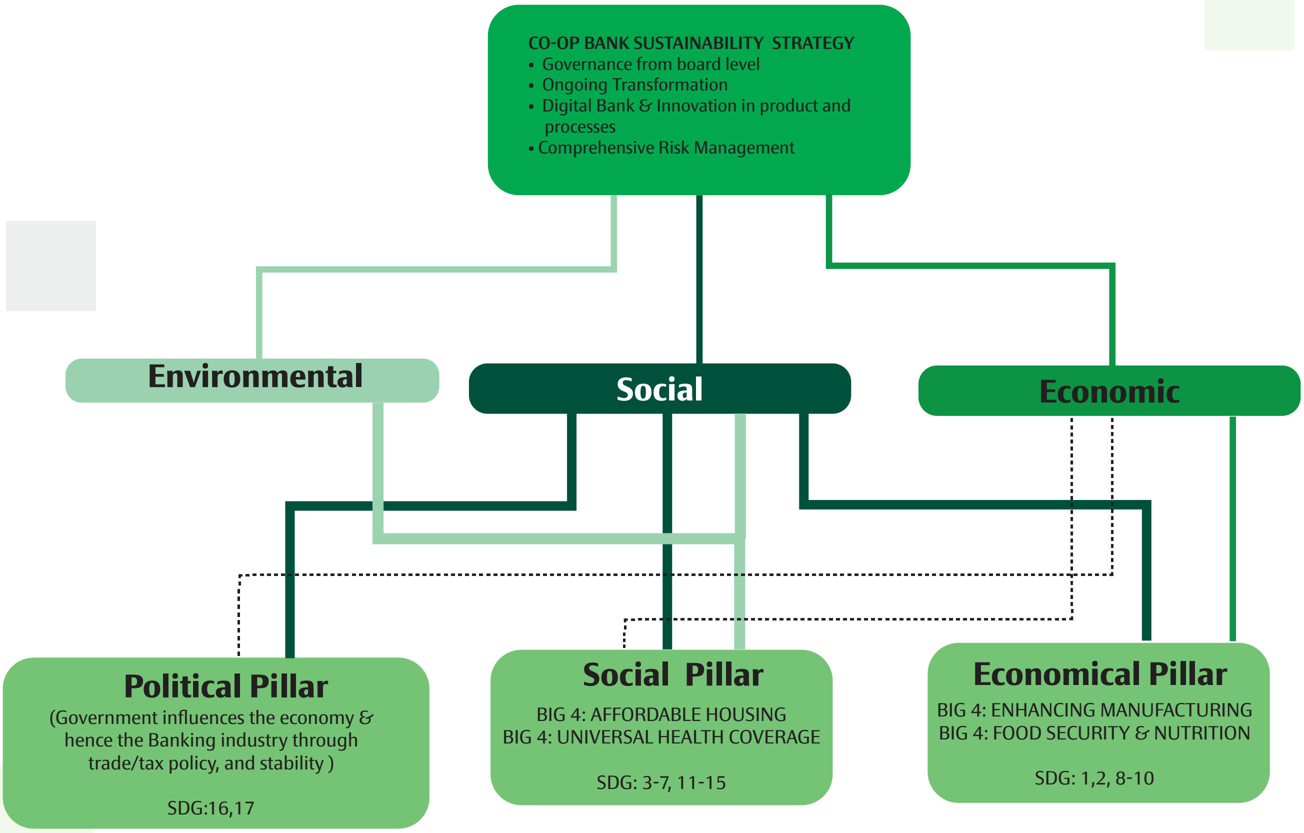
In the Material Matters Management section of this report we analyze broad issues that guide our Economic, Social and Environmental sustainability priorities. Detailed therein is our support to to all stakeholders as a result of the ongoing Covid-19 Pandemic. Our environmental and social management (E&S) policy approved by the board of directors, fully integrates the Kenya Bankers' Association Sustainable Finance Guiding Principles. The Policy is applied in conjunction with all Bank Policies and Risk Management Framework.

Sustainability through Policy and Governance in Co-opBank is deep-rooted. Our commitment is to contribute sustainably to the achievement of the following goals;

- Kenya Bankers' Association Sustainable Finance Initiatives guidelines
- UN Sustainable Development Goals
- Kenya's Vision 2030 and the Big Four Agenda (accelerates Vision 2030)
- Our Corporate Strategic Plan (2020-2024).

1. We have a formal Environmental & Social (E&S) Policy that guides us in our day to day functions.
2. 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.
3. The Environmental and Social (E&S) Policy is governed and owned right from the Board of Directors level and is in line with our strategic objectives, mission and vision.
4. 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.
5. Our E&S includes application of the IFC exclusion list for all our lending. We have adopted the Kenya Bankers Association Sustainable Finance guiding principles and minimum standards in totality.
6. We invest directly on E&S by partnering with development financial institutions (up to Kshs.42.9B in December 2021) to provide special credit lines that promote E&S sustainability.
7. We ensure continuous training for all our staff to ensure best practice.
8. 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.
9. We conduct our own activities with regard to the environment and the communities within which we operate.
10. We are in the process of implementing key regulatory guidelines: CBK Guidance on climate related risk management and NSE_ ESG disclosures guidance manual.

Our Key Priorities



Economic

As significant players in a wide economic ecosystem, we know our actions impact the wider economy. We provide specialized financial services, which reduce the cost of obtaining information about savings, borrowing and other investment opportunities. These financial services help to make the overall economy more efficient. 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.39 Billion in economic value as detailed in the Value distribution section of this integrated report.

Socio-Economic

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

- We are an agent of economic growth. 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). Despite the challenges we faced in 2021 our total mobilized deposits grew by 8%.
- 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 6.6%. As at December 2021, Ksh.310.2 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 and a variety of channels to make banking convenient and more accessible to the masses.
- In May 2018 in our Corporate & Co-operatives Banking divisions – supported by IFC, we started a sector focus initiative in order to offer more targeted solutions to all sectors of the economy.
- Through government borrowing from the open market, we have advanced Kes.124.1 Billion through government securities in order to support realization of the countries 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 1378 Local suppliers and 63 foreign suppliers. In 2021, we paid over Kshs.13.7 Billion to our suppliers. Of this amount, 88% 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.

In Kenya, most MSMEs fall under the informal sector and by extension refers to people in self-employment or small-scale industries. The informal sector is estimated to constitute 98 percent of business in Kenya, contributing 30 percent of jobs and 3 percent of Kenya's GDP. In 2018, supported by IFC, we launched an MSME transformation aimed at creating world-class African entrepreneurs and is designed to address the challenges that the bank and MSME customers face. To date, we have trained 19,963 customers on business management and financial skills, on boarded 144,956 clients on boarded on the new packages (Gold, Silver, Bronze) improved Average Product holding within MSME packages stand to 3.4 products on boarded 91 Anchors and 512 counter parties on our supply chain financing program and conducted 50 webinars for the year 2021.

Through Partnerships:

Development finance is required for long-term investment and economic growth. We had long term development funding of Kshs 42.9 Billion.

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 2021 the bank paid Kshs.6.1 Billion in Corporate taxes and Kshs.2.7 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 4505 staff members, a young and energetic team with over 74% being under 40 years. This has provided a livelihood to thousands of families and positive contribution to our economy.

Social Investments

- The bank makes immeasurable social investments directly through two of its subsidiaries; Co-op Bank foundation and Coop Consultancy & Bancassurance Intermediary Ltd.

Co-op Consultancy & Bancassurance Intermediary Ltd

Co-op Consultancy & Bancassurance intermediary ,CCBI, formerly 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 on 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 CCBI has successfully conducted over 3057 business advisory mandates and trained thousands of people drawn from the co-operative movement and microfinance institutions. In 2021, CCBI conducted 87 physical pre-pandemic workshops, 16virtual workshops and trained a total of 3,084. Over 70% of CCBI staff costs are absorbed by the bank. The consultancy has 20 consultants and a small compliment of support staff. We worked with three donor projects (KCEP-CRAL Project, We-Effect and Bankable Frontiers Association (BFA). The work of CCBI 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.

2021 at a glance

CCBI has worked with various cooperative societies in improving their capacity to do more for their members. Some of the work done with Cooperatives include the following:

SACCO - A (Case Study, Nairobi County)

CCBI has been its principle advisor from formation in the year 2020 and has provided training on areas of formation, governance structure and member education on Cooperative business. CCBI has provided advisory on policy development, ICT system audit and business planning. In the year 2021 CCBI was instrumental in guiding the Sacco in complying with licensing requirements as a Deposit Taking Sacco under the Sacco Societies Act.

SACCO - B (Case Study, Kirinyaga County)

In the year 2020, CCBI worked with this farmer based sacco in reviewing its operations for purposes of streamlining them for standardization and efficiency. In the year 2021, CCBI undertook employee and member engagements as a lead up to development of the Sacco's five-year strategic plan.

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.

Co-op Foundation

Co-operative bank foundation was established to complement public efforts 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.
Since inception the foundation has spent Ksh.1.4 Billion to support a total of 8368 learners in high school, universities, colleges and vocational institutions. The Foundation supported a total of 2,610 Secondary School students, 106 University Students and 4 College students during year 2020/2021.

Jenga-Rider Project

This pilot project is aimed at increasing employment among youth in the transport sector through financial literacy and business management training. Through the program, bodaboda riders can access information on industry safety standards and resources to grow their businesses. This offering is conducted on site, face to face trainings, and also through a mobile app.
1,200 riders underwent training through the JengaBoda program in 2021. The workshops were done in Nairobi and Mombasa.

Education USA

A University Scholarship Program funded by USAID.

Jijali Program

A Career /Work Readiness Program or Entrepreneurship targeting all our University Scholarship Beneficiaries.

Community Service Program for University Scholarship Beneficiaries.

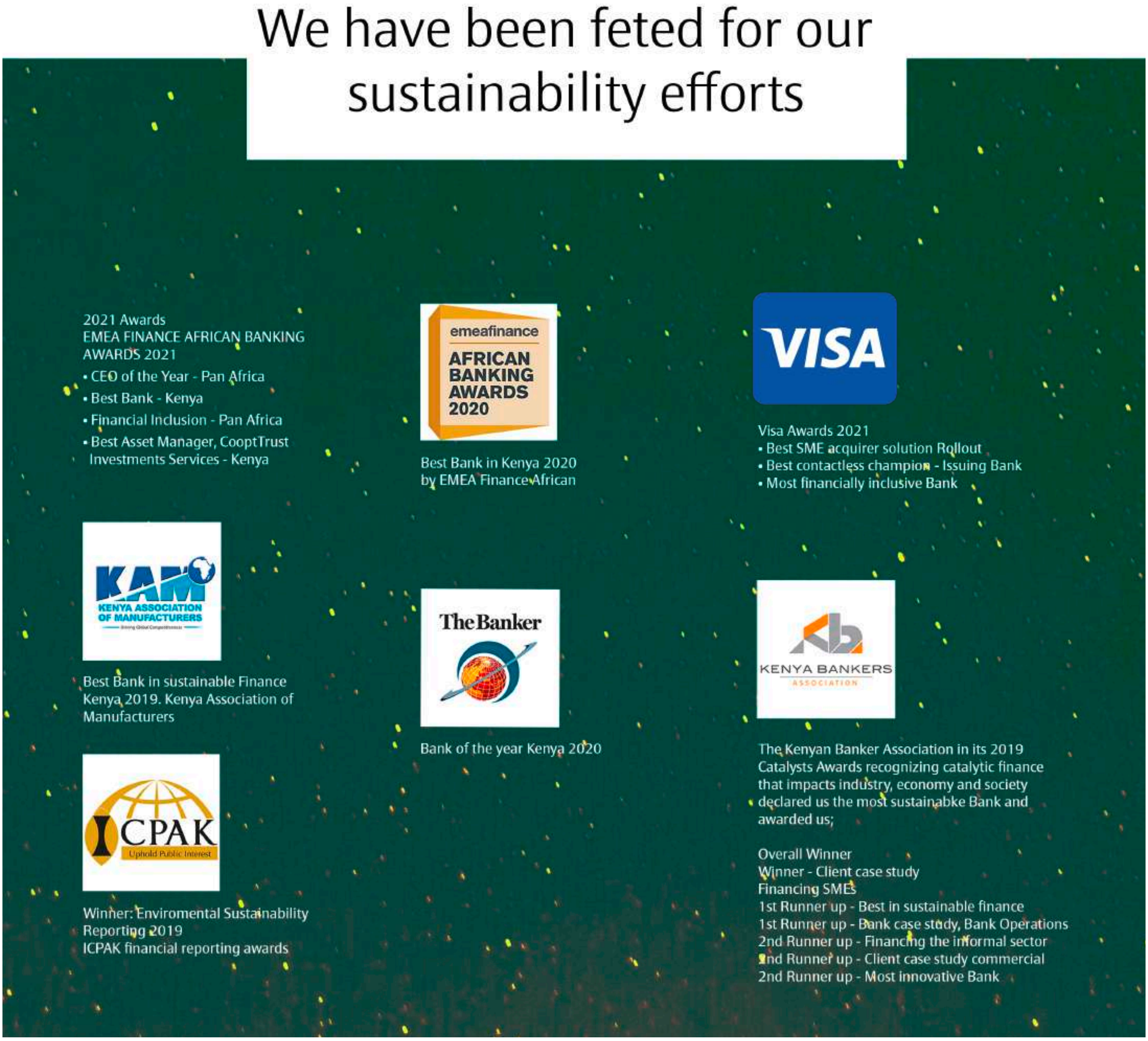
Co-op Bank Staff Welfare Teams

- 35 Staff welfare teams from various branches and departments carried out corporate Social Responsibility visiting children's homes, offering relief food and other necessities during lock down etc.

WE HAVE BEEN FETED FOR OUR SUSTAINABILITY EFFORTS:

EMEA Finance, African Banking Awards 2021	• CEO of the year- Pan Africa • Best Bank -Kenya • Financial Inclusion- Pan Africa • Best Asset Manager, Co-optrust investment Services- Kenya
VISA Awards 2021	• Best SME Acquirer solution Roll-out • Best contactless champion- Issuing Bank • Most financially Inclusive Bank
The Banker	Bank of The Year Kenya 2020
ICPAK - Fire Awards	Winner: Environmental Sustainability Reporting 2019 ICPAK financial reporting awards
Kenya Association of Manufacturers	Best Bank in Sustainable Finance in Kenya 2020. Kenya association of manufacturers.

Kenya Bankers Association	The Kenya Bankers association, in its 2020 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



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.

Perfomance Indicator	2021	2020
Total Staff	4505	4628
Staff attrition (%) - Voluntary	4%	2.40%
Staff attrition (%) - involuntary	1%	1.62%
% Female staff members	47%	46%
% Male staff members	53%	54%
% Of our staff who are younger than 40yrs	74%	79%
% Of our staff who have a tenure of more than 10 years	38%	31%
% Of our staff who have disabilities	0.5%	0.40%
% Permanent staff	90%	91%
% Contract staff	10%	9%
No. of paternity leave applicants	176	204
No. of maternity leave applicants	169	192

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 We aim to inspire our employees have meaningful life and work, be healthier and happy to work in Co-op bank every day.
- Conducted Health promotion through webinars- Covid-19 awareness webinars, nutritional talks, webinars on lifestyle diseases & ergonomics-25 webinars sessions , 10 mental health talks. Upscaling of Employee Assistance Programs (EAPs) by creating awareness of Alcohol and Drug (A&D) abuse.
- Wellness Talk's carried out Bank wide. Covid 19 Pandemic initiatives- Enhancement of Occupational Safety & Health at the Workplace-provisions for Personal Protective Equipment (PPE's), regular talks and regular communication to staff on handling of Covid 19 Pandemic and daily follow up & care calls for staff affected. Corporate Wellness plan for 2021 key focus was on financial wellness & family health.
- The bank facilitated 13 fully furnished and ready to use lactation rooms across the network for use by lactating mothers.
- Offered Psychological support & counselling- total number of individuals/dependents referred for counselling- 100, group/team debriefing sessions -6

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. Implementation of the recommendations of the Banking Industry PwDs (People living with disabilities) Pilot Project Report, by InABLE in collaboration with Kenya Bankers Association and Financial Sector Deepening (FSD Kenya). Co-operative bank Ltd was among the 7 banks that participated in the PWDs digital accessibility study.

We have modernized lifts to support our persons with disabilities.

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 2021. Group wide voluntary attrition was only 4% and 1% was involuntary.
- Our target is an employee satisfaction rate of at least 91% 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. Total trained in 2021 is 8992; 2059 were physical & 6933 were virtual.
- 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 2020, improved by 33% mainly due to transform1tive initiatives in Sales Force Effectiveness (SFE), operational efficiencies, proactive retention, re-skilling, upskilling, coaching and clarity of performance expectations. This allows career progression, acceleration and growth opportunities for the young and energetic team with 74% being under 40 years. This has further enhanced internal mobility of talent.

HR Policy Framework

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

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.

1. Disciplinary, Grievance Policy and Procedures
2. Retirement Benefits Scheme
3. Sexual Harassment Policy
4. Bank's Medical scheme Rules for Staff
5. HIV/Aids Policy Leave Policy
6. People with Disabilities Policy
7. Policy On Overtime
8. Occupational Safety and Health Policy (OSHA)
9. Promotion Policy
10. Code of Conduct & Ethics
11. Recruitment Policy
12. Dress Code Policy For Bank Employees
13. Recruitment and employment documentation policy
14. Guidelines on the Use of Motor Vehicles
15. Vocational employment
16. Policy Guide On Employee Benefits and Allowances
17. Performance Management Policy
18. Loan Facilities
19. Performance Improvement Policy
20. Transfer Of Staff
21. Dress Code Policy
22. Whistle blowing policy
23. On job training procedure and work rotation policy
24. Collective Bargaining Agreement

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.

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.

Labour 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 partnerships 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; 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

    I. 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;

    II. 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.

    III. Presents a higher than normal security risk to the Bank

        1. Tax compliance (Valid Tax Compliance Certificate)
        2. Kenya Revenue Authority Pin certificate
        3. Business/ certificate of registration which the bank counterchecks with the registrar of companies.
        4. Certificate of registration with the requisite professional bodies.
        5. Professional Indemnity cover for professional bodies.
        6. Contractual liability cover for requisite firms offering services.
        7. Relevant experience in carrying out the services or supply of goods.
        8. Audited accounts for 3 years for assurance.

Supplier Diversity

We have 1378 local suppliers and 63 foreign suppliers. In 2021, we paid over Kshs 13.7 Billion to our suppliers. Of this amount, 88% 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 stopshop' 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 re-engineered 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 on board 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.

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 workspaces 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 programmes, 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)

Co-op Bank has a large investment in sport sponsorship across the country. Cabinet secretary Dr. Monica Juma presents awards to winners at a bank sponsored sports event.

Energy & Resource Management

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 directly and indirectly fund projects engaged in: I. Construction or physical improvements related to energy and water performance II. Improvements of at-risk public lands, forests and waterways and the general cleanup III. Creating awareness of the benefits of energy and water conservation/efficiency and solid waste recycling amongst our staff.

We conducted our first energy audit in 2016. We completed the second in 2020 aimed to gauge our resource efficiency, identify gaps and areas of improvement. The system enables manageable and accounting for energy usage. The bank has also established and staffed the Energy Manager office to steer the process.

Our energy management roadmap

The bank has also drawn an Energy Management Policy Statement as a demonstration of its commitment to fulfilling the requirements of the Energy Management regulations and ultimately a cleaner, greener environment. Energy management is critical in ensuring that Cooperative 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 2020. The regulations outline 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;

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-op Cash E-Flexi and Flexi plus loans eliminating paper use. The e-loan book disbursements grew by 70.5 Billion in 2021.
- 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.
- 94% 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.

What we are doing:

1. Lighting upgrade installations - This has been going on and we intend complete all the LED lighting replacements, currently ongoing. All new branches have LED lighting installed including lighting controls.
2. 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 81 Managers on a continuous basis on this to ensure that they fully understand the subject properly.
3. Water management – Ensure all facilities connected to piped water have water fixtures that are efficient.

WATER COSTS	
2021	2020
32M	32.7M

4. Energy audits - 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.
5. Measurement and verification - We carry out computations with measured data and analysis of electricity bills to establish
6. energy and cost savings. This enable us to determine whether we are making positive impact after implementation of the initiative or not.
7. Energy management policy development - The policy guides the whole organization in terms of its overall energy management goals and objectives.

- Maximize energy performance, reduce operating expenses andNincrease shareholder value by actively and responsibly managing energy consumption.
- Measure and understand our energy consumption in all itsNforms, 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.

Major facilities – Our identified major facilities consume approx. 31% of the total energy demand of the bank. Some of the ongoing energy management initiatives targeting these facilities include:

i. Lifts Modernization-Ongoing

ii. Data Centre Inrow Containment.

iii. Data Centre Infrastructure Management System.

iv. Installation of Chillers.

v. Power Factor Correction.

vi. Solar Water Heating where necessary. We implemented a solar system at our Leadership and Management Centre.

Country Director Bodo Imminik, Head of Co-op Bank Foundation Ms Dora Waruiru. Co-op Bank and GIZ launched a 500,000 Euro (Approx. Ksh 64 Million) partnership to promote Boda Boda business and safety.

ENERGY & RESOURCE MANAGEMENT

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 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.

ENERGY MANAGEMENT POLICY STATEMENT

Co-operative Bank (Co-op Bank) recognizes and appreciates the importance of Energy Management in the Bank. Co-op Bank is therefore committed to responsible Energy Management and efforts to reduce energy use and costs will support the Bank's commitment to the environment and the communities in which we are part.

Co-op Bank therefore issues this Energy Policy Statement to its employees and stakeholders with the purpose to raise awareness and to be a world class performer on energy efficiency and conservation and to reduce environmental impact of energy use.

Co-operative Bank's objectives under this policy are:

- To maximise our energy performance, reduce our operating expenses and to increase our shareholder value by actively and responsibly managing our energy consumption.
- To 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.
- To demonstrate commitment to our community and leadership in our industry, by reducing environmental impacts associated with energy use.

To achieve these objectives Co-operative Bank has committed to:

- Complying, as a minimum requirement, with relevant energy management laws, regulations and codes of practice in existing operations, upgrades and new developments.
- Providing the resources needed to establish, implement, maintain and improve the Energy Management System and the resulting energy performance. Resources include human resources, specialised training and skills, technology and financial resources.
- Communicating the importance of our Energy Management Policy and relevant procedures to employees, suppliers, contractors and other stakeholders.
- Management review of the policy, energy objectives and targets.

This policy shall apply to all Co-operative Bank's facilities, business units, employees, and contractors in service to our business.

DR. GIDEON MURIUKI-CBS, MBS
GROUP MANAGING DIRECTOR & CEO
JUNE 2020

The above Energy Management Policy meets the requirements of the Energy (Energy Management) Regulations, 2012 and is hereby approved by the Energy and Petroleum Regulatory Authority.

Signature ______________ **Date** 05/08/2020

Chairperson, Electricity and Renewable Energy Licensing Committee

CO-OPERATIVE BANK
We are you

Regulatory Compliance

The energy Management Regulations of 2012 mandates the bank to do the following:

- Conduct energy audits once every three years
- Develop an energy policy
- File implementation reports - derived from the Energy Audit Report
- Designate an Energy Manager
- Develop an Energy Investment Plan
- Implement Energy Audit recommendations to achieve at least 50% of the recommended savings
- Carry out monitoring of the energy efficiency projects
- Keep a record of production and consumption data

ENERGY AWARD

Our Energy Manager, was awarded Energy Manager of Year SubSaharan Africa Region in 2020 : Through its International Awards program, Association of Energy Engineers (AEE) shines lights on important work that is being done by individuals, organizations, agencies and corporations in the energy industry. These awards identify those who exemplify the very best in their fields. By identifying those who exemplify the very best in their fields, energy professionals are honored, and the industry is advanced.

This award is presented to individuals for outstanding accomplishment in promoting the practices, principles of energy management and for superior service to the Association. Usually awarded to the Corporate director of Energy or Energy Manager performing duties for an industrial firm or building owner/manager.

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.

Where we are: Energy Costs

	Electricity
2021/2020	2.6% Increase

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. 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 policy to ensure ethical products and services.

Origination

Proper product setup, pricing, Scoring, Credit reports, and preapproval

Processing and approval Document

verification, Risk & credit analysis reports, approval.

Portfolio management

We have a proactive approach to managing our loan book.Portfolio management- we have aproactive 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.

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.

Detailed earlier in this section of the report are some of the initiatives we have put in place for a greener environment.

In collaboration with our funding partners;

USD 10 Million in partnership with Eco. Business Fund to finance sustainable agriculture
USD 75 Million in partnership with IFC to support customers to better cope with the disruptions brought about by the pandemic, especially those operating in the Micro small and medium enterprises (MSMEs), Businesses undertaking Climate-Smart Projects, including agricultural inputs and sustainable agricultural practices, renewable energy, energy efficiency and related areas.

Local Environmental 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 2021, our green lending book stood at Kshs. 1.7 in 2021 (Kshs.3.4 in 2020). 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 activi-ties in support of Kenya's effort to increase forest cover to the recommended 10% of area.

Environmental Stewardship

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).

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 PERFOMANCE: KEY INDICATORS

		Dec-21	Dec-20	Dec-19	Dec-18	Dec-17
	YoY		KSHS.B	KSHS.B	KSHS.B	KSHS.B
Loans and advances to customers (net)	8.2%	310.2	286.6	266.7	245.4	253.9
Total Assets	8.0%	579.8	536.9	457	413.4	386.9
Customer deposits	7.7%	407.7	378.6	332.8	306.1	287.4
Borrowed funds	(6.8%)	42.9	46	26.4	23.9	21.2
Total Liabilities	7.7%	479.0	444.9	376.2	342.2	316.6
Total Shareholders' Funds	10.5%	100.2	90.7	79.3	69.9	69.6

		Dec-21	Dec-20	Dec-19	Dec-18	Dec-17
	YoY	KSHS.B	KSHS.B	KSHS.B	KSHS.B	KSHS.B
Total Interest Income	14.0%	55.6	48.8	43.6	43	40.4
Total Interest Expenses	16.9%	14.6	12.5	12.3	12.2	12.3
Net Interest Income	13.0%	41.0	36.3	31.3	30.8	28.1
Fees and commissions on loans and advances	5.7%	5.4	5.1	3.2	0.6	2.6
Other Fees and commissions	26.2%	9.8	7.8	9.6	8.9	7.2
Foreign exchange trading income	0.4%	2.8	2.8	2.1	2.3	2.2
Total Non-Interest Income	10.8%	19.4	17.5	17.2	12.9	13.5
Total operating income	12.3%	60.4	53.8	48.5	43.7	41.6
Loan loss provision	-2.3%	7.9	8.1	2.5	1.8	3.6
Total Operating Expenses	-3.3%	38.1	39.4	27.8	25.7	25.3
Profit Before Tax	58.6%	22.6	14.3	20.7	18.2	16.4
Profit After Tax	53.0%	16.5	10.8	14.3	12.7	11.4

	Dec-21	Dec-20	Dec-19	Dec-18	Dec-17
Capital Adequacy Ratios					
Core capital (Tier 1) to Total Deposits	19.6%	19.1%	20.2%	19.3%	20.0%
Core capital(Tier 1) to Total risk weighted assets	15.6%	15.4%	16.3%	16.0%	15.8%
Total capital / Total risk weighted assets	17.0%	16.9%	16.8%	16.4%	22.0%
SHEQ Capital / Average Assets	17.9%	18.3%	18.2%	17.5%	18.8%
Debt to Equity Ratio (Total Debt / SHEQ)	42.8%	50.7%	33.3%	34.3%	30.4%
Asset Quality Ratios					
Cost of Risk	2.7%	2.9%	1.0%	0.7%	1.5%
Non-Performing Loans in Total Loans (Group)	14.0%	18.1%	9.9%	10.3%	7.0%
Non-Performing Loans in Total Loans (Bank)	12.7%	16.5%	9.9%	10.2%	7.0%
Earnings and Efficiency Profitability Ratios					
Return on Average Asset (ROAA)	3.0%	2.2%	3.3%	3.2%	3.1%
Return on Equity (ROAE)	17.3%	12.7%	19.2%	18.3%	17.4%
Net Interest Margin	8.9%	8.9%	8.8%	9.4%	8.9%
Non - Funded to Total Operating Income	32.1%	32.5%	35.4%	29.5%	32.4%
Cost Income Ratio (With provision)	63.0%	73.2%	57.4%	58.8%	60.9%
Cost Income Ratio (Without Provision)	49.9%	58.1%	52.1%	54.6%	52.2%
Liquidity Ratios					
Liquidity ratio	53.8%	52.2%	46.2%	41.1%	33.8%
Total Loans to Total Deposits	75.9%	75.7%	80.1%	80.1%	88.2%
Loans /(Deposits+Borrowed Funds)	68.7%	67.5%	74.2%	74.3%	82.0%
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 is moving beyond compliance with minimum regulatory requirements.

In the Material Matters section of this integrated report the Banks risk management on Covid-19 Pandemic is discussed in detail.

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.

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 trade-off.
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).

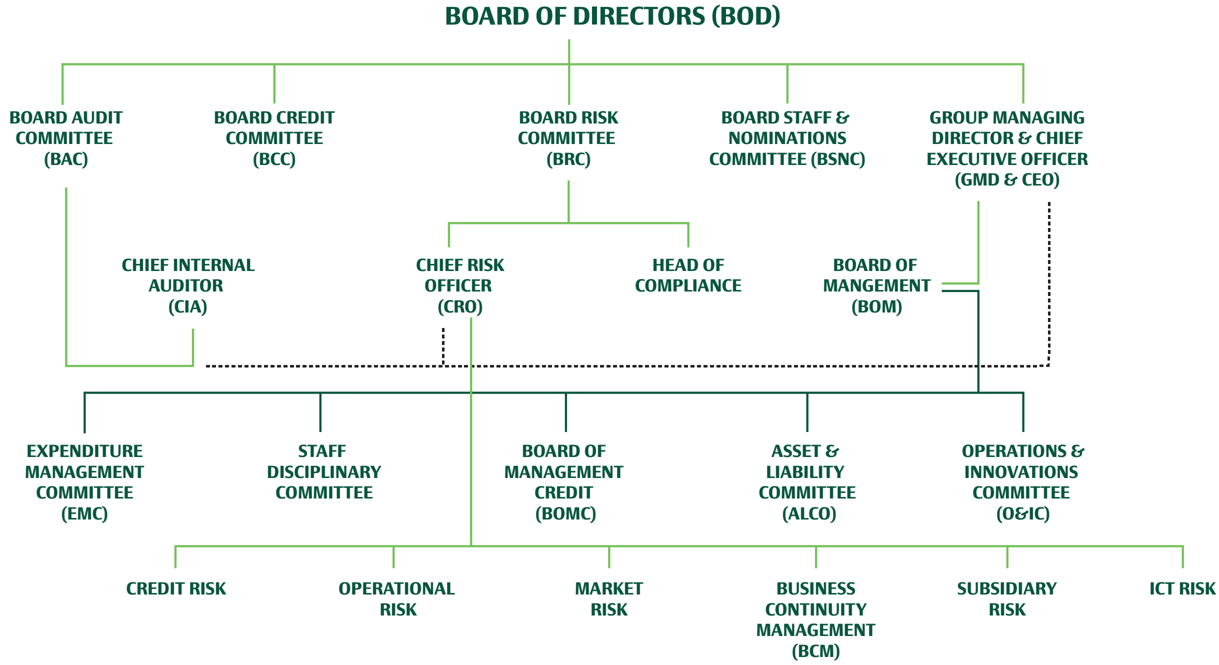
The Group Managing Director & CEO who reports to the Board of Directors (BOD), is supported closely by the Board of Management, Asset and liability Committee, Board of Management Credit, Expenditure Management Committee, Staff Disciplinary Committee and the Operations & Efficiency Committee.

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

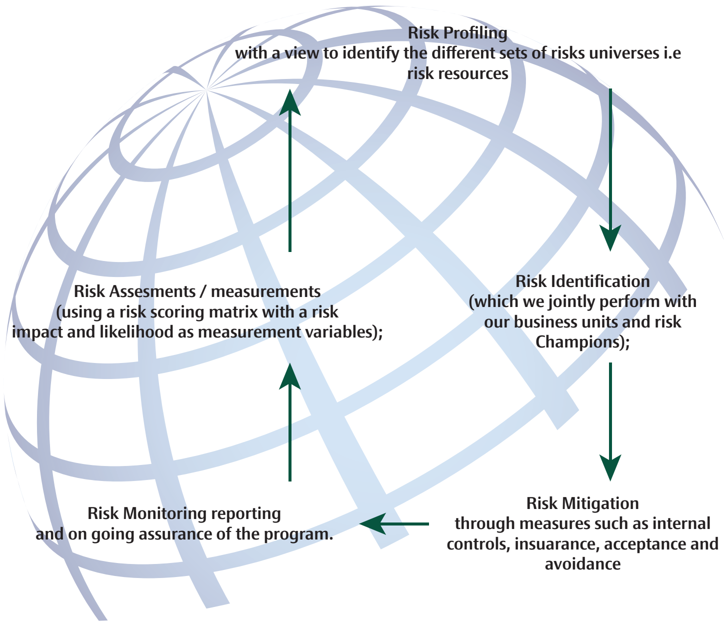
These committees are integral to the Group's risk governance structure.



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 Appetite Framework & Statement

Risk appetite is the level of risk that the Group chooses to on board 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

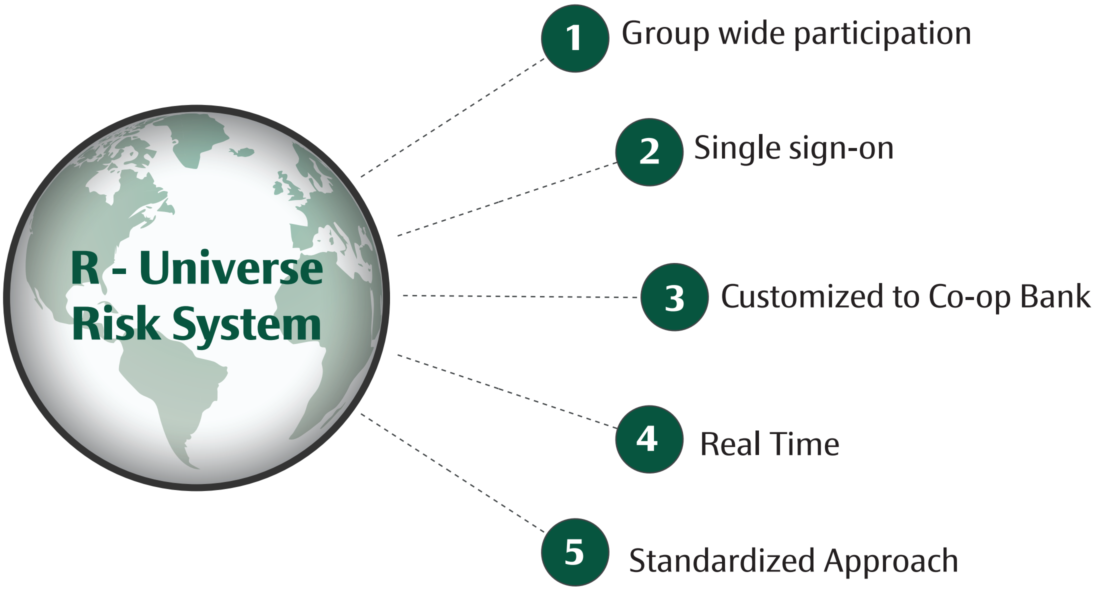
Types of Risk We face	Key risk indicators	2021 Risk Review	Outlook
Pillar 1 Risks			
Credit	• Loan Book Growth • Non-performing • Loan Book growth • Cost of risk • Coverage	• Loan Book Growth 8% • NPL ratio 14% Group • NPL ratio 12.7% Bank • Cost of risk 2.7% • IFRS Coverage 68.5% (51.8% 2020)	• Successful implementation of the following 2 projects that have been detailed in the strategic focus section of this report. √ Credit Review Implementation Project "Project Kilele" with McKinsey &Co. √ Decentralization of loan portfolio management enabling Project 3C (Connect, Collect and Cure). √ Project Connect & Build (CB) – focused on co-creating solutions with our customers to grow the loan book and increase product holding.. √ NPL management initiatives under our Transformation Agenda. • 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 affected.

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. • Stress testing on identified Key Risk Indicators.
Pillars 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) Liquidity Coverage Ratio. • (NSFR) Net Stable Funding Ratio.	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 2021 – 53.8%)	• 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.

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 taking into account the impact of the COVID-19 pandemic which inhibited the full attainment of the bank's 2021 targets. • 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 as well as adequately address any other emerging risks due to COVID-19 pandemic. • 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 & 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 (and its subsequent upgrade in 2020 to a web-based application) was timely with one of the key benefits being the provision of 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 2021 took the following forms;

BOM and BOD presentations and reports	Online training for our various Departments and branches	Core briefs to all staff sent through email for team discussion and feedback
Risk policies repository on Bank's intranet that is accesible to all staff	Risk champions representing all the subsidiaries, departments and branches	CRO Corner - Communication from the Chief Risk Officer to all staff

Proactive management of risk through our Risk Appetite Framework.

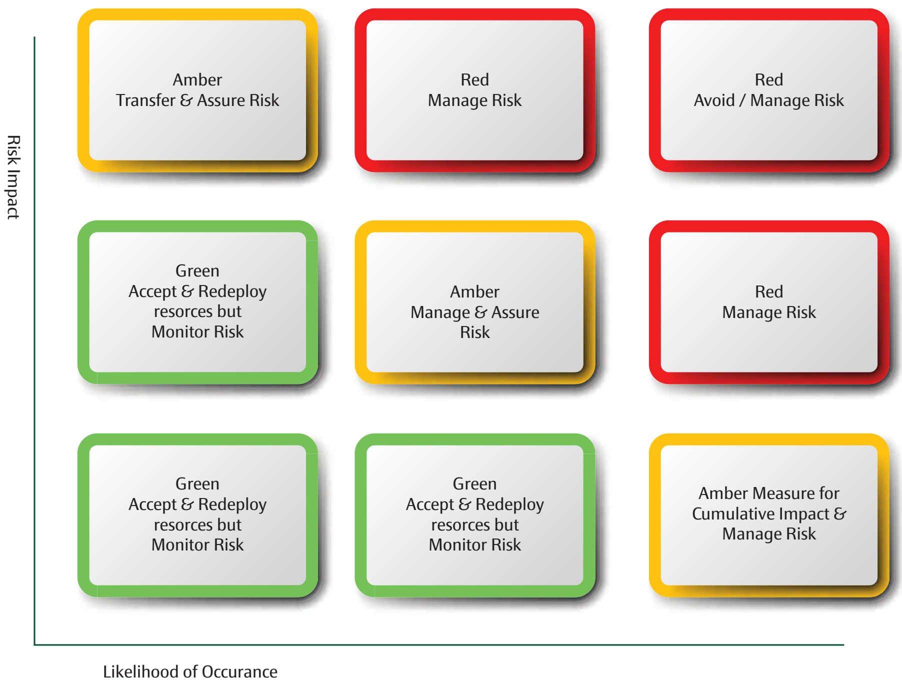
This is an important tool for enhancing the level of quantitative risk management program within the Group. Our Risk Appetite Statement was developed and approved by the Board, and we use it to monitor and report on the key risks and deviations from the appetite that impact the Group. Through the framework 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 2021 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.

Risk Heatmap

As part of the bank's risk assessment process, a 2 * 2 risk matrix is used to assess the level of risk taking into account the likelihood of occurrence vis a vis the Risk impact which enhances risk visibility. The overall risk rating attained is derived from a combination/ product of the impact score and the likelihood score, which can be used to prioritize the assessed risks as either High, Moderate or Low Risk.



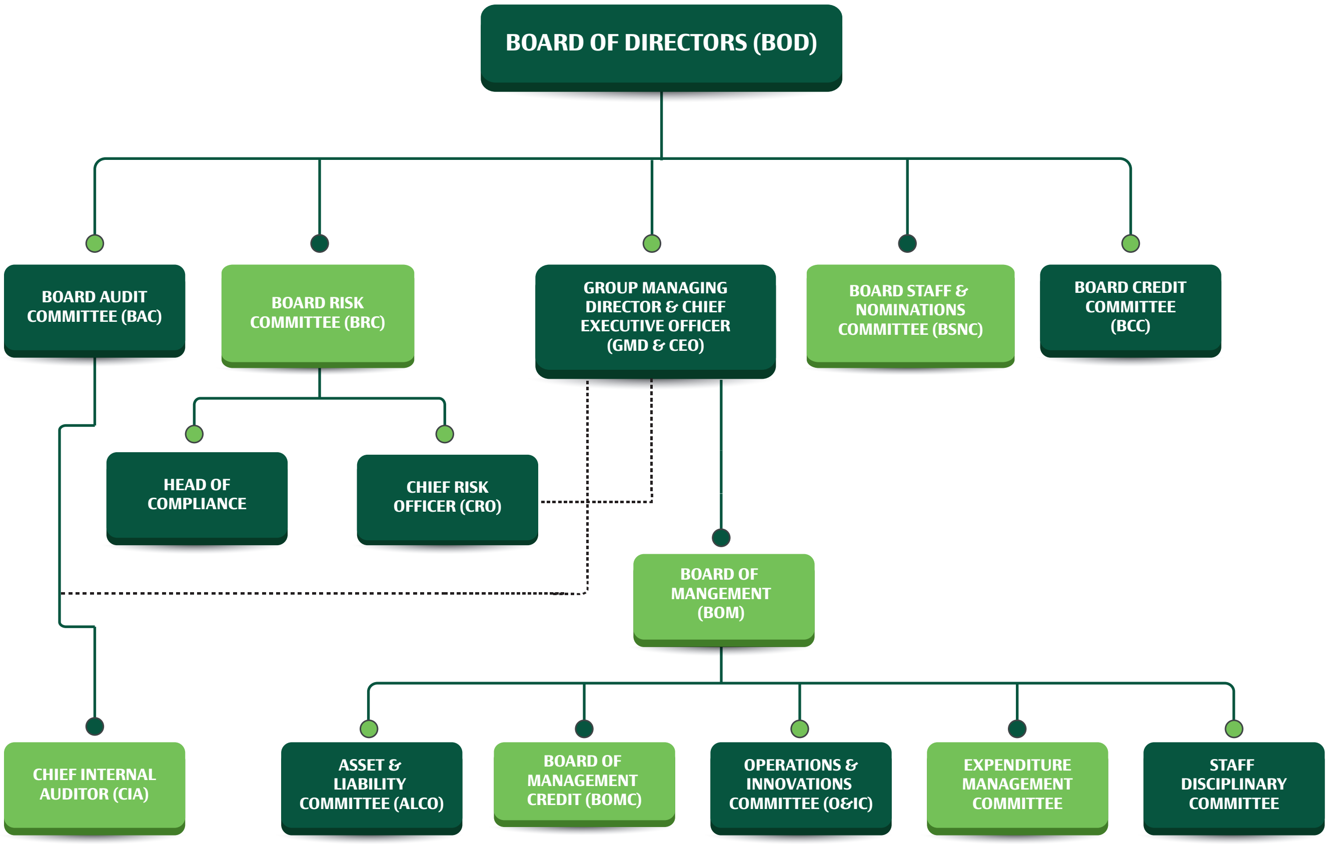
Outlook -2022 and Beyond Risk Priorities

- Proactive monitoring of the COVID-19 pandemic to assess its continuous impact to the bank's stakeholders as well as the overall macroeconomic environment.
- Continue supporting the Credit Risk Adaptation Project (Detailed in the Strategic Focus Review section of this report)
- Actively ensuring that our Policy framework is up to date and benchmarked to ensure optimal guidance on risk matters.
- Ensuring the Board of management and Board Risk Committee are informed on emerging and current risk issues for enhanced strategic decision- making.
- 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, OGW, Director, Independent, (71)			• Banking • Public Finance • Organizational Change and Devel-opment • Business Administration • Management Information Systems • Strategic Planning • Public Secretarial • Public Secreatarial • Strategic Leadership • Corporate & institutional Banking • Mathematics • Bussines Management • Coffee industry Management • Human Resource Management • Accounting • Education Management • Co-operative Management • Tax • Economics • Foreign affairs • Finance
2.	Macloud Malonza, MBS, HSC, Director (53)			
3.	Dr. Gideon Muriuki, CBS, MBS, Group Managing Director & CEO (57)			
4.	Patrick K. Githendu, Director (68)			
5.	Weda Welton (Mrs.) Director, Independent (63)			
6.	Lawrence Karissa, Director, Independent (66)			
7.	Julius Sitienei, Director (67)			
8.	Benedict W. Simiyu, Director (60)			
9.	Richard L. Kimanthi, Director (65)			
10.	Wanyambura Mwambia, Principal Secretary - National Treasury Appointee (66)			
11.	Wilfred Ongoro HSC, Director (66)			
12.	Godfrey K. Mburia, Director (65)			
13.	Margaret Karangatha (Mrs.) Director, Independent (61)			

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 macro-economic 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 (2021) 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

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, MBS, 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 nonexecutive directors, currently constituted as hereunder: -

- Mrs. Weda Welton– 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. Weda Welton.
- 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.

Kibiwott Kandie of Embakasi Garrison talks to the press after winning the 10 km men's race at this year's KDF Annual Cross-country Championships held at the Moi Air Base in Eastleigh Nairobi on Friday 29 January 2021.

Board attendance summary

Directors-2021 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 & Bancassurance Intermediary Ltd**	**Co-op-trust Investment Services Ltd**	**Kingdom Securities**	**Audit Committee**	**Staff and Nomination Committee**	**Credit Committee**	**Risk Committee**	**Kingdom Bank**
Schedule of meetings:									
John K. Murugu, OGW – Chairman (appointed on 01 October-2017	5					2	2		
Macloud Malonza,MBS, HSC - Vice Chairman(appointed on 01 October 2017)	5	5	5				2		5
Dr. Gideon Muriuki, CBS, MBS – Group Managing Director & CEO	5	5	5			2	2		5
Lawrence C. Karissa	5				4	2		4	
Wilfred Ongoro, HSC	5						2		
W. J. Mwambia -Representing PS Ministry of Finance	5				4			4	
Julius Sitienei	5			5		2			5
Weda Welton (Mrs)	5				4	2			
Richard L. Kimanthi	5								
Benedict W. Simiyu	5				4			4	
Godfrey K. Mburia	5					2			
Patrick K. Githendu	5				4			4	
Margaret Karangatha (Mrs)	5						2	4	5
Scholastica Odhiambo (Mrs)		5	5						
James N. Njiru		5	5						
David M. Muthigani		5	5						
David Kirk Obonyo		3	3						
Geoffrey Njang'ombe		2	2						
Francis Ngone		5	5						
Geoffrey M'Nairobi		5	5						
Michael Muriithi		5	5						
Boaz Ouma Awitti				5					
Mwangi Kariuki				5					
Arthur Muchangi				5					
Anthony Wangari				5					

Co-op Bank South Sudan			
	Full BOD	Audit	Risk & Finance
Schedule of meetings:			
ENG.William W. Mayar-Chairman	4		2
John K. Murugu, OGW	4	2	
Macloud Malonza,MBS, HSC	4		2
Dr. Gideon Muriuki, CBS, MBS – Group Managing Director & CEO	4	2	2
Elijah Wamalwa-Managing Director	4	2	2
Prof. Mathew Gordon Udo	4	2	
Rosemary M. Githaiga (Mrs.)	4		
Hon. Ocum Genes Karlo	4		

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 2021 loans to Non-Executive Directors or companies controlled by Directors amounted to Kshs 349.6M (2020: KShs.400.7M). 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. (2020: 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 2021 was as follows:

Board Of Directors Shareholding as at 31st Dec 2021

Name	No. Shares	% Shareholding
John K. Murugu, OGW – Chairman	1,895,040	0.03
Macloud Malonza, MBS, HSC – Vice Chairman	5,160,000	0.09
Dr. Gideon Muriuki, CBS, MBS – Group Managing Director & CEO	102,528,400	2.00
Lawrence C. Karissa	3,860	-
Wilfred Ongoro, HSC	84	-
Wanyambura Mwambia	-	-
Julius Sitienei	4,000,000	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	-
Weda Welton (Mrs.)	3,254,000	0.06
Scholastica Odhiambo (Mrs.)	1,825,524	0.03
James N. Njiru	1,680	-
David M. Muthigani	11,592	-
Francis Ngone	-	-
Geoffrey M'Nairobi	283,220	-

Leasing Business Expands: Flag-off following the conclusion of a Leasing transaction with partners Simba Colt Motors and Co-op Bank Fleet Africa Leasing Ltd to provide transport vehicles to the Kenya Police Service.

Recently Co-operative Bank introduced pension backed mortgage programme where people can use part of their pension to purchase affordable residential houses- a first in Kenya.

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

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Financial Statements:

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
GROUP INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2021

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

Kingdom Bank Ltd
Kingdom Bank Towers
Argwings Kodhek Rd.
P.O. Box 22741-00400
NAIROBI

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

Co-op Consultancy & Bancassurance Intermediary 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

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2021

The directors submit their report together with the audited financial statements for the year ended 31 December 2021.

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 113.

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, Kingdom Bank Limited, Co-op Trust Investment Services Limited, Co-op Consultancy & Bancassurance Intermediary Agency Limited, Kingdom Securities Limited, and Co-operative Bank of South Sudan Limited have been included in the Group financial statements. Co-op Consultancy & Bancassurance Intermediary 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 128.

5. RECOMMENDED DIVIDEND

The directors recommend payment of a first and final dividend of KShs 1 (2020 - KShs 1) for every ordinary share of KShs 1. The dividends will be paid on or about 17 June 2022 to the shareholders registered on the Bank's register at the close of business on 30 May 2022. The register will remain closed for one day on 31 May 2022 for the preparation of dividend warrants.

6. RESERVES

The movement in the Group's reserves is shown on page 134 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,MBS, HSC	- Vice Chairman
Dr. G. Muriuki, CBS, MBS	- Group Managing Director & CEO
L.C. Karissa	- Chairman, Staff and Nominations Committee
Margaret Karangatha (Mrs.)	- Chairperson, Board Credit Committee
Weda Welton (Mrs.)	- Chairperson, Board Audit Committee
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	
David Kirk Obonyo	-Commissioner of Co-operatives- Appointed on 16th August 2021
Geoffrey N. Njang'ombe	-Commissioner of Co-operatives- Retired on 16th August 2021
F.Ngone	
G. M'Nairobi	
M. M. Muthigani	

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, MBS, HSC	
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.

Business Model

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

The Group also offers Fund Management, Consultancy & capacity building, Insurance Brokerage, Stock brokerage and leasing through its Subsidiaries.

The Bank has a customer base of 9.0 Million accounts holders. Its 178-branch network (4 in South Sudan, 17-Kingdom Bank) covers 43 counties in Kenya, with alternative channels growing: M-Co-op Cash (5.3 Million customers), Internet banking (over 88,000 customers 561 ATM's, Over 26,000 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. The Group continues to reap many benefits from an institutionalized Transformation 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 (8.6 Minutes by December 2021).
- End to end Migration to alternative banking channels with 94% of the transactions being in Alternative Banking Channels and only 6% in branches.
- MSME – Successful Market launch for the MSME initiatives; over 144,000 Clients on boarded by December 2021.
- E-credit growth focus – Over Kshs 70.5B disbursed in 2021.
- Implemented a customer centric relationship model: One Relationship Manager (RM), One Customer, Many products.
- Centralized operations support and Digitization through shared services. The Bank is in the process of upgrading its Core Banking System.
- Significant improvement on cost to income ratio from a high of 59% in Dec 2014 to 49.9% in December 2021.
- Proactive NPL management post IFRS 9
- Data analytics. Improved access and analysis of information throughout the organization.
- An effective performance and consequence management platform.

The Group has a proactive Corporate Strategic Plan 2020-2024. This continues to guide the Group enabling it to quickly reprioritize focus as the Covid-19 Pandemic Situation unfolds. Key focus is as follows.

- Sustained Enterprise risk management including Business Continuity Plan implementation.
- Proactive Regulatory compliance
- Operational excellence ensuring optimal systems uptime, optimized operational processes and data security as customers. Our focus is seamless and uninterrupted services and processes across all our channels.
- Quality loan Book growth leveraging on Sales Force Effectiveness and proactive credit management.

- New Frontiers in growing Liability and Non-Funded Income leveraging on Sales Force Effectiveness, strong customer base of 9 Million, digital channels and the ongoing MSME Transformation thus increasing sales.
- World class Customer experience to ensure complete customer loyalty.
- Cost optimization- Critical focus on lowering the overall cost to income ratio through increased efficiencies.
- Digital Transformation to take the Bank into the new frontier of digitalization.
- Staff productivity and a culture of high performance
- Collaboration with Fintechs to synergize their innovative capabilities.
- Synergized subsidiary business that will generate new revenue streams.
- Enhanced leasing business supported by the joint venture with Super Group.

Financial Review

Despite the difficult operating environment in 2021, the Group made a profit before tax of Kshs 22.6 Billion compared to Kshs.14.3 Billion in 2020. Loan book grew by 8% to Kshs 310.2 billion while customer deposits similarly grew by 8% to Kshs.407.7 Billion. Government securities increased by 14% to Kshs 184.1 Billion. The bank closed the year with a solid capital base with a core capital to risk weighted assets of 15.6%, which is 5.1% above the statutory minimum of 10.5%. Total capital to risk weighted assets was 17.0% against the statutory minimum requirement of 14.5%.

The performance in 2021 is an affirmation of the resilient business model in view of the most challenging operating environment occasioned by the Covid-19 pandemic that has brought about unprecedented economic and social disruption globally.

Covid-19 situation

The Group implemented proactive enterprise risk management initiatives to ensure uninterrupted business operations. The Group will continue to monitor how the situation evolves and continuously adopt appropriate response measures to protect and cushion all stakeholders.

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 39.8 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 16 March 2022.

By order of the Board

Group Managing Director & CEO

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2021

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 16 March 2022 and signed on its behalf by:

CHAIRMAN

VICE CHAIRMAN

GROUP MANAGING DIRECTOR & CEO

COMPANY SECRETARY

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

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 Bancassurance Intermediary 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
6) Kingdom Bank Limited-90% 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 virtual Annual General Meeting held on 22nd October 2021 the shareholders authorized the Board to fix the directors remuneration.

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 2021 loans to Non-Executive Directors or companies controlled by Directors amounted to Kshs 349.6M (2020: KShs. 400.7M). 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. (2020: 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 & CEO who is on a five-year renewable contract as per capital Markets Authority guidelines.

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
DIRECTORS' REMUNERATION REPORT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

Directors Remuneration Schedules

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

Amounts in KShs Million

Name	Monthly Retainer	Sitting Allowance	Travelling Facilitation	Honorarium	Responsibility Allowance	Housing Allowance	CEO Annual Remuneration	Total 2021	Total 2020
John K. Murugu, OGW – Chairman	4.51	0.5	0.68	4.86	6.17	2.98	-	19.70	19.43
Macloud M. Malonza, MBS, HSC	4.79	1.04	0.69	4.43	2.64	1.32	-	14.91	14.26
Patrick K. Githendu	1.69	0.59	1.02	4.14	2.29	1.04	-	10.77	10.65
Wanyambura Mwambia	1.45	0.57	0.88	4.14	-	-	-	7.04	6.83
Lawrence C. Karissa	1.45	0.64	1.72	4.14	-	-	-	7.95	8.22
Margaret Karangatha (Mrs)	1.45	0.48	0.85	4.14	-	-	-	6.92	6.82
Weda Welton (Mrs)	1.45	0.5	0.84	4.14	-	-	-	6.93	3.24
Julius Sitienei	1.45	0.31	1.06	4.14	-	-	-	6.96	6.96
Benedict Simiyu	1.45	0.54	1.57	4.14	-	-	-	7.70	7.83
Richard L. Kimanthi	1.45	0.31	1.38	4.14	-	-	-	7.28	7.29
Wilfred Ongoro, HSC	1.45	0.31	1.27	4.14	-	-	-	7.17	7.13
Godfrey Mburia	1.45	0.31	1.12	4.14	-	-	-	7.02	6.96
Scholastica Odhiambo (Mrs)	2.09	0.5	0.77	4.14	-	-	-	7.50	7.07
James N. Njiru	2.09	0.5	0.98	4.14	-	-	-	7.71	7.27
David M. Muthigani	2.09	0.5	0.97	4.14	-	-	-	7.70	7.26
Francis Ngone	2.09	0.5	0.93	4.14	-	-	-	7.66	7.22
Geoffrey M'Nairobi	2.09	0.5	0.98	4.14	-	-	-	7.71	7.27
Michael M. Muthigani	2.09	0.5	0.77	4.14	-	-	-	7.50	7.07
David Kirk Obonyo	0.95	0.27	0.74	1.43	-	-	-	3.39	-
Geoffrey N. Njang'ombe	1.13	0.23	0.04	5.57	-	-	-	6.97	7.07
Rose K. Simani (Mrs)	-	-	-	-	-	-	-	-	18.27
Dr. G. Muriuki, CBS, MBS - GMD & CEO	-	-	-	-	5.76	-	124.94	130.7	117.04
	38.66	9.6	19.26	82.53	16.86	5.34	124.94	297.19	291.16

b) Kingdom Bank Limited (90% Owned)

Amounts in KShs Million

Name	Monthly Retainer	Sitting Allowance	Travelling Facilitation	Responsibility Allowance	Housing Allowance	CEO Annual Remuneration	Total 2021	Total 2020
Stefan Kaiser	-	-	-	-	-	-	-	1.22
Richard Kiplagat	-	-	-	-	-	-	-	1.21
Timothy Kabiru	-	-	-	-	-	-	-	29.85
Paul D.P.Nyamodi	-	-	-	-	-	-	-	0.84
Samuel G. Mburu	-	-	-	-	-	-	-	1.31
Margaret Karangatha(Mrs)	2.80	0.74	-	-	-	-	3.54	0.17
Macloud M. Malonza,MBS,HSC	0.84	0.45	-	-	-	-	1.29	0.12
Julius Sitienei	0.84	0.39	-	-	-	-	1.23	0.12
	4.48	**1.58**	**-**	**-**	**-**	**-**	**6.06**	**34.84**

c) Kingdom Securities Limited (60% Owned)

Amounts in KShs Million

Name	Monthly Retainer	Sitting Allowance	Travelling Facilitation	Total 2021	Total 2020
Julius Sitienei – Chairman	0.72	0.28	0.33	1.33	1.26
Patrick K. Githendu	0.36	0.23	0.16	0.75	0.69
B. M. Ouma-Awiti	0.36	0.23	0.37	0.96	0.89
Samuel M. Kariuki	0.36	0.23	0.07	0.66	0.61
	1.80	**0.97**	**0.93**	**3.70**	**3.45**

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

Amounts in KShs Million

Name	Monthly Retainer	Sitting Allowance	Travelling Facilitation	Honorarium	Responsibility Allowance	Housing Allowance	Total 2021	Total 2020
Eng. William Mayar Wol – Chairman	2.84	0.44	-	-	4.14	4.14	11.56	17.92
John K. Murugu, OGW	1.52	0.26	-	-	-	-	1.78	2.53
Prof. Mathew Gordon Udo	1.41	0.16	-	-	-	-	1.57	3.08
Macloud M. Malonza, MBS, HSC	1.52	0.27	-	-	-	-	1.79	2.42
Hon. Ocum Genes Karlo	1.41	0.27	-	-	-	-	1.68	2.83
Rosemary Githaiga (Mrs)	1.52	0.19	-	-	-	-	1.71	2.37
Dr. G. Muriuki, CBS, MBS - GMD & CEO	1.52	-	-	-	-	-	1.52	2.16
	11.74	**1.59**	**-**	**-**	**4.14**	**4.14**	**21.61**	**33.31**

Five (5) Year Summary of Directors Emoluments

Amounts in KShs'000	2021	2020	2019	2018	2017
Directors emoluments	197,849	245,715	201,701	198,843	180,790

Executive Management Compensation

The Bank has undergone tremendous Growth transforming from a co-operatives-based sector model to a universal banking model. The Group 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 Kshs 580 Billion and a Profit Before tax of KShs 22.6 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 KShs 2.3 billion in year 2000 and an asset base of KShs.22.3 billion to the current profit before tax of over KShs 22.6 Billion and asset base of KShs.580 Billion. The Group has successfully implemented a Universal Banking Model and proactively grown market share with diverse offerings. This now includes a strategic investment in CIC Insurance Group, Bancassurance business, A full-fledged subsidiary bank (Kingdom bank), 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.

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

2011 Awards

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

2012 Awards

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

2013 Awards

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

2014 Awards

- 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 Awards

- 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 Awards

- 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 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

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

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
DIRECTORS' REMUNERATION REPORT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

Executive Management Compensation (Continued)

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

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

2020 Awards:

- Best Bank in Kenya by EMEA Finance African Banking Awards 2020
- Best Bank in Kenya by Financial Times Banker awards 2020

2021 Awards

EMEA FINANCE AFRICAN BANKING AWARDS 2021

- Best Bank CEO of the year – Africa

  The Board of Directors' bold decision to sustain the same level of dividend payments to shareholders despite the Covid-19 crisis offered a most timely relief, especially to the over 15 Million-Member Co-operative Movement, whose livelihoods would have been severely impaired had the dividend been withheld.

  The Bank notably also sustained a relentless focus on Staff Wellness with the unprecedented challenges occasioned by the Covid-19 pandemic; notably it undertook a bank-wide analysis to identify and address manpower inefficiencies spurred by the disruption, with a critical focus on staff redeployment/retention other than redundancies.

- Best Bank – Kenya
- Best Bank in Financial inclusion – Africa
- Best Asset manager, Co-optrust Investments Services - Kenya

GLOBAL SME FINANCE AWARDS 2021

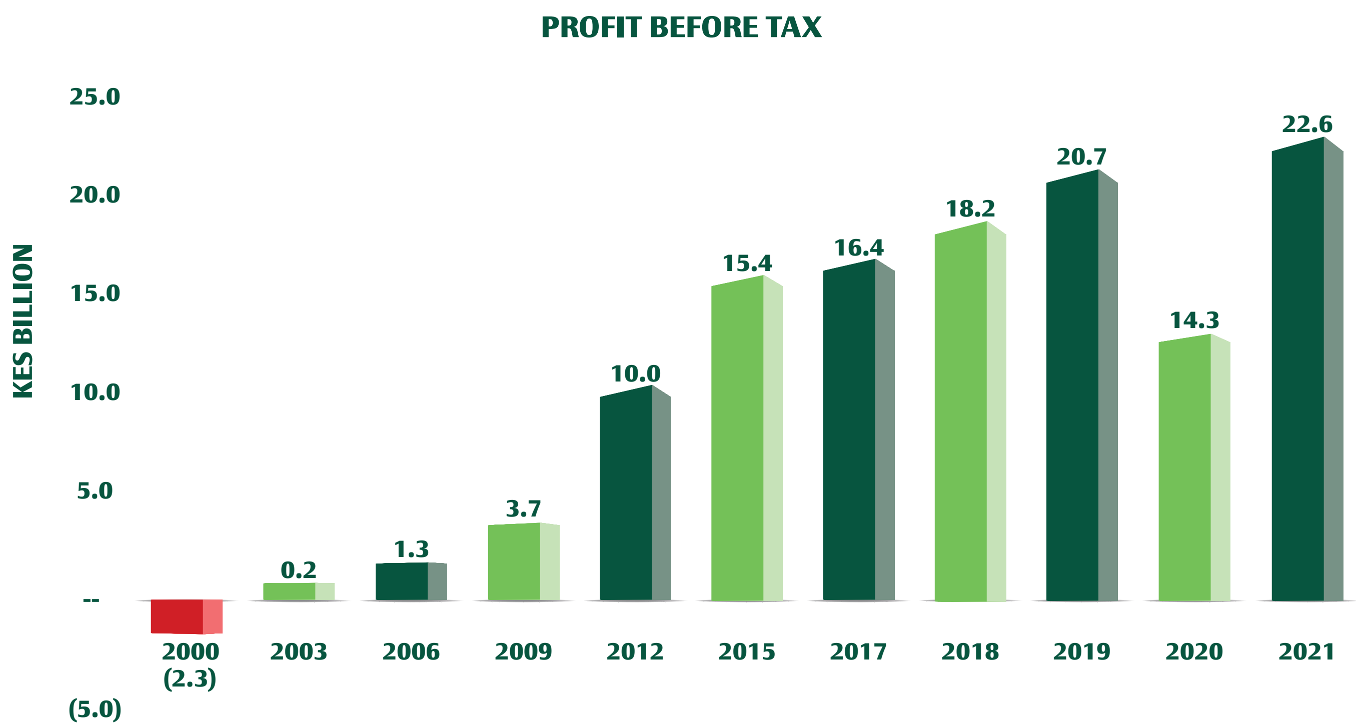
- Honorary Mention - Product innovation of the year 2021

VISA Awards 2021

- Best SME Acquirer solution Roll-out
- Best contactless champion – Issuing bank
- Most financially Inclusive Bank

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
DIRECTORS' REMUNERATION REPORT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

The performance summary for the group is as shown on the chart below.



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

Amount in KShs' Million	Salaries	Bonus/Gratuity	Fees, Other allowances and Honorarium
Board of Directors	-	-	197.8
Executive Management*	465.5	423.9	-
Group Managing Director & CEO	130.7	266.4	-

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 consolidated and separate financial statements of The Co-operative Bank of Kenya Limited and its subsidiaries ('the group') and Bank set out on pages 128 to 243, which comprise of the consolidated and separate statements of financial position as at 31 December 2021, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the 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 consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group and company as at 31 December 2021, and its consolidated and separate financial performance and 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 judgement, 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 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 consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements.

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 2021, the group had recognised an allowance for ECL for loans and advances of KShs 33.57 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 design and operating effectiveness 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. • For a sample of loan facilities, we 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.

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 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 2020 and 2021 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.

Key Audit Matter	How the matter was addressed in the audit
Impairment of the Goodwill amount recognised in the books on acquisition of Kingdom Bank Limited (formerly Jamii Bora Bank Limited) The Bank acquired 90% shareholding in Kingdom Bank Limited, formerly Jamii Bora Bank, on 5th August 2020 in a deal valued at Kshs 1 Billion, leading to an estimated Goodwill of KES 3.294 Bn arising in the books. IAS 36 Impairment of Assets requires an impairment test to be performed at least annually for CGUs to which goodwill or intangibles with an indefinite useful life have been allocated. The entity is required to annually assess whether there is any indicator that intangible assets with a finite useful life are impaired. We determined this area to be a key audit matter due to the significant judgment involved which required significant audit focus. Refer accounting policy Note 2(i) and disclosure Note 14 - Investment in subsidiaries.	Our audit procedures included the following: - • Evaluating the appropriateness of management's method of determining the fair value of the assets and liabilities acquired. • We engaged our valuation specialists to assess the methodology applied in the impairment assessment done by management and the appropriateness of the key assumptions used in determining the impairment balance. • We assessed the competency and experience of the specialist engaged by the Group to assist management in assessing the determination of goodwill impairment. • We evaluated the adequacy of the disclosures relating to the impairment of goodwill in the financial statements. Refer to note 14.

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, the directors are responsible for assessing the Group and Bank'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 and Bank 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 control.
- 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 control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of director'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 and/or the Bank 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 annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and Bank 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 the directors 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 the directors 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 the directors, 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 114 to 116 is consistent with the consolidated and separate financial statements; and,

ii) in our opinion, the auditable part of directors' remuneration report on page 118 to 123 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.

Nairobi, Kenya

31st March 2022

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Notes	2021 (KShs'000)	2020 (KShs'000)
ASSETS			
Cash and balances with Central Banks	7	30,828,477	26,348,136
Deposits and balances due from banks	8	8,535,973	16,915,263
Debt instruments at fair value through other comprehensive income	9	107,837,175	63,718,146
Equity instruments at fair value through other comprehensive income	9	395,933	398,342
Derivative financial instruments	10	199,765	75,549
Other assets	11	20,535,078	18,686,728
Loans and advances to customers	12(a)	310,195,297	286,634,192
Debt instruments at amortised cost	13	77,529,736	98,901,544
Tax recoverable	24(b)	-	666,502
Investments in associates	15	2,146,675	1,967,532
Intangible assets	16(a)	2,534,335	2,825,101
Leasehold land	17	33,302	33,912
Property and equipment	18(a)	6,389,748	7,939,594
Right of use assets	19(a)	3,956,444	4,362,015
Deferred tax asset	20	5,411,716	4,309,763
Good will	14	3,294,000	3,294,000
TOTAL ASSETS		**579,823,654**	**537,076,319**
LIABILITIES			
Deposits and balances due to banks	21	792,102	221,890
Customer deposits	22(a)	407,725,765	378,630,453
Loans and borrowings	23	42,914,622	46,026,141
Tax payable	24(b)	903,763	-
Provisions	25	173,866	116,825
Other liabilities	26	26,515,933	19,901,662
Government grants	27	406,465	424,941
Deferred tax liability	20	51,669	131,071
TOTAL LIABILITIES		**479,484,185**	**445,452,983**
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)	1,460,211	1,589,944
Retained earnings	30(b)	84,225,180	74,582,478
Fair value reserve	30(c)	(81,009)	546,230
Statutory reserve	30(d)	624,079	14,011
Foreign currency translation reserve	30(e)	(58,768)	(78,019)
Proposed dividends	31	5,867,180	5,867,180
		99,815,979	**90,300,930**
Non-controlling interest		523,490	1,322,406
TOTAL EQUITY		**100,339,469**	**91,623,336**
TOTAL LIABILITIES & EQUITY		**579,823,654**	**537,076,319**

The financial statements were approved by the Board of Directors on 16th March 2022 and signed on its behalf by: -

J. K. Murugu, OGW	-	Chairman	....
M. Malonza MBS, HSC	-	Vice Chairman	....
Dr. G. Muriuki, CBS, MBS	-	Group Managing Director & CEO	....
S. M. Kibugi	-	Company Secretary	....

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 (KShs'000)	2020 (KShs'000)
Interest and similar income	33	55,648,145	48,840,645
Interest and similar expense	34	(14,892,824)	(12,791,405)
NET INTEREST INCOME		**40,755,321**	**36,049,240**
Fees and commission income	35	15,233,684	12,901,027
Fees and commission expense	35	(133,557)	(331,529)
NET FEES AND COMMISSION INCOME		**15,100,127**	**12,569,498**
Net trading income	36	2,849,297	2,837,870
Amortisation of government grants	27	18,476	18,475
Write back of credit loss on other financial assets	40	-	-
Other operating income	37	1,428,455	2,054,881
TOTAL OTHER INCOME		**4,296,228**	**4,911,226**
OPERATING INCOME		**60,151,676**	**53,529,964**
Credit loss expense on loans and advances	12(c)	(7,929,256)	(8,111,824)
Credit loss expense on other financial assets	40	(540,675)	(585,350)
Amortisation of intangible assets	16(a)	(756,575)	(967,586)
Amortisation of leasehold land	17	(610)	(610)
Depreciation of property and equipment	18(a)	(1,486,349)	(1,687,344)
Depreciation-Right of use asset	19(a)	(1,268,050)	(1,317,487)
Employee costs	38	(13,324,217)	(13,421,673)
Other operating expenses	39	(12,502,660)	(13,006,291)
OPERATING EXPENSES		**(37,808,392)**	**(39,098,165)**
OPERATING PROFIT		**22,343,284**	**14,431,799**
Share of profit of associates	15	305,579	(149,939)
PROFIT BEFORE TAX		**22,648,863**	**14,281,860**
Income tax expense	24(a)	(6,104,960)	(3,468,985)
PROFIT FOR THE YEAR		**16,543,903**	**10,812,875**
Attributable to:			
Equity holders of the parent		16,729,008	11,594,089
Non-controlling interest		(185,105)	(781,214)
		16,543,903	**10,812,875**
Basic earnings per share (KShs)	41	2.85	1.98
Diluted earnings per share (KShs)	41	2.85	1.98

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 (KShs'000)	2020 (KShs'000)
PROFIT FOR THE YEAR		**16,543,903**	**10,812,875**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Financial assets at fair value through other comprehensive income	42	(559,225)	725,580
Revaluation of building surplus		-	-
Deferred tax related to building surplus		-	-
Share of other comprehensive income of associates			
-Fair value gain on debt instruments at fair value through other comprehensive income	15	4,050	4,492
-Exchange differences on translation of a foreign operation	15	-	7,823
Total items to be reclassified to profit or loss.		(555,175)	737,895
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):			
Revaluation gains/(losses) on equity instruments at fair value through other comprehensive income		-	-
Share of other comprehensive income of associates			-
- Revaluation of building	15	-	6,170
Total items that will not be reclassified to profit or loss		-	6,170
OTHER COMPREHENSIVE INCOME, NET OF TAX		**(555,175)**	**744,065**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF INCOME TAX		**15,988,728**	**11,556,940**
Attributable to:-			
Equity holders of the parent		16,122,659	12,338,513
Non-controlling interest		(133,931)	(781,573)
		15,988,728	**11,556,940**

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
BANK STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Notes	2021 (KShs'000)	2020 (KShs'000)
ASSETS			
Cash and balances with Central Bank of Kenya	7	27,511,150	20,795,376
Deposits and balances due from banks	8	6,970,086	16,381,436
Debt instruments at fair value through other comprehensive income	9	84,481,110	63,173,412
Equity instruments at fair value through other comprehensive income	9	309,038	308,095
Derivative financial instruments	10	199,765	75,549
Other assets	11	18,441,628	16,929,684
Tax recoverable	24(b)	-	697,799
Loans and advances to customers	12(a)	304,584,437	280,522,176
Debt instruments at amortised cost	13	77,235,179	77,516,586
Investments in subsidiaries	14	3,884,925	3,512,920
Investments in associates	15	706,444	706,444
Intangible assets	16(b)	2,442,970	2,699,811
Leasehold land	17	33,302	33,912
Property and equipment	18(b)	5,094,508	5,577,625
Right of use asset	19	3,411,854	3,925,238
Deferred tax asset	20	5,080,346	3,966,886
TOTAL ASSETS		**540,386,742**	**496,822,949**
LIABILITIES			
Deposits and balances due to banks	21	754,572	654,958
Customer deposits	22(a)	398,686,293	369,429,653
Loans and borrowings	23	20,144,729	22,262,674
Tax payable	24(b)	907,798	-
Provisions	25	173,617	116,576
Other liabilities	26	24,800,210	18,761,707
Government grants	27	406,465	424,941
TOTAL LIABILITIES		**445,873,684**	**411,650,509**
EQUITY			
Share capital	28	5,867,180	5,867,180
Share premium	29	1,911,926	1,911,926
Revaluation reserve	30(a)	1,281,592	1,316,635
Retained earnings	30(b)	79,383,183	69,602,038
Fair value reserves	30(c)	201,997	607,481
Statutory reserve	30(d)	-	-
Proposed dividends	31	5,867,180	5,867,180
TOTAL EQUITY		**94,513,058**	**85,172,440**
TOTAL LIABILITIES & EQUITY		**540,386,742**	**496,822,949**

The financial statements were approved by the Board of Directors on 16th March 2022 and signed on its behalf by:-

J. K. Murugu, OGW - Chairman ....

M. Malonza MBS, HSC - Vice Chairman ....

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

S. M. Kibugi - Company Secretary ....

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
BANK STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 (KShs'000)	2020 (KShs'000)
Interest and similar income	33	52,244,587	46,613,399
Interest and similar expense	34	(14,418,488)	(12,494,876)
NET INTEREST INCOME		**37,826,099**	**34,118,523**
Fees and commission income	35	13,452,556	10,976,392
Fees and commission expense	35	(120,807)	(319,367)
NET FEES AND COMMISSION INCOME		**13,331,749**	**10,657,025**
Net trading income	36	2,703,645	2,305,791
Amortisation of government grants	27	18,475	18,475
Other operating income	37	1,266,692	3,419,601
TOTAL OTHER INCOME		**3,988,812**	**5,743,867**
OPERATING INCOME		**55,146,660**	**50,519,415**
Credit loss expense on loans and advances	12(c)	(7,499,998)	(7,516,667)
Credit loss expense on other financial assets and commitments	40	(365,318)	(580,990)
Amortization of intangible assets	16(b)	(737,383)	(700,218)
Amortisation of leasehold land	17	(610)	(610)
Depreciation of property and equipment	18(b)	(1,162,788)	(1,323,247)
Depreciation-Right of use asset	19(b)	(1,196,802)	(1,196,781)
Employee costs	38	(12,435,592)	(12,455,467)
Other operating expenses	39	(10,422,842)	(9,784,805)
OPERATING EXPENSES		**(33,821,333)**	**(33,558,785)**
PROFIT BEFORE TAX		**21,325,327**	**16,960,630**
Income tax expense	24(a)	(5,727,064)	(3,241,362)
PROFIT FOR THE YEAR		**15,598,263**	**13,719,268**
Basic earnings per share (KShs)	41	2.66	2.34
Diluted earnings per share (KShs)	41	2.66	2.34

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
BANK STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 (KShs'000)	2020 (KShs'000)
PROFIT FOR THE YEAR		**15,598,263**	**13,719,268**
OTHER COMPREHENSIVE INCOME:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Financial assets at fair value through other comprehensive income	42	(405,484)	660,763
Revaluation of land and buildings surplus		-	-
Deferred tax related to building surplus		-	-
Total items to be reclassified to profit or loss		(405,484)	660,763
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):			
Revaluation gains/(losses) on equity instruments at fair value through other comprehensive income		-	-
Total items that will not be reclassified to profit or loss		-	-
OTHER COMPREHENSIVE INCOME, NET OF TAX		**(405,484)**	**660,763**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		**15,192,779**	**14,380,031**

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital	Share premium	Revaluation reserve	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Proposed dividends	Retained earnings	Total	Non-controlling interest	Total equity
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January 2020	**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**
Profit /(loss) for the year	-	-	-	-	-	-	-	11,594,089	11,594,089	(781,214)	10,812,875
Other comprehensive income	-	-	4,652	-	731,950	7,823	-	-	744,425	(359)	744,066
Total comprehensive income	**-**	**-**	**4,652**	**-**	**731,950**	**7,823**	**-**	**11,594,089**	**12,338,514**	**(781,573)**	**11,556,941**
Transfer of excess depreciation	-	-	(50,062)	-	-	-	-	50,062	-	-	-
Deferred tax on excess depreciation	-	-	15,019	-	-	-	-	-	15,019	-	15,019
Transfer from statutory reserve	-	-	-	(1,611,238)	-			1,611,238	-	-	-
Exchange difference on hyperinflationary economy	-	-	145,562	(14,643)				(163,507)	(32,588)	327,271	294,683
Acquisition of a subsidiary, note14	-	-	-	-	-	-	-	4,955,396	4,955,396	255,000	5,210,396
2019- Dividends paid	-	-	-	-	-	-	(5,867,180)	-	(5,867,180)	-	(5,867,180)
Proposed dividends	-	-	-	-	-	-	5,867,180	(5,867,180)	-	-	-
At 31 December 2020	**5,867,180**	**1,911,926**	**1,589,944**	**14,011**	**546,230**	**(78,019)**	**5,867,180**	**74,582,478**	**90,300,930**	**1,322,406**	**91,623,336**

	Share capital	Share premium	Revaluation reserve	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Proposed dividends	Retained earnings	Total	Non-controlling interest	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January 2021	**5,867,180**	**1,911,926**	**1,589,944**	**14,011**	**546,230**	**(78,019)**	**5,867,180**	**74,582,477**	**90,300,929**	**1,322,406**	**91,623,335**
Profit /(loss) for the year	-	-	-	-	-	-	-	16,729,007	16,729,007	(185,105)	16,543,902
Other comprehensive income	-	-	1,639	-	(627,238)	19,251	-	-	(606,348)	51,174	(555,174)
Total comprehensive income	**-**	**-**	**1,639**	**-**	**(627,238)**	**19,251**	**-**	**16,729,007**	**16,122,659**	**(133,931)**	**15,988,728**
Transfer of excess depreciation	-	-	(50,062)	-	-	-	-	50,062	-	-	-
Deferred tax on excess depreciation	-	-	15,019	-	-	-	-	-	15,019	-	15,019
Transfer from statutory reserve	-	-	-	621,040	-	-	-	(621,040)	-	(69,005)	(69,005)
Issue of additional shares	-	-	-	-	-	-	-	-	-	139,096	139,096
Exchange difference on hyperinflationary economy	-	-	(96,329)	(10,972)	-	-	-	(648,146)	(755,447)	(735,076)	(1,490,523)
2020- Dividends paid	-	-	-	-	-	-	(5,867,180)	-	(5,867,180)	-	(5,867,180)
Proposed dividends	-	-	-	-	-	-	5,867,180	(5,867,180)	-	-	-
At 31 December 2021	**5,867,180**	**1,911,926**	**1,460,211**	**624,079**	**(81,008)**	**(58,768)**	**5,867,180**	**84,225,180**	**99,815,980**	**523,490**	**100,339,470**

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES

BANK STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	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	KShs'000
At 1 January 2020	**5,867,180**	**1,911,926**	**1,351,680**	**1,603,621**	**(53,282)**	**5,867,180**	**60,096,267**	**76,644,572**
Profit for the year	-	-		-		-	13,719,268	**13,719,268**
Other comprehensive income	-	-		-	660,763	-	-	**660,763**
Total comprehensive income	**-**	**-**		**-**	**660,763**	**-**	**13,719,268**	**14,380,031**
Transfer of excess depreciation	-	-	(50,062)	-	-	-	50,062	**-**
Deferred tax on excess depreciation	-	-	15,017	-	-	-	-	**15,017**
Transfer to Retained Earnings	-	-		(1,603,621)	-	-	1,603,621	**-**
2019- Dividends paid	-	-		-	-	(5,867,180)	-	**(5,867,180)**
Proposed dividends	-	-		-	-	5,867,180	(5,867,180)	**-**
At 31 December 2020	**5,867,180**	**1,911,926**	**1,316,635**	**-**	**607,481**	**5,867,180**	**69,602,038**	**85,172,440**

	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	KShs'000
At 1 January 2021	**5,867,180**	**1,911,926**	**1,316,635**	**-**	**607,481**	**5,867,180**	**69,602,038**	**85,172,440**
Profit for the year	-	-	-	-	-	-	15,598,263	**15,598,263**
Other comprehensive income	-	-	-	-	(405,484)	-	-	**(405,484)**
Total comprehensive income	**-**	**-**	**-**	**-**	**(405,484)**	**-**	**15,598,263**	**15,192,779**
Transfer of excess depreciation	-	-	(50,062)	-	-	-	50,062	**-**
Deferred tax on excess depreciation	-	-	15,019	-	-	-	-	**15,019**
Transfer to Retained Earnings	-	-	-	-	-	-	-	**-**
2020- Dividends paid	-	-	-	-	-	(5,867,180)	-	**(5,867,180)**
Proposed dividends	-	-	-	-	-	5,867,180	(5,867,180)	**-**
At 31 December 2021	**5,867,180**	**1,911,926**	**1,281,592**	**-**	**201,997**	**5,867,180**	**79,383,183**	**94,513,058**

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

CASH FLOWS FROM OPERATING ACTIVITIES: -	Notes	2021 (KShs'000)	2020 (KShs'000)
Cash generated from / (used in) operating activities	43	12,769,408	**24,735,141**
Tax paid	24(b)	(5,650,973)	**(4,801,866)**
Net cash generated from operating activities		**7,118,435**	**19,933,275**
CASH FLOWS FROM INVESTING ACTIVITIES: -			
Purchase of property and equipment	18(a)	(622,662)	**(2,003,762)**
Purchase of intangible assets	16(a)	(578,657)	**(1,767,021)**
Proceeds from disposal of property and equipment		31,517	**19,427**
Purchase of investments at amortised cost	13	(54,149,469)	**(64,288,708)**
Maturity of investments at amortised cost	13	53,702,959	**43,198,500**
Acquisition of a subsidiary, net of cash acquired	14	-	**(1,039,000)**
Net cash used in investing activities		**(1,616,312)**	**(25,880,564)**
CASH FLOWS FROM FINANCING ACTIVITIES: -			
Proceeds from borrowings	23	2,244,426	**31,119,730**
Repayment of borrowings	23	(5,429,388)	**(13,575,480)**
Dividends paid to equity holders of the parent		(5,867,180)	**(5,867,180)**
Repayment of principal portion of lease liabilities		(1,485,899)	**(1,527,861)**
Additional Capital by Non-controlling interest		139,096	-
Net cash generated from /(used) in financing activities		**(10,398,945)**	**10,149,209**
Net movement in cash and cash equivalents		(4,896,822)	**4,201,920**
Cash and cash equivalents at the beginning of the year		27,193,100	**23,077,620**
Effect of foreign exchange difference		(514,145)	**(86,440)**
Cash and cash equivalents at 31 December	**43**	**21,782,133**	**27,193,100**

Interest received during the year amounted to KShs 55.6 billion (2020: KShs 48.8 billion) while interest paid amounted to KShs 14.9 billion (2020: KShs 12.8 billion)

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
BANK STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 (KShs'000)	2020 (KShs'000)
CASH FLOWS FROM OPERATING ACTIVITIES:-			
Cash from operating activities	43	11,095,956	26,123,591
Tax paid	24(b)	(5,219,053)	(4,645,404)
Net cash generated from operating activities		**5,876,903**	**21,478,187**
CASH FLOWS FROM INVESTING ACTIVITIES:-			
Purchase of property and equipment	18(b)	(588,983)	(1,056,700)
Purchase of software	16(b)	(575,146)	(1,157,388)
Proceeds from disposal of property and equipment		11,630	19,155
Purchase of investments at amortised cost	13	(53,347,960)	(42,941,533)
Maturity of investments at amortised cost	13	53,702,959	43,088,877
Acquisition of a subsidiary	14	(372,005)	(1,000,000)
Net cash used in investing activities		**(1,169,505)**	**(3,047,589)**
CASH FLOWS FROM FINANCING ACTIVITIES:-			
Proceeds from borrowings	23	2,244,426	7,016,096
Repayment of borrowings	23	(4,652,671)	(13,109,324)
Dividends paid		(5,867,180)	(5,867,180)
Repayment of principal portion of lease liabilities		(1,364,185)	(1,284,428)
Net cash used in financing activities		**(9,639,610)**	**(13,244,836)**
Net movement in cash and cash equivalents		(4,932,212)	5,185,762
Cash and cash equivalents at the beginning of the year		22,033,512	16,847,750
Cash and cash equivalents at 31 December	**43**	**17,101,300**	**22,033,512**

Interest received during the year amounted to KShs 52.2 billion (2020: KShs 46.6 billion) while interest paid amounted to KShs 14.4 billion (2020: KShs 12.5 billion)

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

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 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 113 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 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 and 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 financial statements of the Group comprise the financial statements of the Bank and its subsidiaries and associates as at 31 December 2021. 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.

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

2. ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation (Continued)

- 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 for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The following amendments became effective during the period:

New standards or amendments	*Effective for annual period beginning or after*
Interest Rate Benchmark Reform -Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021
COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)	1 April 2021

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The Bank has adopted the requirements of 'Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2) which is effective for annual periods beginning on or after 1 January 2021 with earlier adoption permitted. This has resulted in additional disclosures as described below:

IBOR reform Phase 2

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR). Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

IBOR reform Phase 2 provides temporary reliefs that allow the Bank's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Bank to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. For the retrospective assessment of hedge effectiveness, the Bank may elect on a hedge by hedge basis to reset the cumulative fair value change to zero.

The Bank may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price loans and derivatives.

For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided the Bank reasonably expects the RFR to become separately identifiable within 24 months. For hedges of groups of items, the Bank is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application.

2. ACCOUNTING POLICIES (Continued)

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

Products under LIBOR

a) Loan Products – Loans and advances

Before transition, the Bank had the following credit exposures that are pegged to LIBOR as summarised below;

Libor Type	No of Loan Accounts	Value (KShs '000)
6_Months Libor	88	4,081,713
3_Months Libor	556	9,205,799
12_Months Libor	4	22,365
Total	**648**	**13,309,877**

All these credit facilities have tenors greater than 1 year.

b) Deposit Products

The Bank does not have any deposits pegged to LIBOR.

C) Off-Balance Sheet Commitments

The Bank does not have any off-balance sheet commitments pegged to LIBOR with its customers.

Tier II Capital Priced on LIBOR

The Bank has a Tier II Capital Exposure as summarised below;

Lender	Exposure (USD)	Carrying amount KShs'000	Interest Rate	Tenor of facility	Expiry of facility
IFC	75,000,000	8,485,590	6 Months LIBOR + spread	7 years	15-12-2027

The Bank has received notice of intention to transition the Tier II Capital Facility, as well as other borrowed facilities, to the new international benchmark rates for USD facilities (SOFR) by June 2023. They have also indicated that the effective interest rates will be retained in the transition plan. The Bank will continue to actively engage with its financiers to ensure smooth transition to the new benchmark rates.

As per interlenders agreement between IFC and Co-operative Bank, there is a provision for change-over of the reference lending rates.

Status of Transition to Alternative Reference Rates

The Bank adopted an Internal Bank Base Rate for all Foreign Currency denominated credit facilities. The existing interest rates to existing borrowers will be retained for all outstanding foreign currency denominated credit facilities using the Internal Base rate.

Specific letters were issued giving notice of change of LIBOR reference rate to the Bank's internally developed Base lending rate in August 2021 to run for 2 months. It is expected that all customers will hence be on the new Bank Base Rate latest October 2021.

Pricing of new foreign currency denominated credit facilities will subsequently be pegged to their internal Bank Base Rate. This effectively retains the prevailing rates offered under the respective products.

2. ACCOUNTING POLICIES (Continued)

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

Measures to Mitigate Transition Risks

The following are some of the key measures we have taken to mitigate some of the expected transition risks;

RISK AREA	STRATEGY /MITIGATION
Legal Risk	• Lending contracts with customers have a clause on change of interest methodology. • Existing rates will be retained. • Requisite notices issued to customers. • System tests done to support smooth transition to internal Base Rate especially for existing credit facilities. • Awareness drive to staff on transition plan.
Operational Risk	• System tests done to support smooth transition to Internal Base Rate especially for existing credit facilities. • Awareness drive to staff on transition plan.
Reputational Risk	• Notices issued to customers on transition plan to new base rate. • Transition plan has been communicated to staff for better guidance and knowledge when engaging with customers.
Product Risk	• Retention of prevailing lending rates under new internal base rate.
Counterparty Risk	• Notices issued by external debt providers. • Continuous engagement on transition with external debt providers.

Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Group has not received Covid-19-related rent concessions but plans to apply the practical expedient if it becomes applicable within allowed period of application.

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 as listed below;

New standards or amendments	*Effective for annual period beginning or after*
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Onerous Contracts Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter	1 January 2022
AIP IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities	1 January 2022
AIP IAS 41 Agriculture – Taxation in fair value measurements	1 January 2022
IFRS 17 Insurance Contracts	1 January 2023
Classification of liabilities as current or non-current (Amendments to IAS 1)	1 January 2023
Definition of Accounting Estimates (Amendments to IAS 8)	1 January 2023
Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendment to IAS 12)	1 January 2023
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28)	To be determined

None of the standards and interpretations listed above are expected to have a materialimpact on the Group's financial statements when they become effective except for the standard discussed below.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current.

The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice.

2. ACCOUNTING POLICIES (Continued)

(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.

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).

2. ACCOUNTING POLICIES (Continued)

(d) Significant accounting estimates and assumptions (Continued)

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 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 to goodwill and other intangibles with indefinite useful lives recognised by the Group.

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 (d).

Provisions and other contingent liabilities

The Group 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 and arbitration arising in the ordinary course of the Group's business.

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group 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 Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group does not include detailed, case-specific disclosers in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group 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. For further details on provisions and other contingencies see Note 48(c).

2. ACCOUNTING POLICIES (Continued)

(d) Significant accounting estimates and assumptions (Continued)

Impact of Covid-19 -pandemic

The coronavirus pandemic has had a devastating impact on the global economy and has resulted in significant changes to government actions, economic and market drivers as well as consumer behaviour.

The pandemic has had a significant impact on the risks that the Bank is exposed to, in particular credit risk, and has forced the Bank to reassess assumptions, and existing methods of estimation and judgements, used in the preparation of these financial statements. There remains a risk that future performance and actual results may differ from the judgements and assumptions used.

As the outbreak continues to progress and evolve, it is challenging to predict the full extent and duration of its business and economic impact.

Following the government measures to minimises the impact of Covid-19 pandemic, the Bank implemented a payment relief programme from March 2020 for eligible customers, allowing customers requiring short-term financial relief, to reduce or defer their monthly instalments to assist with cash flow needs. The Impact of Covid-19 pandemic reliefs is disclosed in note 54.

(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 t, 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. d 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.

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, banc assurance, consultancy and training services.

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.

2. ACCOUNTING POLICIES (Continued)

(f) Fee and commission income (Continued)

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.

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	12.5%
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.

2. ACCOUNTING POLICIES (Continued)

(i) Business combinations and goodwill

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

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, 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, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) 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 in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(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.

2. ACCOUNTING POLICIES (Continued)

(j) Intangible assets (Continued)

(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.

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.

(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.

2. ACCOUNTING POLICIES (Continued)

(k) Investments in associates (Continued)

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

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.

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.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in other payables (note 19 and 26)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

2. ACCOUNTING POLICIES (Continued)

(l) Leases(Continued)

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.

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.

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.

2. ACCOUNTING POLICIES (Continued)

(m) Financial assets (Continued)

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.

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial 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 included under other non-current financial assets.

2. ACCOUNTING POLICIES (Continued)

(m) Financial assets (Continued)

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.

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 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.

2. ACCOUNTING POLICIES (Continued)

(m) Financial assets (Continued)

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).

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 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.

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. The mechanics of ECL for loan commitments and letters of credit are same as above.

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.

(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).

2. ACCOUNTING POLICIES (Continued)

(m) Financial assets (Continued)

(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 Group 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 Group 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 Group 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

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 Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Group 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

2. ACCOUNTING POLICIES (Continued)

(n) Derecognition of financial assets (Continued)

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.

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.

(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 (2020: 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:

2. ACCOUNTING POLICIES (Continued)

(p) Financial liabilities

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.

(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 Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When 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.

2. ACCOUNTING POLICIES (Continued)

(s) Impairment of non-financial assets (Continued)

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, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

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

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

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).

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.

2. ACCOUNTING POLICIES (Continued)

(u) Employee benefits (Continued)

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.

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.

2. ACCOUNTING POLICIES (Continued)

(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.

(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.

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's Risk and Finance Committee. A separate Credit Risk Department, reporting to the Board's Risk and Finance Committee, is responsible for oversight of the Group's credit risk, including:

(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.

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Management of credit risk (continued)

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

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	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Items recognised in the statement of financial position:				
Balances with central bank	21,784,667	17,741,046	19,391,126	12,904,226
Items in the course of collection	-	320,551	-	320,551
Deposits and balances due from banking institutions	8,535,973	16,915,263	6,970,086	16,381,436
Derivatives	199,765	75,549	199,765	75,549
Debt instruments at amortised cost	77,529,736	98,901,544	77,235,179	77,516,586
Debt & equity instruments at fair value through other comprehensive income	107,837,175	63,718,146	84,481,110	63,173,412
Interest receivable	5,163,951	3,898,533	5,163,951	3,898,533
Other assets	230,857	346,285	230,857	346,285
Loans and advances to customers	310,195,297	286,634,192	304,584,437	280,522,176
	531,477,421	**488,551,109**	**498,256,511**	**455,138,754**
Items not recognised in the statement of financial position (note 48)	**40,225,017**	**35,300,513**	**40,225,017**	**35,300,513**
	571,702,438	**523,851,622**	**538,481,528**	**490,439,267**

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 146 billion (2020: KShs 126 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.

The tables below show the maximum exposure to credit risk by for loans and advances. All other financial assets are unsecured. The table also show the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

	Group		Bank	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs '000	KShs'000
Loans and advances	346,668,095	322,852,406	337,173,812	312,709,406
Fair value of collateral	1,106,465,996	458,404,251	1,106,465,996	458,404,251
Surplus collateral	(759,797,901)	(135,551,845)	(769,292,184)	(145,694,845)
Allowance for impairments	(33,574,321)	(30,833,101)	(29,690,898)	(26,802,117)

The fair value of collateral above are undiscounted to cater for time to realisation and have not considered the haircuts required by prudential guidelines. Hence the balances are higher than the gross carrying amount of loans and advances.

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(l).

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.

The Group's internal rating and PD estimation process

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(i) Impairment assessment (continued)

(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.

(vii) 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

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.

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(i) Impairment assessment (continued)

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.

The Bank and Group did not make any changes to its portfolio classification arising from the pandemic. The grouping of portfolios is detailed below.

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

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(i) Impairment assessment (continued)

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.

Impact of COVID-19 Pandemic

a) In view of the COVID-19, the Bank and the Group reviewed five possible scenarios using different probability weighted outcomes considering (i) containment of virus (growth rebound, slow but steady growth and no growth) and (ii) virus recurrence (return to growth but muted and slow long term growth). For the purpose of ECL calculation, the Bank and Group considered both the virus recurrence and slow long-term growth and assigned higher weighting of 80% downside, base case 10% and upside scenarios 10% which in management perspective demonstrated their expected outcome.

b) The macroeconomic factors are developed based on historical data and correlated with macroeconomic factors derived from a number of sources including National Bureau of Statistics, Central Bank of Kenya and various credit agencies. Considering COVID- 19, the Bank and Group considered that macroeconomic factors correlated to the loan book are all materially significant and therefore none could be isolated for purposes of sensitivity analysis. Further there were no management overlays applied to macroeconomic factors.

c) The Bank and Group considered the implication of COVID-19 on the impact of ECL based on collateral information. Collateral used by the Bank and group are at customer level. In view of the short period of COVID-19 pandemic, the Bank and Group did not consider any adjustments on collateral as there was no supportable information to vary adjustments for time to realization and the values of collaterals.

d) The Bank's Credit department are involved in monitoring credit risk and running the expected credit losses for the Bank and the Group with oversight of Credit committee. In view of COVID 19 impacts, the review and monitoring of restructured facilities are monitored by credit team and approved by the Bank's Credit committee on a regular basis.

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

	Base	Upside	Downside
Year 1	1.095676	1.067902	1.183411
Year 2	1.111789	1.083606	1.140705
Year 3	1.056429	1.029649	1.083905
Year 4	1.062541	1.035606	1.090177
Year 5	1.074774	1.047529	1.102727

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.

Collateral and other credit enhancements

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	
	2021	2020
	KShs'000	KShs'000
(i) Categorised by loans & advances:		
Stage 3/Doubtful & loss categories	38,358,635	57,322,539
Stage 3/ Sub-standard category	45,029,695	31,282,985
Stage 1&2 / Normal & watch categories	1,023,077,666	369,798,727
	1,106,465,996	**458,404,251**
(ii) Categorised by nature of collateral:		
Land & buildings	826,802,562	246,033,593
Cash & other pledges	928,772	1,629,461
Motor vehicles	68,953,608	49,030,352
Hypothecation of stock	1,599,194	1,940,628
Debentures & guarantees	191,521,048	149,571,268
Equities & Shares	438,839	240,627
Other chattels	16,221,973	9,958,322
	1,106,465,996	**458,404,251**

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 13 (d) shows the movement of loan between stage 1,2 and 3. The carrying amount of renegotiated financial assets that would otherwise be past due or impaired is as KShs 7,408,468 (2020: KShs 54,414,481).

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(ii) 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	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
(i) Concentration by sector:				
Agriculture	4,729,793	5,733,829	4,723,343	5,726,757
Manufacturing, energy & water	17,299,109	136,146,833	17,236,783	136,075,265
Financial services	31,976,677	32,112,967	31,976,677	32,112,967
Tourism & hospitality	3,213,783	20,823,786	2,510,111	20,505,351
Wholesale and retail trade	44,788,785	44,486,802	39,032,187	37,912,344
Transport and communication	34,102,001	2,696,113	33,826,269	2,454,351
Real Estate, building & construction	37,234,598	30,254,016	36,429,803	28,896,502
Consumer & household	173,323,349	50,598,060	171,438,639	49,025,870
	346,668,095	**322,852,406**	**337,173,812**	**312,709,407**
Less: staff loans amortisation	(2,898,478)	(5,385,113)	(2,898,478)	(5,385,113)
	343,769,617	**317,467,293**	**334,275,334**	**307,324,294**
(ii) Concentration by business:				
Corporate	112,871,143	95,381,953	111,912,134	90,049,063
Mortgage & Asset Finance	55,764,831	63,509,821	55,033,855	62,740,280
Small, Medium and Microenterprises	31,858,999	21,089,654	26,398,383	19,869,917
Retail	141,086,540	137,285,216	138,749,308	134,471,456
Agribusiness	5,086,582	5,585,762	5,080,132	5,578,691
	346,668,095	**322,852,406**	**337,173,812**	**312,709,407**
Less: staff loans amortisation	(2,898,478)	(5,385,113)	(2,898,478)	(5,385,113)
	343,769,617	**317,467,293**	**334,275,334**	**307,324,294**

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.

3. FINANCIAL RISK MANAGEMENT (continued)

(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.

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 2021	Available immediately and up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
FINANCIAL ASSETS	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cash and balances with Central Bank of Kenya	14,116,308	-	-	-	-	**14,116,308**
Deposits and balances due from banks	6,731,206	1,804,767	-	-	-	**8,535,973**
Investment in financial instruments	2,017,923	59,346,460	20,227,818	67,631,980	156,199,472	**305,423,653**
Loans and advances to customers	7,506,684	7,326,507	18,090,866	202,678,331	257,451,303	**493,053,691**
Total undiscounted financial assets	**30,372,121**	**68,477,734**	**38,318,684**	**270,310,311**	**413,650,775**	**821,129,625**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	792,102	-	-	-	-	**792,102**
Customers' deposits	306,449,493	69,929,787	32,877,067	-	-	**409,256,347**
Loans and borrowings	48,679	11,865	81,528	12,190,371	35,539,523	**47,871,966**
Lease liability	108,923	220,149	1,006,225	3,052,414	466,509	**4,854,220**
Other liabilities	5,157,153	-	23,312,410	-	-	**28,469,563**
Total undiscounted financial liabilities	**312,556,350**	**70,161,801**	**57,277,230**	**15,242,785**	**36,006,032**	**491,244,198**
Net liquidity gap at 31 December 2021	**(282,184,229)**	**(1,684,067)**	**(18,958,546)**	**255,067,526**	**377,644,743**	**329,885,427**
Liabilities not recognised in statement of financial position (note 48)	**1,110,883**	**6,974,649**	**30,696,305**	**1,443,180**	**-**	**40,225,017**

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Exposure to liquidity risk (continued)

BANK 31 December 2021	Available immediately and up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
FINANCIAL ASSETS	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cash and balances with Central Bank of Kenya	10,798,981	-	-	-	-	**10,798,981**
Deposits and balances due from banks	6,662,329	307,757	-	-	-	**6,970,086**
Investment in financial instruments	2,017,923	15,281,714	18,494,728	39,011,658	156,199,472	**231,005,495**
Loans and advances to customers	5,725,848	6,093,372	17,423,830	159,830,625	257,451,303	**446,524,978**
Total undiscounted financial assets	**25,205,081**	**21,682,843**	**35,918,558**	**198,842,283**	**413,650,775**	**695,299,540**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	654,958	-	-	-	-	**654,958**
Customers' deposits	302,073,359	66,685,396	31,779,166	-	-	**400,537,921**
Loans and borrowings	48,679	-	-	12,607,082	11,873,696	**24,529,457**
Lease Liability	101,978	206,113	971,193	3,033,994	436,765	**4,750,043**
Other Liabilities	5,157,153	-	23,312,410	-	-	**28,469,563**
Total undiscounted financial liabilities	**308,036,127**	**66,891,509**	**56,062,769**	**15,641,076**	**12,310,461**	**458,941,942**
Net liquidity gap at 31 December 2021	(282,831,046)	(45,208,666)	(20,144,211)	183,201,207	401,340,314	**236,357,598**
Liabilities not recognised in statement of financial position (note 48)	**1,110,883**	**6,974,649**	**30,696,305**	**1,443,180**	**-**	**40,225,017**

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Exposure to liquidity risk (continued)

GROUP 31 December 2020	Available immediately and up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
FINANCIAL ASSETS	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cash and balances with Central Bank of Kenya	10,883,024	-	-	-	-	**10,883,024**
Deposits and balances due from banks	16,423,871	491,392	-	-	-	**16,915,263**
Investment in financial instruments	5,460,989	43,475,092	24,070,124	49,739,462	150,783,267	**273,528,934**
Loans and advances to customers	8,399,547	1,595,936	33,201,081	180,386,020	227,819,816	**451,402,400**
Total undiscounted financial assets	**41,167,431**	**45,562,420**	**57,271,205**	**230,125,482**	**378,603,083**	**752,729,621**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	221,890	-	-	-	-	**221,890**
Customers' deposits	300,420,117	52,479,757	28,040,640	12,467	-	**380,952,981**
Loans and borrowings	64,024	-	387,647	19,025,316	42,534,955	**62,011,942**
Lease liability	112,978	228,346	1,075,953	3,601,581	483,878	**5,502,736**
Other liabilities	2,351,199	-	16,527,086	-	-	**18,878,285**
Total undiscounted financial liabilities	**303,170,208**	**52,708,103**	**46,031,326**	**22,639,364**	**43,018,833**	**467,567,834**
Net liquidity gap at 31 December 2020	**(262,002,777)**	**(7,145,683)**	**11,239,879**	**207,486,118**	**335,584,250**	**285,161,787**
Liabilities not recognised in statement of financial position (note 48)	**-**	**6,388,056**	**27,724,774**	**1,187,183**	**500**	**35,300,513**

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Exposure to liquidity risk (continued)

BANK 31 December 2020	Available immediately and up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
FINANCIAL ASSETS	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cash and balances with Central Bank of Kenya	20,795,376	-	-	-	-	**20,795,376**
Deposits and balances due from banks	15,847,609	533,828	-	-	-	**16,381,437**
Investment in financial instruments	5,460,989	11,194,836	24,070,124	46,114,709	119,176,119	**206,016,777**
Loans and advances to customers	7,937,888	1,240,947	31,329,728	176,605,764	225,568,621	**442,682,948**
Total undiscounted financial assets	**50,041,862**	**12,969,611**	**55,399,852**	**222,720,473**	**344,744,740**	**685,876,538**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	654,958	-	-	-	-	**654,958**
Customers' deposits	296,044,117	49,745,021	27,416,449	-	-	**373,205,587**
Loans and borrowings	64,024	-	387,647	19,025,316	10,454,274	**29,931,261**
Lease Liability	112,978	228,346	1,075,953	3,361,263	483,878	**5,262,418**
Other Liabilities	2,351,199	-	16,527,086	-	-	**18,878,285**
Total undiscounted financial liabilities	**299,227,276**	**49,973,367**	**45,407,135**	**22,386,579**	**10,938,152**	**427,932,509**
Net liquidity gap at 31 December 2020	**(249,185,414)**	**(37,003,756)**	**9,992,717**	**200,333,894**	**333,806,588**	**257,944,029**
Liabilities not recognised in statement of financial position (note 48)	-	**6,388,056**	**27,724,774**	**1,187,183**	**500**	**35,300,513**

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:

	2021	**2020**	**2020**
	%	**%**	**%**
At 31 December	47.6	46.5	44.8
Average for the year	48.5	46.8	44.2
Maximum for the year	50.7	52.8	48.2
Minimum for the year	46.9	43.8	41.6
Statutory minimum ratio	20.0	20.0	20.0

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 monthly.

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.

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Exposure to interest rate risk (Continued)

GROUP 31 December 2021	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	-	-	-	-	-	30,828,477	**30,828,477**
Deposits and balances due from banks	6,731,206	1,804,767	-	-	-	-	**8,535,973**
Investment in financial instruments	1,997,944	14,836,615	19,082,847	52,024,600	97,624,670	-	**185,566,676**
Loans and advances to customers	7,246,233	7,095,891	16,986,729	122,835,352	156,031,093	-	**310,195,298**
Total assets	**15,975,383**	**23,737,273**	**36,069,576**	**174,859,952**	**253,655,763**	**30,828,477**	**535,126,424**
LIABILITIES							
Deposits and balances due to banks	792,102	-	-	-	-	-	**792,102**
Customers' deposits	60,994,637	69,297,448	32,287,814	-	-	245,145,867	**407,725,766**
Loans and borrowings	48,437	11,690	79,153	10,600,323	11,215,018	20,960,000	**42,914,621**
Lease liabilities	108,347	216,693	975,119	2,632,526	353,684	-	**4,286,369**
Total liabilities	**61,943,523**	**69,525,831**	**3,342,086**	**13,232,849**	**11,568,702**	**266,105,867**	**455,718,858**
Interest sensitivity gap	**(45,968,140)**	**(45,788,558)**	**2,727,490**	**161,627,103**	**242,087,061**	**(235,277,390)**	**79,407,566**

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Exposure to interest rate risk (Continued)

BANK 31 December 2021	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	KShs'000
Cash and balances with Central Bank of Kenya	-	-	-	-	-	20,795,376	**20,795,376**
Deposits and balances due from banks	6,662,329	307,757	-	-	-	-	**6,970,086**
Investment in financial instruments	1,997,944	14,836,615	17,447,857	30,008,968	97,624,670	-	**161,916,054**
Loans and advances to customers	5,664,483	5,901,571	16,360,403	120,626,887	156,031,093	-	**304,584,437**
Total assets	**14,324,756**	**21,045,943**	**33,808,260**	**150,635,855**	**253,655,763**	**27,511,150**	**500,981,727**
LIABILITIES							
Deposits and balances due to banks	754,572	-	-	-	-	-	**754,572**
Customers' deposits	60,779,975	65,862,120	31,004,064	-	-	241,040,134	**398,686,293**
Loans and borrowings	48,437	-	-	10,962,680	9,133,612	-	**20,144,729**
Lease liabilities	101,439	202,877	912,947	2,300,223	331,133	-	**3,848,619**
Total liabilities	**61,684,423**	**66,064,997**	**31,917,011**	**13,262,903**	**9,464,745**	**241,040,134**	**423,434,213**
Interest sensitivity gap	**(47,359,667)**	**(45,019,054)**	**1,891,249**	**137,372,952**	**244,191,018**	**(213,528,984)**	**77,547,514**

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Exposure to interest rate risk (Continued)

GROUP 31 December 2020	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	-	-	-	-	-	26,348,136	**26,348,136**
Deposits and balances due from banks	16,423,871	491,392	-	-	-	-	**16,915,263**
Investment in financial instruments	5,406,920	10,868,773	21,491,182	30,688,822	94,239,542	-	**162,695,239**
Loans and advances to customers	8,309,527	1,545,701	29,381,488	109,324,860	138,072,616	-	**286,634,192**
Total assets	**30,140,318**	**12,905,866**	**50,872,670**	**140,013,682**	**232,312,158**	**26,348,136**	**492,592,830**
LIABILITIES							
Deposits and balances due to banks	221,890	-	-	-	-	-	**221,890**
Customers' deposits	78,454,531	51,831,859	26,705,371	9,235	-	221,638,692	**378,639,688**
Loans and borrowings	63,653	-	1,210,003	14,092,827	30,659,658	-	**46,026,141**
Lease liabilities	112,380	224,761	1,011,424	2,730,539	366,852	-	**4,445,956**
Total liabilities	**78,852,454**	**52,056,620**	**28,926,798**	**16,832,601**	**31,026,510**	**221,638,692**	**429,333,675**
Interest sensitivity gap	**(48,712,136)**	**(39,150,754)**	**21,945,872**	**123,181,081**	**201,285,648**	**(195,290,556)**	**63,259,155**

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Exposure to interest rate risk (Continued)

BANK 31 December 2020	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**	**KShs'000**
Cash and balances with Central Bank of Kenya	-	-	-	-	-	20,795,376	**20,795,376**
Deposits and balances due from banks	15,847,609	533,827	-	-	-	-	**16,381,436**
Investment in financial instruments	5,406,920	10,868,773	21,491,182	28,513,599	74,485,073	-	**140,765,547**
Loans and advances to customers	7,852,816	1,201,886	27,725,423	107,033,796	136,708,255	-	**280,522,176**
Total assets	**29,107,345**	**12,604,486**	**49,216,605**	**135,547,395**	**211,193,328**	**20,795,376**	**458,464,535**
LIABILITIES							
Deposits and balances due to banks	654,958	-	-	-	-	-	**654,958**
Customers' deposits	77,272,513	49,130,885	26,110,904	0	-	216,915,351	**369,429,653**
Loans and borrowings	63,653	-	362,287	14,092,827	7,743,907	-	**22,262,674**
Lease liabilities	112,380	224,761	1,011,424	2,548,342	366,852	-	**4,263,759**
Total liabilities	78,103,504	49,355,646	27,484,615	16,641,169	8,110,759	216,915,351	**396,611,044**
Interest sensitivity gap	**(48,996,159)**	**(36,751,160)**	**21,731,990**	**118,906,226**	**203,082,569**	**(196,119,975)**	**61,853,491**

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	2021 Carrying amount KShs'000	1% increase	1% decrease	2020 Carrying amount KShs'000	1% increase	1% decrease
Deposits and balances due from banks	**8,535,973**	85,360	(85,360)	**16,915,263**	169,153	(169,153)
Loans and advances to customers	**310,195,297**	3,101,953	(3,101,953)	**286,634,192**	2,866,342	(2,866,342)
		3,187,313	**(3,187,313)**		**3,035,495**	**(3,035,495)**
LIABILITIES & EQUITY						
Deposits and balances due to banks	**792,102**	(7,921)	7,921	**221,890**	(2,219)	2,219
Customers' deposits	**162,579,898**	(1,625,799)	1,625,799	**156,991,761**	(1,569,918)	1,569,918
Lease liabilities	**4,286,368**	(42,864)	42,864	**4,445,956**	(44,459)	44,459
Loans and borrowings	**21,954,622**	(219,546)	219,546	**46,026,141**	(460,261)	460,261
		(1,896,130)	**1,896,130**		**(2,076,857)**	**2,076,857**
Effect on profit before tax		**1,291,183**	**(1,291,183)**		**958,638**	**(958,638)**
As percentage of profit before tax (%)		**5.70%**	**(5.70%)**		**6.71%**	**(6.71%)**
Effect on profit for the year		**903,828**	**(903,828)**		**718,979**	**(718,979)**
Debt instruments at fair value through other comprehensive income	**107,837,175**	1,078,372	1,078,372	**63,718,146**	637,181	637,181
Effect on equity		**1,982,200**	**(1,982,200)**		**1,356,160**	**(1,356,160)**
As percentage of equity (%)		**1.98%**	**(1.98%)**		**1.48%**	**(1.48%)**

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
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3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Exposure to currency risk (Continued)

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.

GROUP

CURRENCY TYPE	USD	GBP	EURO	JPY	CHF	ZAR	OTHERS	TOTAL
EXCHANGE RATE	113.1412	152.0538	127.9932	0.983024	123.8207	7.1133	-	
31-Dec-21	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	28,980,985	917,851	1,852,472	63,180	50,922	43,522	515,694	**32,424,626**
Loan and advances	25,070,235	124,539	21,397	-	-	-	-	**25,216,171**
Other foreign assets	2,394,667	35,582	76,651	-	-	-	2,216	**2,509,116**
Total statement of financial position items	**56,445,887**	**1,077,972**	**1,950,520**	**63,180**	**50,922**	**43,522**	**517,910**	**60,149,913**
Items not recognised in statement of financial position	**27,408,468**	**828,275**	**3,239,140**	-	-	-	**281,514**	**31,757,397**
Total Foreign Assets	**83,854,355**	**1,906,247**	**5,189,660**	**63,180**	**50,922**	**43,522**	**799,424**	**91,907,310**
Foreign Currency Liabilities:								
Deposits	23,442,028	1,051,407	2,332,367	71,386	6,810	997	1,984	**26,906,979**
Loan and advances	19,635,693	-	-	-	-	-	-	**19,635,693**
Other foreign liabilities	4,266,560	12,385	(272,253)	-	-	-	1,278	**4,007,970**
Total statement of financial position items	**47,344,281**	**1,063,792**	**2,060,114**	**71,386**	**6,810**	**997**	**3,262**	**50,550,642**
Items not recognised in statement of financial position*	**37,238,881**	**836,742**	**3,040,498**	-	-	**45,169**	**787,011**	**41,948,301**
Total Foreign liabilities	**84,583,162**	**1,900,534**	**5,100,612**	**71,386**	**6,810**	**46,166**	**790,273**	**92,498,943**
Net Exposure at 31 December 2021	**(728,807)**	**5,713**	**89,048**	**(8,206)**	**44,112**	**(2,644)**	**9,151**	**(591,633)**

* This comprises of the letters of credits, guarantees, forwards and swaps

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
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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	113.1412	152.0538	127.9932	0.983024	123.8207	7.1133	-	
31 December 2021	**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	28,904,562	913,935	1,844,091	63,180	50,922	43,522	515,681	**32,335,893**
Loan and advances	25,043,152	124,532	21,361	-	-	-	-	**25,189,045**
Other foreign assets	2,384,194	30,243	7,715	-	-	-	2,216	**2,424,368**
Total statement of financial position items	**56,331,908**	**1,068,710**	**1,873,167**	**63,180**	**50,922**	**43,522**	**517,897**	**59,949,306**
Items not recognised in statement of financial position*	**27,408,468**	**828,275**	**3,239,140**	-	-	-	**281,514**	**31,757,397**
Total Foreign Assets	**83,740,376**	**1,896,985**	**5,112,307**	**63,180**	**50,922**	**43,522**	**799,411**	**91,706,703**
Foreign Currency Liabilities:								
Deposits	23,212,891	1,051,209	2,331,614	71,386	6,810	997	1,984	**26,676,891**
Loan and advances	19,560,657	-	-	-	-	-	-	**19,560,657**
Other foreign liabilities	4,266,560	12,385	(272,253)	-	-	-	1,278	**4,007,970**
Total statement of financial position items	**47,040,108**	**1,063,594**	**2,059,361**	**71,386**	**6,810**	**997**	**3,262**	**50,245,518**
Items not recognised in statement of financial position*	**37,238,881**	**836,742**	**3,040,498**	-	-	**45,169**	**787,011**	**41,948,301**
Total Foreign liabilities	**84,278,989**	**1,900,336**	**5,099,859**	**71,386**	**6,810**	**46,166**	**790,273**	**92,193,819**
Net Exposure at 31 December 2020	**(538,613)**	**(3,351)**	**12,448**	**(8,206)**	**44,112**	**(2,644)**	**9,138**	**(487,116)**

* This comprises of the letters of credits, guarantees, forwards and swaps

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Exposure to currency risk (Continued)

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

GROUP

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-Dec-20	**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	22,354,072	519,498	3,100,184	77,477	34,994	23,289	756,380	**26,865,894**
Loan and advances	27,956,198	142,832	194,036	-	-	-	-	**28,293,066**
Other foreign assets	2,004,295	24,008	14378	-	-	(32)	11,919	**2,054,568**
Total statement of financial position items	**52,314,565**	**686,338**	**3,308,598**	**77,477**	**34,994**	**23,257**	**768,299**	**57,213,528**
Items not recognised in statement of financial position	**30,798,927**	**113,886**	**7,705,498**	-	-	-	**149,332**	**38,767,643**
Total Foreign Assets	**83,113,492**	**800,224**	**11,014,096**	**77,477**	**34,994**	**23,257**	**917,631**	**95,981,171**
Foreign Currency Liabilities:								
Deposits	18,618,347	316,416	3,983,594	76,922	11,366	1,372	1,957	**23,009,974**
Loan and advances	21,821,514	-	-	-	-	-	-	**21,821,514**
Other foreign liabilities	975,078	9,833	11,854	-	-	-	2,627	**999,392**
Total statement of financial position items	**41,414,939**	**326,249**	**3,995,448**	**76,922**	**11,366**	**1,372**	**4,584**	**45,830,880**
Items not recognised in statement of financial position	41,624,327	468,299	7,113,012	-	-	22,162	861,320	**50,089,120**
Total Foreign liabilities	**83,039,266**	**794,548**	**11,108,460**	**76,922**	**11,366**	**23,534**	**865,904**	**95,920,000**
Net Exposure at 31 December 2020	**74,226**	**5,676**	**(94,364)**	**555**	**23,628**	**(277)**	**51,727**	**61,171**

* This comprises of the letters of credits, guarantees, forwards and swaps

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Exposure to currency risk (Continued)

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

BANK

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-Dec-20	**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	22,354,072	519,498	3,100,184	77,477	34,994	23,289	756,380	**26,865,894**
Loan and advances	27,924,833	142,824	193,994	-	-	-	-	**28,261,651**
Other foreign assets	1,869,493	23,390	515	-	-	(32)	11,919	**1,905,285**
Total statement of financial position items	**52,148,398**	**685,712**	**3,294,693**	**77,477**	**34,994**	**23,257**	**768,299**	**57,032,830**
Items not recognised in statement of financial position	**30,798,927**	**113,886**	**7,705,498**	**-**	**-**	**-**	**149,332**	**38,767,643**
Total Foreign Assets	**82,947,325**	**799,598**	**11,000,191**	**77,477**	**34,994**	**23,257**	**917,631**	**95,800,473**
Foreign Currency Liabilities:								
Deposits	18,603,632	316,262	3,983,007	76,922	11,366	1,372	1,957	**22,994,518**
Loan and advances	21,370,945	-	-	-	-	-	-	**21,370,945**
Other foreign liabilities	962,747	9,833	11,854	-	-	-	2,627	**987,061**
Total statement of financial position items	**40,937,324**	**326,095**	**3,994,861**	**76,922**	**11,366**	**1,372**	**4,584**	**45,352,524**
Items not recognised in statement of financial position	41,624,327	468,299	7,113,012	-	-	22,162	861,320	**50,089,120**
Total Foreign liabilities	**82,561,651**	**794,394**	**11,107,873**	**76,922**	**11,366**	**23,534**	**865,904**	**95,441,644**
Net Exposure at 31 December 2020	**385,674**	**5,204**	**(107,682)**	**555**	**23,628**	**(277)**	**51,727**	**358,829**

* This comprises of the letters of credits, guarantees, forwards and swaps

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

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: -

GROUP

	2021 Carrying amount KShs'000	10% appreciation	10% depreciation	2020 Carrying amount KShs'000	10% appreciation	10% depreciation
Foreign Currency Assets:						
USD	**83,854,355**	(8,385,436)	8,385,436	**83,113,492**	(8,311,349)	8,311,349
GBP	**1,906,247**	(190,625)	190,625	**800,224**	(80,022)	80,022
EURO	**5,189,660**	(518,966)	518,966	**11,014,096**	(1,101,410)	1,101,410
JPY	**63,180**	(6,318)	6,318	**77,477**	(7,748)	7,748
CHF	**50,922**	(5,092)	5,092	**34,994**	(3,499)	3,499
ZAR	**43,522**	(4,352)	4,352	**23,257**	(2,326)	2,326
Other currencies	**799,424**	(79,942)	79,942	**917,631**	(91,763)	91,763
		(9,190,731)	9,190,731		(9,598,117)	9,598,117
Foreign currency liabilities						
USD	**84,583,162**	8,458,316	(8,458,316)	**83,039,266**	8,303,927	(8,303,927)
GBP	**1,900,534**	190,053	(190,053)	**794,548**	79,455	(79,455)
EURO	**5,100,612**	510,061	(510,061)	**11,108,460**	1,110,846	(1,110,846)
JPY	**71,386**	7,139	(7,139)	**76,922**	7,692	(7,692)
CHF	**6,810**	681	(681)	**11,366**	1,137	(1,137)
ZAR	**46,166**	4,617	(4,617)	**23,534**	2,353	(2,353)
Other currencies	**790,273**	79,027	(79,027)	**865,904**	86,590	(86,590)
		9,249,894	(9,249,894)		9,592,000	(9,592,000)
Effect on profit before tax		**59,163**	**(59,163)**		**(6,117)**	**6,117**
As percentage (%) of profit before tax		**0.26%**	**(0.26%)**		**(0.04%)**	**0.04%**
Effect on equity (profit after tax)		**41,414**	**(41,414)**		**(4,588)**	**4,588**
As percentage (%) of equity		**0.04%**	**(0.04%)**		**(0.01%)**	**0.01%**

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Exposure to currency risk (Continued)

BANK

	2021 Carrying amount KShs'000	10% appreciation	10% depreciation	2020 Carrying amount KShs'000	10% appreciation	10% depreciation
Foreign Currency Assets:						
USD	**83,740,376**	(8,374,038)	8,374,038	**82,947,325**	(8,294,732)	8,294,732
GBP	**1,896,985**	(189,699)	189,699	**799,598**	(79,960)	79,960
EURO	**5,112,307**	(511,231)	511,231	**11,000,191**	(1,100,019)	1,100,019
JPY	**63,180**	(6,318)	6,318	**77,477**	(7,748)	7,748
CHF	**50,921**	(5,092)	5,092	**34,994**	(3,499)	3,499
ZAR	**43,522**	(4,352)	4,352	**23,257**	(2,326)	2,326
Other currencies	**799,411**	(79,941)	79,941	**917,631**	(91,763)	91,763
		(9,170,671)	**9,170,671**		**(9,580,047)**	**9,580,047**
Foreign currency liabilities						
USD	**84,278,987**	8,427,899	(8,427,899)	**82,561,651**	8,256,165	(8,256,165)
GBP	**1,900,335**	190,034	(190,034)	**794,394**	79,439	(79,439)
EURO	**5,099,858**	509,986	(509,986)	**11,107,873**	1,110,787	(1,110,787)
JPY	**71,386**	7,139	(7,139)	**76,922**	7,692	(7,692)
CHF	**6,809**	681	(681)	**11,366**	1,137	(1,137)
ZAR	**46,166**	4,617	(4,617)	**23,534**	2,354	(2,354)
Other currencies	**790,273**	79,027	(79,027)	**865,904**	86,590	(86,590)
		9,219,383	**(9,219,383)**		**9,544,164**	**(9,544,164)**
Effect on profit before tax		**48,712**	**(48,712)**		**(35,883)**	**35,883**
As percentage (%) of profit before tax		**0.23%**	**(0.23%)**		**(0.21%)**	**0.21%**
Effect on equity (profit after tax)		**34,098**	**(34,098)**		**(26,912)**	**26,912**
As percentage (%) of equity		**0.04%**	**(0.04%)**		**(0.03%)**	**0.03%**

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.

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:

	2021	2021	2020
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	1,911,925	1,911,925	1,911,925
Retained earnings	79,383,183	64,807,445	69,602,038
Other reserves	406,463	406,463	424,938
Less: Investments in equity of other institutions & deferred tax	(8,725,270)	(8,725,270)	(7,239,806)
Core Capital	**78,843,481**	**64,267,743**	**70,566,275**
Tier II Capital:			
Revaluation reserves (25%)	320,398	320,398	329,159
Term subordinated debt	6,788,472	6,788,472	6,550,308
Loan loss provisions	-	-	-
Supplementary capital	**7,108,870**	**7,108,870**	**6,879,467**
Total regulatory capital	**85,952,351**	**71,376,613**	**77,445,742**
Total risk weighted assets	**502,186,291**	**502,186,291**	**455,847,214**
Capital ratios:			
Core capital to Total deposit liabilities (CBK minimum 10.5%)	19.70%	16.10%	19.10%
Core capital to Total risk weighted assets (CBK minimum 10.5%)	15.70%	12.80%	15.50%
Total capital to Total risk weighted assets (CBK minimum 14.5%)	17.10%	14.20%	17.00%

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. Group Functions- This relates to segments which do not fall into the categories of retail or wholesale banking. These 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 2021 or 2020.

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 2021	Wholesale Banking	Retail Banking	Group Functions	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Interest income	10,878,614	21,324,437	23,445,094	**55,648,145**
Interest expense	(8,769,992)	(3,411,850)	(2,710,982)	**(14,892,824)**
Net interest income	2,108,622	17,912,587	20,734,112	**40,755,321**
Non-funded income	1,946,265	15,348,884	2,101,206	**19,396,355**
Operating income	**4,054,887**	**33,261,471**	**22,835,318**	**60,151,676**
Depreciation	(94,578)	(1,605,070)	(1,054,750)	**(2,754,398)**
Amortization	-	-	(757,186)	**(757,186)**
Other operating expenses	(858,187)	(14,648,290)	(18,790,331)	**(34,296,808)**
Share of profit in associates	-	-	305,579	**305,579**
Profit before tax	**3,102,122**	**17,008,111**	**2,538,630**	**22,648,863**
Income tax expense	-	-	(6,104,960)	**(6,104,960)**
Profit after tax	**3,102,122**	**17,008,111**	**(3,566,330)**	**16,543,903**

Profit or loss for the year ended 31 December 2020	Wholesale Banking	Retail Banking	Group Functions	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Interest income	15,273,413	18,980,072	14,587,160	**48,840,645**
Interest expense	(7,688,083)	(2,860,645)	(2,242,677)	**(12,791,405)**
Net interest income	7,585,330	16,119,427	12,344,483	**36,049,240**
Non-funded income	2,505,556	11,763,181	3,211,987	**17,480,724**
Operating income	**10,090,886**	**27,882,608**	**15,556,470**	**53,529,964**
Depreciation	(87,543)	(2,193,115)	(724,173)	**(3,004,831)**
Amortization	-	-	(968,196)	**(968,196)**
Other operating expenses	(784,359)	(18,146,767)	(16,194,012)	**(35,125,138)**
Share of profit in associates	-	-	(149,939)	**(149,939)**
Profit before tax	**9,218,984**	**7,542,726**	**(2,479,850)**	**14,281,860**
Income tax expense	-	-	(3,468,985)	**(3,468,985)**
Profit after tax	**9,218,984**	**7,542,726**	**(5,948,835)**	**10,812,875**

5. SEGMENT REPORTING (continued)

Statement of financial position as at 31 December 2021	Wholesale Banking KShs'000	Retail Banking KShs'000	Group Functions KShs'000	Total KShs'000
Assets:				
Segment assets	138,371,615	348,194,567	-	**486,566,182**
Unallocated assets	-	-	93,257,472	**93,257,472**
Total assets	**138,371,615**	**348,194,567**	**93,257,472**	**579,823,654**
Liabilities and equity:				
Segment liabilities and Equity	201,411,496	218,737,188	-	**420,148,684**
Unallocated liabilities and Equity	-	-	159,674,970	**159,674,970**
Total liabilities and equity	**201,411,496**	**218,737,188**	**159,674,970**	**579,823,654**

Statement of financial position as at 31 December 2020	Wholesale Banking KShs'000	Retail Banking KShs'000	Group Functions KShs'000	Total KShs'000
Assets:				
Segment assets	140,357,842	287,987,886	-	**428,345,728**
Unallocated assets	-	-	108,730,591	**108,730,591**
Total assets	**140,357,842**	**287,987,886**	**108,730,591**	**537,076,319**
Liabilities and equity:				
Segment liabilities and Equity	168,072,982	201,824,443	-	**369,897,425**
Unallocated liabilities and Equity	-	-	167,178,894	**167,178,894**
Total liabilities and equity	**168,072,982**	**201,824,443**	**167,178,894**	**537,076,319**

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 2020.

Profit or loss for the year ended 31 December 2021	Kenya KShs'000	South Sudan KShs'000	Total KShs'000
Interest income	55,508,632	139,513	**55,648,145**
Interest expense	(14,876,486)	(16,338)	**(14,892,824)**
Net interest income	40,632,146	123,175	**40,755,321**
Non-funded income	18,930,607	465,748	**19,396,355**
Operating income	**59,562,753**	**588,923**	**60,151,676**
Depreciation	(2,487,956)	(266,443)	**(2,754,399)**
Amortization	(750,155)	(7,030)	**(757,185)**
Other operating expenses	(33,504,771)	(768,450)	**(34,273,221)**
Loss on net monetary position	-	(23,587)	**(23,587)**
Operating profit/(loss)	**22,819,871**	**(476,587)**	**22,343,284**
Share of profit in associate	250,675	54,904	**305,579**
Profit/(Loss) before tax	**23,070,546**	**(421,683)**	**22,648,863**
Income tax expense	(6,042,231)	(62,729)	**(6,104,960)**
Profit for the year	**17,028,315**	**(484,412)**	**16,543,903**
Statement of financial position			
Segment assets			
Non-current assets	331,878,077	2,083,441	**333,961,518**
Current assets	242,365,600	3,496,536	**245,862,136**
	574,243,677	**5,579,977**	**579,823,654**
Segment liabilities	**475,538,133**	**3,946,052**	**479,484,185**
Equity	**98,705,543**	**1,633,926**	**100,339,469**

5. SEGMENT REPORTING (continued)

Profit or loss for the year ended 31 December 2020	Kenya KShs'000	South Sudan KShs'000	Total KShs'000
Interest income	48,564,516	276,129	**48,840,645**
Interest expense	(12,769,157)	(22,248)	**(12,791,405)**
Net interest income	35,795,359	253,881	**36,049,240**
Non-funded income	16,075,218	1,405,506	**17,480,724**
Operating income	**51,870,577**	**1,659,387**	**53,529,964**
Depreciation	(2,648,071)	(356,760)	**(3,004,831)**
Amortization	(950,182)	(18,014)	**(968,196)**
Other operating expenses	(32,246,599)	(1,084,020)	**(33,330,619)**
Loss on net monetary position	-	(1,794,519)	**(1,794,519)**
Operating profit/(loss)	**16,025,725**	**(1,593,926)**	**14,431,799**
Share of profit in associate	(88,424)	(61,515)	**(149,939)**
Profit/(Loss) before tax	**15,937,301**	**(1,655,441)**	**14,281,260**
Income tax expense	(3,563,526)	94,541	**(3,468,985)**
Profit for the year	**12,373,775**	**(1,560,900)**	**10,812,875**
Statement of financial position			
Segment assets			
Non-current assets	521,734,107	2,533,546	**524,267,653**
Current assets	6,907,716	5,900,950	**12,808,666**
	528,641,823	**8,434,496**	**537,076,319**
Segment liabilities	**440,315,029**	**5,137,952**	**445,452,981**
Equity	**88,326,794**	**3,296,544**	**91,623,338**

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

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 2021	Level 1	Level 2	Level 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Assets measured at fair value:				
Free hold land and buildings	-	-	3,139,309	**3,139,309**
Debt instruments at FVOCI				
Treasury bonds	107,837,175	-	-	**107,837,175**
Equity instruments at FVOCI	395,933	-	-	**395,933**
Unquoted equity instruments at FVOCI	-	-	199,765	**199,765**
Derivatives	-	199,765	-	**199,765**
Loans and advances				
Directors and staff loans	-	2,898,478	-	**2,898,478**
Assets for which fair values are disclosed (note 6b)				
Debt Instruments at Amortised cost				
Treasury bonds	46,510,452	-	-	**46,510,452**
Treasury bills	29,713,442	-	-	**29,713,442**
Corporate bonds		1,305,843	-	**1,305,843**
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	2,209,628	-	**2,209,628**
As at 31 December 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
	KShs'000	KShs'000	KShs'000	KShs'000
Assets measured at fair value:				
Free hold land and buildings	-	-	3,139,309	**3,139,309**
Debt instruments at FVOCI				
Treasury bonds	63,718,146	-	-	**63,718,146**
Equity instruments at FVOCI	90,247	-	-	**90,247**
Unquoted equity instruments at FVOCI	-	-	308,095	**308,095**
Derivatives	-	75,549	-	**75,549**
Loans and advances				
Directors and staff loans	-	5,385,113	-	**5,385,113**

6. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

(a) Determination of fair value and fair value hierarchy (continued)

	Level 1	Level 2	Level 3	Total
As at 31 December 2020	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Assets for which fair values are disclosed (note 6b)				
Debt Instruments at Amortised cost				
Treasury bonds	66,583,452	-	-	66,583,452
Treasury bills	31,584,220	-	-	31,584,220
Corporate bonds		733,871	-	733,871
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	2,199,437	-	2,199,437

BANK

As at 31 December 2021	Level 1	Level 2	Level 3	Total
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Assets measured at fair value:				
Free hold land and buildings	-	-	2,348,700	**2,348,700**
Debt instruments at FVOCI				
Treasury bonds	84,481,110	-	-	**84,481,110**
Equity instruments at FVOCI				
Unquoted equity instruments at FVOCI	-	-	309,038	**309,038**
Derivatives	-	199,765	-	**199,765**
Loans and advances				
Directors and staff loans	-	2,898,478	-	**2,898,478**
Assets for which fair values are disclosed (note 6b)				
Debt Instruments at Amortised cost				
Treasury bonds	46,215,895	-	-	**46,215,895**
Treasury bills	29,713,442	-	-	**29,713,442**
Corporate bonds	-	1,305,843	-	**1,305,843**
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	2,209,628	-	**2,209,628**

As at 31 December 2020	Level 1	Level 2	Level 3	Total
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Assets measured at fair value:				
Free hold land and buildings	-	-	2,348,700	**2,348,700**
Debt instruments at FVOCI				
Treasury bonds	63,173,412	-	-	**63,173,412**
Equity instruments at FVOCI				
Unquoted equity instruments at FVOCI	-	-	308,095	**308,095**
Derivatives	-	75,549	-	**75,549**
Loans and advances				
Directors and staff loans	-	5,385,113	-	**5,385,113**

6. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

(a) Determination of fair value and fair value hierarchy (continued)

	Level 1	Level 2	Level 3	Total
As at 31 December 2020	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Assets for which fair values are disclosed (note 6b)				
Debt Instruments at Amortised cost				
Treasury bonds	45,236,278	-	-	**45,236,278**
Treasury bills	31,546,437	-	-	**31,546,437**
Corporate bonds	-	733,871	-	**733,871**
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	2,199,437	-	**2,199,437**

The transfers between levels 1 and 2 in the year are disclosed on note 6(e).

(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 and Company's statement of financial position at their fair value, other than those with carrying amounts that are reasonable approximation of fair values.

	2021		2020	
Group	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets:	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Amortised cost				
Treasury bonds and bills	**76,223,893**	**72,914,838**	**98,901,544**	**100,886,192**
Financial liabilities:				
Loans and borrowings				
Fixed-rates borrowings	**815,843**	**684,231**	**2,051,498**	**1,832,257**

	2021		2020	
Group	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets:	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Amortised cost				
Treasury bonds and bills	**75,929,336**	**72,627,663**	**77,516,586**	**79,501,234**
Financial liabilities:				
Loans and borrowings				
Fixed-rates borrowings	**815,843**	**684,231**	**2,051,498**	**1,832,257**

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).

6. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

(ii) 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.

(iii) 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.

(iv) 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).

(v) 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.

(d) 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

Asset	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 (2020: 23million)
		Rent growth p.a.	3%	
		Long-term vacancy rate	5%	
		Discount rate	5%	
Unquoted-equity instruments	DCF method	Long term growth rate	5%	+/-1% (2020: +/-1%) = Fair value change of +/- KShs 0.3million (2020: +/- Nil)
		Discount rate (WACC)	15%	

e) Transfers between Level 1 and Level 2

There were no transfers between Level 1 & 2 in the year (2020: NIL)

6. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

(f) Reconciliation of fair value measurement of unquoted equity instruments classified as FVOCI

	Group and Bank	
	2021	2020
	KShs'000	KShs'000
At 1 January	308,095	303,424
Purchase	-	-
Remeasurement recognised through OCI	943	4,671
At December	**309,038**	**308,095**

7. CASH AND BALANCES WITH CENTRAL BANKS

	Group		Bank	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Cash on hand	9,043,810	8,619,107	8,120,024	7,891,150
Central Bank of Kenya:				
Restricted balances (Cash Reserve Ratio)	16,983,327	16,467,755	16,712,169	15,465,112
Unrestricted balances available for use by the Group	2,786,066	(2,620,937)	2,678,957	(2,560,886)
Central Bank of South Sudan	2,064,427	3,957,437	-	-
	26,423,362	29,077,743	20,795,376	25,393,302
	30,877,630	**26,423,362**	**27,511,150**	**20,795,376**
Allowance for credit losses	(49,153)	(75,226)	-	-
	30,828,477	**26,348,136**	**27,511,150**	**20,795,376**

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 2021, the Cash Reserve Ratio requirement was 4.25% (2020– 4.25%) 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	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Local banks	1,903,958	1,962,835	288,919	1,472,700
Foreign banks	6,651,711	14,953,708	6,681,238	14,909,996
	8,555,669	16,916,543	6,970,157	16,382,696
Allowance for credit losses	(19,696)	(1,280)	(71)	(1,260)
	8,535,973	**16,915,263**	**6,970,086**	**16,381,436**

The weighted average effective interest rate on deposits and balances due from banks as at 31 December 2021 was 1.75% (2020- 2.7%).

9. FINANCIAL INVESTMENTS OTHER THAN THOSE MEASURED AT FVPL

a) DEBT INSTRUMENTS AT FVOCI

	Group		Bank	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Treasury Bonds:				
Maturing within 91 days	-	6,504,120	-	6,504,120
Maturing after 91 days	107,837,175	57,214,026	84,481,110	56,669,292
	107,837,175	**63,718,146**	**84,481,110**	**63,173,412**

b) EQUITY INSTRUMENTS AT FVOCI

	Group 2021	Group 2020	Bank 2021	Bank 2020
Quoted equity investments:-				
Nairobi Securities Exchange:-				
7,000,000 ordinary shares of KShs 14.65 each	56,000	57,120	-	-
CIC Insurance Group Ltd: -				
8,000,000 ordinary shares of KShs 3.80 each	17,680	17,040	-	-
Uchumi Supermarkets Ltd :- 57,500,000 ordinary shares of KShs. 0.28 each	13,215	16,087	-	-
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 shareof KShs 1,000	1	1	1	1
Kenya Mortgage Finance Company:-				
2,000,000 shares of KShs 100 each	200,000	200,000	200,000	200,000
Menno Plaza Limited:-				
9,340 ordinary shares representing 12.39% ownership	104,767	103,824	104,767	103,824
	395,933	**398,342**	**309,038**	**308,095**

Movement in the year for debt and equity instrument through OCI

	Group 2021	Group 2020	Bank 2021	Bank 2020
At January 1	**64,116,488**	**41,342,469**	**63,481,507**	**41,234,579**
Additions	42,191,234	51,985,205	40,622,850	51,440,470
Disposals and maturities	(20,144,035)	(30,176,219)	(19,600,680)	(30,176,219)
Reciassification from debt instruments at amortised cost	21,891,910	-	-	-
Expected credit loss	(386,953)	(386,953)	(386,953)	(386,953)
Change in fair value recognized OCI	564,464	1,357,968	668,692	1,375,612
At December 31	**108,233,108**	**64,116,488**	**84,790,148**	**63,481,507**

The weighted average effective interest rate on debt instruments at FVOCI as at 31 December 2021 was 12.23%.

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. In assessing for the expected credit losses, the debt instruments at FVOCI were assessed to be of high-grade credit quality and classified under stage 1 category. The dividend income recognised in profit or loss from the equity instruments at FVOCI (Menno Plaza Limited) was Kshs.1,144,288 (2020: Kshs.811,564).

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			
	2021		2020	
	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	(73,498)	48,173	(305,834)	(2,506)
Swaps	409,200	151,592	9,392,101	78,055
	335,702	**199,765**	**9,086,267**	**75,549**

11. OTHER ASSETS

	Group		Bank	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Interest receivable	5,222,780	3,898,533	5,163,951	3,898,533
Items in the course of collection from other banks	41	320,952	-	320,551
Deposits with financial Institutions	233,771	346,285	230,857	346,285
Sundry debtors and prepayments	12,168,385	8,725,260	10,112,825	6,894,587
Amounts due from related parties (43 (c))	-	-	23,894	74,030
Staff loan amortisation	2,898,478	5,385,113	2,898,478	5,385,113
	20,523,455	**18,676,143**	**18,430,005**	**16,919,099**
Impairment losses/gains on deposits with financial institutions & other financial assets	11,623	10,585	11,623	10,585
	20,535,078	**18,686,728**	**18,441,628**	**16,929,684**

The sundry debtors relates to various types of receivables of low values of which the Group consider it will not be useful to disclose individually.

12. LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
	2021	2020	2021	2020
(a) Net loans and advances	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Overdrafts	5,168,097	5,962,530	5,155,024	5,961,753
Commercial loans	317,905,880	294,896,760	308,424,670	284,754,537
Government/Donor funded loan schemes	448,496	451,157	448,496	451,157
Credit cards	666,605	529,329	666,605	529,329
Micro enterprises & SME	22,479,018	21,012,630	22,479,018	21,012,630
Gross loans and advances	**346,668,096**	**322,852,406**	**337,173,813**	**312,709,406**
Staff loans amortisation (note 12)	(2,898,478)	(5,385,113)	(2,898,478)	(5,385,113)
	343,769,618	**317,467,293**	**334,275,335**	**307,324,293**
Allowance for expected credit losses (note 12 c)	(33,574,321)	(30,833,101)	(29,690,898)	(26,802,117)
Net loans and advances	**310,195,297**	**286,634,192**	**304,584,437**	**280,522,176**

	Group and Bank	
(a) The weighted average effective interest rates at 31 December were: -	**2021**	**2020**
	%	**%**
Overdrafts	12.9	12.8
Commercial loans	12.9	12.9
Government/Donor funded loan schemes	8.5	8.5
Credit card balances	13	13

(b) Allowance for Expected Credit Losses

GROUP

Presented in KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At 1 January 2020	**4,154,683**	**4,348,030**	**9,974,457**	**18,477,170**
Addition	-	-	3,443,502	**3,443,502**
Expected credit loss	(1,268,568)	1,521,667	7,858,725	**8,111,824**
Interest on impaired loans recognised as income	-	-	(176,218)	**(176,218)**
ECL-Interest	-	-	1,086,966	**1,086,966**
Exchange difference on translation of a foreign operation	-	-	(119,661)	**(119,661)**
Write Back	-	-	9,518	**9,518**
At 31 December 2020	**2,886,115**	**5,869,697**	**22,077,289**	**30,833,101**
At 1 January 2021	**2,886,115**	**5,869,697**	**22,077,289**	**30,833,101**
Addition	-	-	-	**-**
Expected credit loss	1,747,500	3,157,500	3,024,256	**7,929,256**
Interest on impaired loans recognised as income	-	-	(70,133)	**(70,133)**
ECL-Interest	-	-	(96,009)	**(96,009)**
Exchange difference on translation of a foreign operation	-	-	(576,817)	**(576,817)**
Write Back	-	-	(735,122)	**(735,122)**
Write off	-	-	(3,709,955)	**(3,709,955)**
At 31 December 2021	**4,633,615**	**9,027,197**	**19,913,509**	**33,574,321**

12. LOANS AND ADVANCES TO CUSTOMERS (Continued)

BANK

Presented in KShs'000	Stage 1	Stage 2	Stage 3	Total
At 1 January 2020	**4,199,892**	**4,316,527**	**9,848,765**	**18,365,184**
Expected credit loss	(1,268,568)	1,521,667	7,263,568	**7,516,667**
Interest on impaired loans recognised as income	-	-	(176,218)	**(176,218)**
ECL Interest	-	-	1,086,966	**1,086,966**
Write back	-	-	9,518	**9,518**
At 31 December 2020	**2,931,324**	**5,838,194**	**18,032,599**	**26,802,117**
At 1 January 2021	**2,931,324**	**5,838,194**	**18,032,599**	**26,802,117**
Expected credit loss	1,747,500	3,157,500	2,594,998	**7,499,998**
Interest on impaired loans recognised as income	-	-	(70,133)	**(70,133)**
ECL Interest	-	-	(96,009)	**(96,009)**
Write back	-	-	(735,122)	**(735,122)**
Write off	-	-	(3,709,955)	**(3,709,955)**
At 31 December 2021	**4,678,824**	**8,995,694**	**16,016,378**	**29,690,896**

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 2021					**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	265,936,409	-	-	**265,936,409**	4,986,320	-	-	**4,986,320**
Grade2	-	30,904,779		**30,904,779**	-	1,911,145	-	**1,911,145**
Grade3	-	-	26,796,093	**26,796,093**	-	-	13,142,705	**13,142,705**
Grade4	-	-	20,408,167	**20,408,167**	-	-	9,516,445	**9,516,445**
Grade5	-	-	2,622,648	**2,622,648**	-	-	4,017,706	**4,017,706**
Total	**265,936,409**	**30,904,779**	**49,826,908**	**346,668,095**	**4,986,320**	**1,911,145**	**26,676,856**	**33,574,321**

12. LOANS AND ADVANCES TO CUSTOMERS (Continued)

31 December 2020 — **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	237,611,122	-	-	**237,611,122**	2,935,045	-	-	**2,935,045**
Grade2	-	26,107,268	-	**26,107,268**	-	5,850,224	-	**5,850,224**
Grade3	-	-	27,176,682	**27,176,682**	-	-	9,451,217	**9,451,217**
Grade4	-	-	24,574,322	**24,574,322**	-	-	8,615,152	**8,615,152**
Grade5	-	-	7,383,012	**7,383,012**	11,817	10,744	3,958,902	**3,981,463**
Total	**237,611,122**	**26,107,268**	**59,134,016**	**322,852,406**	**2,946,862**	**5,860,968**	**22,025,271**	**30,833,101**

Bank

31 December 2021 — **Provisions for impairment**

Internal risk rating category	12-month ECL Stage 1	LifetimeECL 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	263,393,676	-	-	**263,393,676**	4,861,632	-	-	**4,861,632**
Grade2	-	30,468,317	-	**30,468,317**	-	1,909,914	-	**1,909,914**
Grade3	-	-	26,173,586	**26,173,586**	-	-	13,116,265	**13,116,265**
Grade4	-	-	16,660,971	**16,660,971**	-	-	9,325,826	**9,325,826**
Grade5	-	-	477,262	**477,262**	-	-	477,261	**477,261**
Total	**263,393,676**	**30,468,317**	**43,311,819**	**337,173,812**	**4,861,632**	**1,909,914**	**22,919,352**	**29,690,898**

31 December 2020 — **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	235,326,266	-	-	**235,326,266**	2,931,324	-	-	**2,931,324**
Grade2	-	25,601,957	-	**25,601,957**	-	5,835,335	-	**5,835,335**
Grade3	-	-	27,079,184	**27,079,184**	-	-	9,431,717	**9,431,717**
Grade4	-	-	24,113,588	**24,113,588**	-	-	8,398,797	**8,398,797**
Grade5	-	-	588,411	**588,411**	-	-	204,944	**204,944**
Total	**235,326,266**	**25,601,957**	**51,781,183**	**312,709,406**	**2,931,324**	**5,835,335**	**18,035,458**	**26,802,117**

12. LOANS AND ADVANCES TO CUSTOMERS (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 2021	**238,087,697**	**25,936,384**	**58,828,325**	**322,852,406**
Additions	-	-	-	-
Disbursement	138,573,875	10,993,078	173,228	**149,740,181**
Repayment (excluding write-off)	(108,968,239)	(12,085,443)	(9,617,019)	**(130,670,701)**
Movement to Stage 1	5,932,168	(3,681,513)	(2,250,655)	-
Movement to Stage 2	(8,155,821)	11,441,983	(3,286,162)	-
Movement to Stage 3	(1,474,267)	(7,515,155)	8,989,422	-
Restructures	1,916,782	5,631,464	1,300,156	**8,848,402**
Write off	-	-	(4,102,193)	**(4,102,193)**
31 December 2021	**265,912,195**	**30,720,798**	**50,035,102**	**346,668,095**
Impairment allowance as at 1 January 2021	**2,943,245**	**5,848,553**	**21,440,654**	**30,232,452**
Additions	-	-	-	-
ECL on disbursement	7,321,364	4,062,998	(159,243)	**11,225,119**
ECL on repayment (excluding write-off)	(1,140,637)	(4,360,569)	(238,549)	**(5,739,755)**
Movement to Stage 1	149,536	(12,025)	(137,511)	-
Movement to Stage 2	(164,224)	458,941	(294,717)	-
Movement to Stage 3	(18,321)	(502,495)	520,816	-
Impact on year end ECL of exposures transferred between stages during the year	(3,520,150)	(3,712,932)	7,233,082	-
ECL on restructures	74,237	160,023	40,747	**275,007**
Write off	-	-	(2,418,502)	**(2,418,502)**
31 December 2021	**5,645,050**	**1,942,494**	**25,986,777**	**33,574,321**

Group	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Gross carrying amount as at 1 January 2020	231,689,788	26,606,328	31,493,518	**289,789,634**
Additions	1,912,645	207,532	6,751,714	**8,871,891**
Disbursement	127,249,394	2,925,464	(61,064,973)	**69,109,885**
Repayment (excluding write-off)	(96,443,015)	(1,473,016)	(1,417,454)	**(99,333,485)**
Movement to Stage 1	61,164,694	(29,269,279)	(31,895,415)	-
Movement to Stage 2	(14,463)	6,791,051	(6,776,588)	-
Movement to Stage 3	(6,969)	(264,800)	271,769	-
Restructures	34,130,510	20,283,971	-	**54,414,481**
31 December 2020	**359,682,584**	**25,807,251**	**(62,637,429)**	**322,852,406**

12. LOANS AND ADVANCES TO CUSTOMERS (Continued)

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Impairment allowance as at 1 January 2020 under IFRS 9	**4,309,380**	**(8,717)**	**14,176,505**	**18,477,168**
Additions	103,713	30,854	3,308,936	**3,443,503**
ECL on disbursement	764,095	581,378	2,712,569	**4,058,042**
ECL on repayment (excluding write-off)	(2,346,244)	1,639,706	(494,047)	**(1,200,585)**
Movement to Stage 1	16,556,488	(4,575,172)	(11,981,316)	-
Movement to Stage 2	(44)	4,882,868	(4,882,824)	-
Movement to Stage 3	(369)	(240,641)	241,010	-
Impact on year end ECL of exposures transferred between stages during the year	212,675	2,583,519	(5,546)	**2,790,648**
ECL on restructures	130,530	3,133,795	-	**3,264,325**
31 December 2020	**19,730,224**	**8,027,590**	**3,075,287**	**30,833,101**

Bank	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 1 January 2021	**235,326,266**	**25,601,957**	**51,781,183**	**312,709,406**
Disbursement	137,284,772	10,969,964	-	**148,254,736**
Repayment (excluding write-off)	(107,123,220)	(11,732,144)	(8,633,478)	**(127,488,842)**
Movement to Stage 1	5,701,222	(3,594,709)	(2,106,513)	-
Movement to Stage 2	(8,039,180)	11,263,887	(3,224,707)	-
Movement to Stage 3	(1,015,623)	(7,374,735)	8,390,358	-
Restructures	1,259,439	5,334,097	814,932	**7,408,468**
Write-offs	-	-	(3,709,956)	**(3,709,956)**
31 December 2021	**263,393,676**	**30,468,317**	**43,311,819**	**337,173,812**

Bank	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Impairment allowance as at 1 January 2021 under IFRS 9	2,931,324	5,835,335	18,035,458	**26,802,117**
ECL on disbursement	6,562,525	4,042,031	-	**10,604,556**
ECL on repayment (excluding write-off)	(1,071,232)	(4,360,101)	(86,335)	**(5,517,668)**
Movement to Stage 1	117,058	(11,732)	(105,326)	-
Movement to Stage 2	(160,331)	450,555	(290,224)	-
Movement to Stage 3	(10,156)	(493,265)	503,421	-
Impact on year end ECL of exposures transferred between stages during the year	(3,520,150)	(3,712,932)	7,233,082	-
ECL on restructures	12,594	160,023	40,747	**213,364**
Write-offs	-	-	(2,411,471)	**(2,411,471)**
31 December 2021	**4,861,632**	**1,909,914**	**22,919,352**	**29,690,898**

12. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Bank	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Gross carrying amount as at 1 January 2020	**230,882,433**	**26,259,793**	**31,155,503**	**288,297,729**
Disbursement	127,247,831	2,544,447	(61,267,479)	**68,524,799**
Repayment (excluding write-off)	(95,689,219)	(1,425,857)	(1,412,527)	**(98,527,603)**
Movement to Stage 1	23,163,415	(5,999,182)	(17,164,233)	-
Movement to Stage 2	(35,287)	6,805,515	(6,770,228)	-
Movement to Stage 3	(30,429)	(331,971)	362,400	-
Restructures	34,130,510	20,283,971	-	**54,414,481**
Write-offs	-	-	-	-
31 December 2020	**319,669,254**	**48,136,716**	**(55,096,564)**	**312,709,406**

Bank	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Impairment allowance as at 1 January 2020 under IFRS 9	4,666,567	1,677,699	12,020,918	**18,365,184**
ECL on disbursement	764,093	579,944	2,104,683	**3,448,720**
ECL on repayment (excluding write-off)	(361,780)	(324,989)	(491,985)	**(1,178,754)**
Movement to Stage 1	16,558,567	(4,593,831)	(11,964,736)	-
Movement to Stage 2	(450)	4,877,716	(4,877,266)	-
Movement to Stage 3	(388)	(239,312)	239,700	-
Impact on year end ECL of exposures transferred between stages during the year	304,571	2,598,071	-	**2,902,642**
ECL on restructures	130,530	3,133,795	-	**3,264,325**
Write-offs	-	-	-	-
31 December 2020	**22,061,710**	**7,709,093**	**(2,968,686)**	**26,802,117**

13. DEBT INSTRUMENTS AT AMORTISED COST

	Group		Bank	
	2021	**2020**	**2021**	**2020**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Government treasury bills:				
Maturing within 91 days	16,834,559	13,941,614	16,834,558	13,941,614
Maturing after 91 days	12,878,883	17,642,605	12,878,883	17,604,823
Treasury bonds:				
Maturing within 91 days	-	1,001,156	-	1,001,156
Maturing after 91 days	46,510,451	65,582,298	46,215,895	44,235,122
Corporate bonds:				
Maturing within 91 days	-	-	-	-
Maturing after 91 days	1,305,843	733,871	1,305,843	733,871
	77,529,736	**98,901,544**	**77,235,179**	**77,516,586**
Movement in the year:				
At 1 January	**98,901,544**	**77,845,496**	**77,516,586**	**77,693,633**
Additions	54,149,469	64,288,709	53,347,960	42,941,533
Allowance for credit losses	73,592	(34,161)	73,592	(29,703)
Reclassification to FVOCI*	(21,891,910)	-	-	-
Maturities	(53,702,959)	(43,198,500)	(53,702,959)	(43,088,877)
At December 31	**77,529,736**	**98,901,544**	**77,235,179**	**77,516,586**

The weighted average effective interest rate on Debt instruments measured at amortised cost as at 31 December 2021 was 11.20%. 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.

***** Kingdom Bank (a subsidiary of the Group) which was acquired in 2020 changed its business model on managing the government securities initially held at amortized cost to allow for a more aggressive approach on the funds received from Central Bank of Kenya to be utilised for lending to customers on need basis, improve the liquidity position and revive the Bank.

14. INVESTMENT IN SUBSIDIARIES

The following subsidiaries are owned by the Bank: -

Bank	Ownership	Principal Activity	2021 KShs'000	2020 KShs'000
Co-op Consultancy & Bancassurance Intermediary 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	2,644,925	2,272,920
Kingdom Bank Limited	90%	Banking	1,000,000	1,000,000
			3,884,925	**3,512,920**

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 & Bancassurance Intermediary 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 2021 show that the company made a profit after tax of KShs 560,844,259 (2020- KShs 586,733,910) 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 2021 show that the company made a profit after tax of KShs 98,070,774 (2020- KShs 49,335,685).

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 2021 show that the company made a profit after tax of KShs 703,030 (2020 – loss after tax of KShs 23,234,174). 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 Co-operative Bank of Kenya Limited injected additional capital of Kshs.372million into Co-operative Bank of South Sudan in 2021. The audited financial statements for the year ended 31 December 2021 show that the company made a loss of KShs 484,412,171 (2020- KShs 1,560,899,650 -Loss). Refer to note 32 for financial statements summaries.

Kingdom Bank Limited (previously Jamii Bora Bank) was acquired by Co-operative Bank Limited through purchase of 90% shareholding in 2020 with the objective of accessing the SME market share. The audited financial statements for the year ended 31 December 2021 show that the bank made a profit after tax of KShs 519,759,764 (2020 – loss after tax of KShs 169,903,700). Refer to note 32 for financial statements summaries. On acquisition of Kingdom Bank Limited in year 2020, there was recognition of Goodwill of Kes. 3,294,000,000. The Group subjected the Goodwill to impairment test with no resultant impairment cost.

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. 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 2021 was KShs 1.43 billion.

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.

The Bank has a joint venture, Co-op Bank Fleet Africa Leasing Limited, with 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	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January	**1,967,532**	**2,098,354**	**706,444**	**706,444**
Share of (loss)/ profit	305,579	(149,939)	-	-
Other comprehensive income	(116,602)	18,487	-	-
Exchange difference on translation	(9,834)	630	-	-
Sale of shares	-	-	-	-
Investment in Co-op Bank Fleet Africa Leasing Limited	-	-	-	-
Dividends received	-	-	-	-
	-	-	-	-
As at 31 December	**2,146,675**	**1,967,532**	**706,444**	**706,444**

The following table illustrates summarized financial information of the Group's investment in associates:

	Co-operative Insurance Society Limited		CIC South Sudan Limited	
	2021	2020	2021	2020
Statement of financial position:	KShs'000	KShs'000	KShs'000	KShs'000
Non-current assets	12,982,640	12,809,351	414,935	399,610
Current assets	28,275,721	25,911,818	1,050,271	993,836
	41,258,361	38,721,169	1,465,206	1,393,446
Current liabilities	(33,150,571)	(30,914,546)	(947,934)	(1,021,553)
Equity	**8,107,790**	**7,806,623**	**517,272**	**371,893**
Group's share in equity	2,708,782	2,639,564	160,355	115,287
Other adjustments	(562,107)	(672,032)	-	-
Group's carrying amount of the investment	**2,146,675**	**1,967,532**	**160,355**	**115,287**

15. INVESTMENTS IN ASSOCIATES (Continued)

Statement of comprehensive income:	Co-operative Insurance Society Limited		CIC South Sudan Limited	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Revenue	19,187,312	16,844,249	659,193	740,640
Operating and other expenses	(18,270,919)	(16,903,266)	(447,760)	(939,076)
Profit before tax	916,393	(59,017)	211,433	(198,436)
Income tax expense	(266,219)	(217,288)	-	-
Profit after tax	**650,174**	**(276,305)**	**211,433**	**(198,436)**
Other comprehensive income	(349,007)	36,871	(105,323)	19,903
Total comprehensive income for the year	**301,167**	**(239,434)**	**106,110**	**(178,533)**
Attributable to parent	249,185	(180,261)	-	-
Attributable to Non-controlling interest	51,982	(59,173)	-	-
	301,167	**(239,434)**	-	-
Group's share of comprehensive income	**100,590**	**(79,971)**	**35,451**	**(55,345)**
Split as follows				
Share of profit or loss	217,156	(92,285)	65,544	(61,515)
Share of OCI				
-Fair value gain of FVOCI investment	336	4,492	-	-
-Translation difference	(1,719)	7,823	-	-
- Revaluation gain of building	-	-	1,005	6,170
	(11,384)	12,315	1,005	6,170
	205,772	**(79,971)**	**66,549**	**(55,345)**

16. INTANGIBLE ASSETS

(a) GROUP	Computer software	Business Rights	Other intangible assets	Work-in-progress	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
COST					
At 1 January 2021	7,064,109	282,605	25,000	252,273	**7,623,987**
Additions	358,358	-	-	220,298	**578,656**
Transfers from WIP	195,454	-	-	(195,454)	**-**
Write off*	7,014	-	-	(101,618)	**(94,604)**
Exchange difference on translation	259,181	(159,576)	-	-	**99,605**
At 31 December 2021	7,884,116	123,029	25,000	175,499	**8,207,644**
AMORTISATION					
At 1 January 2021	4,516,281	282,605	-	-	**4,798,886**
Amortisation for the year	756,575	-	-	-	**756,575**
Exchange difference on translation	277,424	(159,576)	-	-	**117,848**
At 31 December 2021	**5,550,280**	**123,029**	**-**	**-**	**5,673,309**
NET CARRYING AMOUNT					
At 31 December 2021	**2,333,836**	**-**	**25,000**	**175,499**	**2,534,335**

(a) GROUP	Computer software	Business Rights	Other intangible assets	Work-in-progress	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
COST					
At 1 January 2020	**5,477,772**	**154,174**	**25,000**	**605,495**	**6,262,441**
Additions	1,260,183	-	-	506,838	**1,767,021**
Transfers from WIP	860,060	-	-	(860,060)	**-**
Write off*	(671,564)	-	-	-	**(671,564)**
Exchange difference on translation	137,658	128,431	-	-	**266,089**
At 31 December 2020	**7,064,109**	**282,605**	**25,000**	**252,273**	**7,623,987**
AMORTISATION					
At 1 January 2020	**3,430,184**	**124,240**	**-**	**-**	**3,554,424**
Amortisation for the year	967,586		-	-	**967,586**
Exchange difference on translation	118,511	158,365	-	-	**276,876**
At 31 December 2020	**4,516,281**	**282,605**	**-**	**-**	**4,798,886**
NET CARRYING AMOUNT					
At 31 December 2020	**2,547,828**	**-**	**25,000**	**252,273**	**2,825,101**

* The write off relate to cost incurred to implement a new software in Co-operative Bank of South Sudan but later discontinued to allow the Group adopt a uniform core banking system which is currently at the initial implementation stage.

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.

16. INTANGIBLE ASSETS (Continued)

(b) BANK	Computer Software KShs'000	Work –in progress KShs'000	Total KShs'000
COST			
At 1 January 2021	**6,150,889**	**509,172**	**6,660,061**
Additions	355,853	219,293	**575,146**
Transfer from Work in Progress	195,454	(195,454)	**-**
Asset Reclassification to property and equipment	-	(94,604)	**(94,604)**
At 31 December 2021	**6,702,196**	**438,407**	**7,140,603**
AMORTISATION			
At 1 January 2021	**3,960,250**	**-**	**3,960,250**
Amortisation for the year	737,383	-	**737,383**
At 31 December 2021	4,697,633	-	**4,697,633**
NET CARRYING AMOUNT			
At 31 December 2021	**2,004,563**	**438,407**	**2,442,970**
COST			
At 1 January 2020	**5,310,859**	**191,814**	**5,502,673**
Additions	651,534	505,854	**1,157,388**
Transfer from Work in Progress	188,496	(188,496)	**-**
At 31 December 2020	**6,150,889**	**509,172**	**6,660,061**
AMORTISATION			
At 1 January 2020	**3,260,032**	**-**	**3,260,032**
Amortisation for the year	700,218	-	**700,218**
At 31 December 2020	**3,960,250**	**-**	**3,960,250**
NET CARRYING AMOUNT			
At 31 December 2020	**2,190,639**	**509,172**	**2,699,811**

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. 2,490,573,453 (2020-KShs 2,139,644,271), which are still in use. If amortisation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs 498,114,690 (2020-KShs 427,928,854).

17. LEASEHOLD LAND

	Group and Bank	
	2021 KShs'000	**2020 KShs'000**
COST		
At 1 January 2021	**54,413**	**54,413**
AMORTISATION:		
At 1 January 2021	**20,501**	**19,891**
Charge for the year	610	610
At 31 December 2021	**21,111**	**20,501**
NET CARRYING AMOUNT		
At 31 December 2021	**33,302**	**33,912**

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.

18. (a) PROPERTY AND EQUIPMENT-GROUP	Freehold land & buildings	Capital work-in progress	Fixtures	Office machinery, furniture & equipment	Motor vehicles	Computers	Total
COST/VALUATION	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
At 1 January 2021	**3,139,309**	**590,766**	**9,357,535**	**3,364,621**	**193,396**	**8,196,469**	**24,842,096**
Additions	-	47,986	288,245	61,921	4,507	220,027	**622,686**
Disposals	-	-	(22,285)	(157,570)	(708)	(27,052)	**(207,615)**
Revaluation	(22,700)	-	-	-	-	-	**(22,700)**
Transfers from WIP	-	(266,469)	149,275	1,892	-	115,302	**-**
Asset Reclassification	-		12,784	(12,784)	-	-	**-**
Asset Reclassification from intangible assets	-	94,601	-	-	-	-	**94,601**
Exchange difference on translation	(1,536)	-	(1,830,509)	-	(53,767)	(185,965)	**(2,071,777)**
Write off	-	-	-	-	-	125	**125**
At 31 December 2021	**3,115,073**	**466,884**	**7,955,045**	**3,258,080**	**143,428**	**8,318,906**	**23,257,416**
ACCUMULATED DEPRECIATION							
At 1 January 2021	**103,791**	**-**	**7,781,290**	**2,381,410**	**111,287**	**6,524,724**	**16,902,502**
Charge for the year	103,791	-	426,390	340,361	32,305	583,502	**1,486,349**
Disposals	-	-	(18,285)	(137,795)	(708)	(27,027)	**(183,815)**
Asset Reclassification	-	-	11,822	(11,822)	-	-	**-**
Write off	-	-	-	-	-	125	**125**
Exchange difference on translation	-	-	(1,133,279)	-	(36,495)	(167,719)	**(1,337,493)**
At 31 December 2021	**207,582**	**-**	**7,067,938**	**2,572,154**	**106,389**	**6,913,605**	**16,867,668**
NET CARRYING AMOUNT							
At 31 December 2021	**2,907,491**	**466,884**	**887,107**	**685,926**	**37,039**	**1,405,301**	**6,389,748**

(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 2020. 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 3,032,908,852 (2020: KShs 2,244,908,852)

(iii) Freehold land and buildings are revalued every three years. Freehold land and buildings include an amount of KShs 255,290,830 (2020- KShs 255,290,830) 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 11,572,320,532 (2020- KShs 9,425,316,652), 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 1,904,189,526 (2020 - KShs 1,572,227,332).

(v) The Group has not pledged any item of property, plant and equipment as security as at 31 December 2021 (31 December 2020: Nil)

(vi) The write offs in Property & Equipment and Intangibles relate to abandoned projects during the year. Their book values were written off through the statement of Profit or Loss.

18. (a) PROPERTY AND EQUIPMENT-GROUP (Continued)

18. (a) PROPERTY AND EQUIPMENT-GROUP	Freehold land & buildings	Capital work-in progress	Fixtures	Office machinery, furniture & equipment	Motor vehicles	Computers	Total
COST/VALUATION	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
At 1 January 2020	**2,350,123**	**491,168**	**8,689,533**	**2,673,924**	**192,387**	**7,268,601**	**21,665,736**
Additions	-	296,024	343,443	697,370	41,713	625,212	**2,003,762**
Disposals	-		(2,428)	(5,623)	(76,503)	(3,490)	**(88,044)**
Transfers from WIP	-	(335,747)	175,778	-	-	159,969	**-**
Exchange difference on translation	1,186	139,321	151,494	-	35,799	145,206	**473,006**
Acquisition of a subsidiary	788,000	-	-	(1,050)	-	1,050	**788,000**
Write off	-	-	(285)	-	-	(79)	**(364)**
At 31 December 2020	**3,139,309**	**590,766**	**9,357,535**	**3,364,621**	**193,396**	**8,196,469**	**24,842,096**
ACCUMULATED DEPRECIATION							
At 1 January 2020	-	-	7,244,781	2,002,897	133,352	5,770,378	**15,151,408**
Charge for the year	103,791	-	539,037	384,291	31,517	628,708	**1,687,344**
Disposals	-	-	(2,428)	(5,603)	(76,230)	(3,400)	**(87,661)**
Write off	-	-	(100)	-	-	(73)	**(173)**
Exchange difference on translation	-	-	-	-	22,648	128,936	**151,584**
Asset Reclassification	-	-	-	(175)	-	175	**-**
At 31 December 2020	**103,791**	**-**	**7,781,290**	**2,381,410**	**111,287**	**6,524,724**	**16,902,502**
NET CARRYING AMOUNT							
At 31 December 2020	**3,035,518**	**590,766**	**1,576,245**	**983,211**	**82,109**	**1,671,745**	**7,939,594**

(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 2020. 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 2,244,908,852 (2019: KShs 2,129,363,324)

(iii) Freehold land and buildings are revalued every three years. Freehold land and buildings include an amount of KShs 255,290,830 (2019- 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 9,425,316,652 (2019- 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 1,572.227,332 (2019 - KShs 886,435,730).

(v) The Group has not pledged any item of property, plant and equipment as security as at 31 December 2020 (31 December 2019: 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.

18. (a) PROPERTY AND EQUIPMENT-GROUP (Continued)

18.(b) PROPERTY AND EQUIPMENT-BANK

	Freehold land & buildings	Capital work-in progress	Fixtures	Office machinery, furniture & equipment	Motor vehicles	Computers	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
COST/VALUATION							
At 1 January 2021	2,348,700	250,808	8,978,044	1,453,351	73,181	7,859,709	**20,963,793**
Additions	-	47,986	286,922	36,312	-	217,763	**588,983**
Disposals	-	-	(4,025)	(18,337)	-	(26,930)	**(49,292)**
Transfer from Work in Progress	-	(266,469)	149,275	1,892	-	115,302	**-**
Asset Reclassification from intangible assets	-	94,601	-	-	-	-	**94,601**
Asset Reclassification	-	-	12,784	(12,784)	-	-	-
At 31 December 2021	**2,348,700**	**126,926**	**9,423,000**	**1,460,434**	**73,181**	**8,165,844**	**21,598,085**
ACCUMULATED DEPRECIATION							
At 1 January 2021	103,791	-	7,746,060	1,273,207	41,599	6,221,511	**15,386,168**
Charge for the year	103,791	-	400,920	64,690	14,635	578,752	**1,162,788**
Disposals	-	-	(138)	(18,336)	-	(26,905)	**(45,379)**
Reclassification	-	-	11,822	(11,822)	-	-	-
At 31 December 2021	**207,582**	**-**	**8,158,664**	**1,307,739**	**56,234**	**6,773,358**	**16,503,577**
NET CARRYING AMOUNT							
At 31 December 2021	**2,141,118**	**126,926**	**1,264,336**	**152,695**	**16,947**	**1,392,486**	**5,094,508**

(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 include an amount of KShs 255,000,000 (2020- KShs. 255,000,000) 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. 154,147,745 (2020: KShs 154,147,745)

(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 2020. 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 2,141,117,704 (2020: KShs 2,244,908,852).

(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. 11,566,176,520 (2020- KShs 9,425,316,652), 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 1,902,960,724 (2020 - KShs 1,572,227,332)

(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.

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

18. (a) PROPERTY AND EQUIPMENT-GROUP (Continued)

18.(b) PROPERTY AND EQUIPMENT-BANK

	Freehold land & buildings	Capital work-in progress	Fixtures	Office machinery, furniture & equipment	Motor vehicles	Computers	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
COST/VALUATION							
At 1 January 2020	2,348,700	323,922	8,688,897	1,404,447	149,412	7,079,487	**19,994,865**
Additions	-	262,448	115,982	55,577	-	622,693	**1,056,700**
Disposals	-	-	(2,428)	(5,623)	(76,231)	(3,490)	**(87,772)**
Transfer from Work in Progress	-	(335,562)	175,593	-	-	159,969	**-**
Asset Reclassification	-	-	-	(1,050)	-	1,050	-
	2,348,700	250,808	8,978,044	1,453,351	73,181	7,859,709	20,963,793
At 31 December 2020							
ACCUMULATED DEPRECIATION							
At 1 January 2020	-	-	7,243,453	1,204,014	103,193	5,599,922	**14,150,582**
Charge for the year	103,791	-	505,035	74,971	14,636	624,814	**1,323,247**
Disposals	-	-	(2,428)	(5,603)	(76,230)	(3,400)	**(87,661)**
Reclassification	-	-	-	(175)	-	175	-
At 31 December 2020	103,791	-	7,746,060	1,273,207	41,599	6,221,511	15,386,168
NET CARRYING AMOUNT							
At 31 December 2020	2,244,909	250,808	1,231,984	180,144	31,582	1,638,198	5,577,625

(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 include an amount of KShs 255,290,830 (2019- 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. 154,147,745 (2019: KShs 170,289,185)

(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 2020. 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 2,244,908,852 (2019: KShs 2,129,363,324).

(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. 9,425,316,652 (2019- KShs 8,288,806,982), 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 1,572,227,332 (2019 - KShs 1,386,488,916)

(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.

19. RIGHT OF USE ASSETS

(a) GROUP	Land and Buildings	Motor Vehicles	Total
	KShs'000	KShs'000	KShs'000
COST			
At 1 January 2021	**6,707,671**	**208,273**	**6,915,944**
Additions	1,044,718	-	**1,044,718**
Acquisition of a subsidiary			**-**
Disposals	-	-	**-**
Exchange differences	(267,192)	-	**(267,192)**
At 31 December 2021	**7,485,197**	**208,273**	**7,693,470**
DEPRECIATION			
At 1 January 2021	**2,497,012**	**56,917**	**2,553,929**
Depreciation for the year	1,216,017	52,033	**1,268,050**
Disposals		-	**-**
Exchange differences	(84,953)	-	**(84,953)**
At 31 December 2021	**3,628,076**	**108,950**	**3,737,026**
NET CARRYING AMOUNT			-
At 31 December 2021	**3,857,121**	**99,323**	**3,956,444**

	Land and Buildings	Motor Vehicles	Total
COST			
At 1 January 2020	**5,948,748**	**170,323**	**6,119,071**
Additions	409,146	37,950	**447,096**
Acquisition of a subsidiary	140,755	-	**140,755**
Disposals	-	-	**-**
Exchange differences	209,022	-	**209,022**
At 31 December 2020	**6,707,671**	**208,273**	**6,915,944**
DEPRECIATION			
At 1 January 2020	**1,205,052**	**7,111**	**1,212,163**
Depreciation for the year	1,267,681	49,806	**1,317,487**
Disposals	-	-	**-**
Exchange differences	24,279	-	**24,279**
At 31 December 2020	**2,497,012**	**108,950**	**3,737,026**
NET CARRYING AMOUNT			
At 31 December 2020	**4,210,659**	**151,356**	**4,362,015**

Set out below are the carrying amounts of lease liabilities (included in other liabilities in note 26) and the movements during the period:

	2021	2020
	KShs'000	KShs'000
As at 1 January	4,445,956	5,009,040
Additions	1,044,718	665,050
Accretion of interest	281,593	299,727
Payments	(1,485,899)	(1,527,861)
As at 31 December	**4,286,368**	**4,445,956**

19. RIGHT OF USE ASSETS (Continued)

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 1.49 billion in 2021 (2020: KShs.1.52 billion). The Group also had non-cash additions to right-of-use assets and lease liabilities of KShs 1,045 million in 2021 (2020: KShs 665 million).

(b) BANK	Land and Buildings	Motor Vehicles	Total
	KShs'000	KShs'000	KShs'000
COST			
At 1 January 2021	**6,033,840**	**208,273**	**6,242,113**
Additions	683,418	-	683,418
Disposals	-	-	-
Exchange differences	-	-	-
At 31 December 2021	**6,717,258**	**208,273**	**6,925,531**
DEPRECIATION			
At 1 January 2021	**2,259,958**	**56,917**	**2,316,875**
Depreciation for the year	1,144,769	52,033	1,196,802
Disposals	-	-	-
Exchange differences	-	-	-
At 31 December 2021	**3,404,727**	**108,950**	**3,513,677**
NET CARRYING AMOUNT			
At 31 December 2021	**3,312,531**	**99,323**	**3,411,854**
COST			
At 1 January 2020	**5,624,694**	**170,323**	**5,795,017**
Additions	409,146	37,950	447,096
Disposals	-	-	-
Exchange differences	-	-	-
At 31 December 2020	**6,033,840**	**208,273**	**6,242,113**
DEPRECIATION			
At 1 January 2020	**1,112,983**	**7,111**	**1,120,094**
Depreciation for the year	1,146,975	49,806	1,196,781
Disposals	-	-	-
Exchange differences	-	-	-
At 31 December 2020	**2,259,958**	**56,917**	**2,316,875**
NET CARRYING AMOUNT			
At 31 December 2020	**3,773,882**	**151,356**	**3,925,238**

Set out below are the carrying amounts of lease liabilities (included in other liabilities in note 26) and the movements during the period:

	2021	2020
	KShs'000	KShs'000
At 1 January	4,263,759	4,820,517
Additions	683,421	447,098
Accretion of Interest	265,624	280,573
Payments	(1,364,185)	(1,284,429)
At 31 December (note 26)	**3,848,619**	**4,263,759**

19. RIGHT OF USE ASSETS (Continued)

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 1.36 billion in 2021 (2020: KShs 1.28 billion). The Bank also had non-cash additions to right-of-use assets and lease liabilities of KShs 683 million in 2021 (2020: KShs 447 million).

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	2021	2021	2021	2020	2020	2020
	Deferred tax assets	Through Profit or loss	Through reserves	Deferred tax assets	Through Profit or loss	Through reserves
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Collective allowance for impairment disallowed for tax purposes	(4,471,992)	(863,125)		(3,427,482)	(664,832)	-
Revaluation surplus	468,426	-	(15,019)	486,738	-	(15,019)
Excess of tax wear and tear allowance over depreciation	(979,042)	(43,984)	-	(937,774)	47,952	-
Unrealised exchange gains	212,703	(81,404)	-	293,944	110,920	-
Right-of-use asset	(129,918)	(129,440)	-	(736)	(46,994)	-
Tax losses	-	-	-	(422,041)	19,859	
Other temporary differences	(511,893)	(29,707)	-	(302,412)	(108,931)	-
Deferred tax asset	**(5,411,716)**	**(1,147,660)**	**(15,019)**	**(4,309,763)**	**(642,026)**	**(15,019)**
Collective allowance for impairment disallowed for tax purposes	(7,494)	2,823	-	(71,547)	-	-
Excess of tax wear and tear allowance over depreciation	18,889	40,004	-	191,773	-	-
Right of use asset	86,179	(65,820)	-	81,684	-	-
Other temporary differences	(45,905)	54,375	-	(70,839)	-	-
Deferred tax liability	**51,669**	**31,382**	**-**	**131,071**	**-**	**-**
Net deferred tax asset	**(5,360,047)**	**(1,116,278)**	**(15,019)**	**(4,178,692)**	**(642,026)**	**(15,019)**

BANK	2021	2021	2021	2020	2020	2020
	Deferred tax assets	Through Profit or loss	Through reserves	Deferred tax assets	Through Profit or loss	Through reserves
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Collective allowance for impairment disallowed for tax purposes	(4,285,538)	(817,091)		(3,468,447)	(629,279)	-
Revaluation surplus	468,426	-	(15,019)	483,445	-	(15,019)
Accelerated wear and tear allowance over depreciation	(1,079,606)	(42,621)	-	(1,036,986)	50,324	-
Unrealised exchange gains	212,703	(81,404)		294,107	110,919	-
Provision for staff leave pay	(67,445)	(17,112)		(50,333)	(32)	-
Right-of-use asset	(131,029)	(129,009)	-	(2,020)	(45,728)	-
Other temporary differences	(197,857)	(10,349)	-	(186,652)	(162,642)	-
	(5,080,346)	**(1,097,586)**	**(15,019)**	**(3,966,886)**	**(676,438)**	**(15,019)**

21. DEPOSITS AND BALANCES DUE TO BANKS

	Group		Bank	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Local banks	77,426	155,993	149,758	173,261
Foreign banks	714,676	65,897	604,814	481,697
	792,102	**221,890**	**754,572**	**654,958**

The weighted average effective interest rate on deposits from other banks at 31 December 2021 was 2.63% (2020- 1%). These current accounts do not accrue any interest.

22. CUSTOMER DEPOSITS

	Group		Bank	
	2021	2020	2021	2020
(a) Deposit category	KShs'000	KShs'000	KShs'000	KShs'000
Call deposits	37,630,226	51,177,008	37,630,225	51,177,008
Fixed deposits	100,362,453	82,597,647	96,549,638	79,821,868
Transaction accounts	120,733,091	116,265,927	120,733,091	116,475,450
Savings accounts	22,333,090	21,139,822	21,212,166	19,438,143
Current accounts	124,412,776	105,372,765	120,307,044	100,439,902
Foreign currency deposits	2,254,129	2,077,284	2,254,129	2,077,282
	407,725,765	**378,630,453**	**398,686,293**	**369,429,653**
(b) From government and parastatals: -				
Payable on demand	44,220,336	45,172,489	42,237,444	35,762,166
Payable within 30 days	8,270,274	7,017,935	8,270,274	7,017,935
Payable after 30 days but within 1 year	23,991,244	18,143,159	23,991,244	18,143,159
	76,481,854	**70,333,583**	**74,498,962**	**60,923,260**
From private sector and individuals: -				
Payable on demand	203,856,636	182,672,694	200,976,379	182,882,219
Payable within 30 days	29,714,773	44,562,163	29,714,773	44,562,163
Payable after 30 days but within 1 year	97,672,502	81,062,013	93,496,179	81,062,011
	331,243,911	**308,296,870**	**324,187,331**	**308,506,393**
	407,725,765	**378,630,453**	**398,686,293**	**369,429,653**

Included in customers' deposits is an amount of KShs. 9,076 Million (2020- KShs 10,135 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 3.65% (2020– 3.38%).

23. LOANS AND BORROWINGS

	Group		Bank	
	2021	2020	2021	2020
Long-term borrowing	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Kenya Mortgage Refinance Company	541,362	-	541,362	-
International Finance Corporation (IFC)	17,935,183	19,226,358	17,935,183	19,226,358
European Investment Bank	-	371,091	-	371,091
AFD Microfinance & line of credit	1,668,184	2,199,437	1,668,184	2,199,437
Responsibility	75,036	155,995	-	-
Shelter Afrique	-	3,247	-	-
Housing Finance Group	-	218,020	-	-
Progression Africa	-	470,454	-	-
	20,219,765	**22,644,602**	**20,144,729**	**21,796,886**
Central Bank of Kenya	22,694,857	23,381,539	-	465,788
	42,914,622	**46,026,141**	**20,144,729**	**22,262,674**
Movement in the year:				
At 1 January	**46,026,141**	**26,424,266**	**22,262,674**	**26,424,266**
Additional loan disbursement	2,244,426	30,653,942	2,244,426	6,550,308
Central Bank REPO	-	465,788	-	465,788
Accrued interest	1,323,050	166,135	42,756	40,146
Loan Repayment	(5,429,388)	(13,575,480)	(4,652,671)	(13,109,324)
Foreign exchange difference	(1,249,607)	1,891,490	247,544	1,891,490
At 31 December	**42,914,622**	**46,026,141**	**20,144,729**	**22,262,674**

The long-term borrowings are loans received by the Bank for onward lending to customers in specific segments. The term for these loans is as described below: -

European Investment Bank

A loan agreement of Euros 50 million was entered into 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 2021, Euros 35.39 Million had been disbursed to the bank and fully repaid.

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 2021, 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 and the first drawdown of USD 8 Million has already being disbursed.

International Finance Corporation

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 2021, the bank had received a drawdown of USD 105 Million.

In March 2020, the bank entered into agreement with IFC for a total loan 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 2020, the bank had received a drawdown of USD 150 Million. In December 2020, the bank made a repayment of USD 75M of the loan.

In December 2020, the bank secured a long-term financing facility arranged by IFC amounting to USD 75 Million for on-lending to MSMEs. The syndicated loan was financed by IFC (USD 50,000,000), Eco-Business Fund S. A (USD 10,000,000) and SwedFund International AB (USD 15,000,000). The loan has a maturity period of 7 years and a 5-year grace period on principal repayment. As at the end of year 2021, the bank had received a drawdown of USD 75Million.

23. LOANS AND BORROWINGS (Continued)

Kenya Mortgage Refinance Company Limited

In June 2021, the bank entered into agreement with Kenya Mortgage Refinance company for a credit facility at fixed rate of 5% to finance affordable housing mortgage loans. As at the end of year 2021, the amount disbursed to the bank was KES 549.79 Million

Responsibility

The ResponsAbility loan is denominated in United States American Dollars (USD). Its effective interest rate is 5.5% per annum. The loan matured during the year and was restructured for two (2) years after successful negotiations. The new terms commence in January 2021 and the loan will be repaid in full by end of November 2022.The loan has been granted to Kingdom Bank Limited. This borrowing is unsecured.

Shelter Afrique

The Shelter Afrique loan is denominated in Kenya Shillings. Its effective interest rate is 13% per annum. The loan is guaranteed by 130% assignment of related mortgage book. The loan has been granted to Kingdom Bank Limited. The loan matured and was fully repaid during the year.

Housing Finance Group

The loan is denominated in Kenya Shillings. Its effective interest rate is 14% per annum and a tenor of 4 years 4 months (52 months). The loan has been granted to Kingdom Bank Limited. The loan was taken over by the Co-operative Bank of Kenya Limited during the year. It has an effective interest rate of 13% and a tenor of 4 years 4 months (52 months). It is secured via legal charge over LR No: 1/859.

Progression Africa

The loan is denominated in Kenya Shillings and United States American Dollars (USD) on fifty percent basis. Its effective interest rate is 9.5% and 3.5% per annum for the Kenya Shillings and United States American Dollars loan respectively. The loan had been granted to Kingdom Bank Limited. The loan matured and was fully repaid during the year.

Central Bank of Kenya Borrowing

In 2020 Kingdom Bank Limited received additional support from the Central Bank of Kenya (CBK) of KShs 20.96 billion in exercise of its statutory mandate as regulator towards strengthening the liquidity position geared towards restoring eroded customer confidence in a bid to turnaround the entity back to profitability and stabilize the banking sector.

The amount is guaranteed by Co-operative Bank Kenya Limited and has an effective interest rate of zero. It is repayable in 10 years with a moratorium of 3 years.

24 TAXATION

	Group		Bank	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
(a) Income Statement: -				
Current tax at 30% on the taxable profit for the year (2020-25%)	7,221,238	4,111,011	6,824,650	3,917,800
Under provision in previous year	-	-	-	-
Hyper-inflationary adjustment	-	-	-	-
Deferred tax (credit) / charge	(1,116,278)	(642,026)	(1,097,586)	(676,438)
Income tax expense	**6,104,960**	**3,468,985**	**5,727,064**	**3,241,362**
(b) Statement of Financial Position: -				
Tax (recoverable)/ Payable				
Balance brought forward	(666,502)	24,353	(697,799)	29,805
Under provision in previous year	-	-	-	-
Charge for the year	7,221,238	4,111,011	6,824,650	3,917,800
Paid during the year	(5,650,973)	(4,801,866)	(5,219,053)	(4,645,404)
	903,763	**(666,502)**	**907,798**	**(697,799)**
(c) Reconciliation of tax expense to tax based on accounting profit: -				
Accounting profit	**22,648,863**	**14,319,820**	**21,325,327**	**16,960,630**
Tax applicable rate at 30% (2020:25%)	6,794,659	3,579,955	6,397,598	4,240,158
Share of profit in associate	91,674	(26,821)	-	-
Unrecognized deferred tax asset on tax loss	-	1,780	-	-
Hyper inflationary adjustment	(42,876)	(375,396)	-	-
Tax effect of items not eligible for tax	(738,497)	289,467	(670,534)	(998,796)
Tax expense in the income statement	**6,104,960**	**3,468,985**	**5,727,064**	**3,241,362**

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 taxpayer.

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.

25. PROVISIONS

	Group		Bank	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Leave liability	173,866	116,825	173,617	116,576
Balance at 1 January	116,825	151,426	116,576	147,774
Movement through profit or loss	57,041	(34,601)	57,041	(31,198)
Balance at 31 December	173,866	116,825	173,617	116,576

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	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Bills payable	6,197,983	5,423,318	6,197,983	5,423,318
Lease liabilities (note 19)	4,286,368	4,445,956	3,848,619	4,263,759
Items in the course of collection by other banks	673,851	-	667,838	-
Sundry creditors and accruals	14,355,298	9,088,738	13,083,337	8,130,980
Allowance for credits losses for off balance sheet commitments	1,002,433	943,650	1,002,433	943,650
	26,515,933	19,901,662	24,800,210	18,761,707

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

27. GOVERNMENT GRANTS

	Group and Bank	
	2021	2020
Grant net of amortisation:	KShs'000	KShs'000
At 1 January	**424,941**	**443,416**
Amortisation for the year	(18,476)	(18,475)
At 31 December	**406,465**	**424,941**

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	
	2021	2020
Authorised :-		
7.5 billion (2020: 7.5 billion) ordinary shares of KShs 1 each.	7,500,000	7,500,000
Issued and fully paid:-		
5.8 billion (2020: 5.8 billion) ordinary shares of KShs 1 each.	5,867,180	5,867,180

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	
	2021	2020
	KShs'000	KShs'000
At 1 January and 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.

For the year ended 31 December 2021, the Group and the Bank's allowance for expected credit losses calculated in line with IFRS 9 amounted to KShs 31.02 billion and KShs 29.69 billion (2020: KShs 30.8 billion and KShs 26.8 billion) respectively while the Group and the Bank's Statutory loan loss provisions amounted to KShs 0.693 billion and KShs Nil in 2021, (2020: KShs 0.014 billion and KShs Nil) respectively.

The Bank's ECL allowance was more than the Statutory loan loss provisions resulting into a reversal of the statutory reserve previously held. The balance in the Group's statement of changes in equity relates to Co-operative Bank of South Sudan

(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	
	2021	2020
	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 2021 financial statements, a first and final dividend in respect of year 2021 of KShs 1 (2020 - 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.

32. MATERIAL PARTLY OWNED SUBSIDIARIES

(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 proportion of equity interest held by non-controlling Interest is 40%. 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 CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

32. MATERIAL PARTLY OWNED SUBSIDIARIES (Continued)

(c) Kingdom Bank Limited

Kingdom Bank Limited (formerly Jamii Bora Bank Limited) was acquired by The Co-operative Bank Limited through purchase of 90% shareholding in August 2020. The proportion of equity interest held by non-controlling Interest is 10%. The company offers banking services and is a commercial bank registered and regulated by the Central Bank of Kenya.

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: -

As at 31 December 2021	Kingdom Bank Limited	Kingdom Securities Limited	Co-operative Bank of South Sudan
	2021	2021	2021
	KShs'000	KShs'000	KShs'000
Interest and other income	3,349,381	83,465	605,261
Interest and commission expenses	(440,324)	(1,706)	(16,338)
	2,909,057	**81,759**	**588,923**
Operating expenses	(2,359,507)	(81,056)	(1,041,924)
Loss on net monetary position	-	-	(23,586)
Profit / (loss) before tax	549,550	703	(476,587)
Share of profit of an associate	-	-	54,904
Income tax expense	(29,792)	-	(62,729)
Profit / (loss) for the year	**519,758**	**703**	**(484,412)**
Other comprehensive income	(104,228)	-	-
Total comprehensive income	**415,530**	**703**	**(484,412)**
Allocated to non-controlling interest	41,553	281	(237,362)

As at 31 December 2020	Kingdom Bank Limited	Kingdom Securities Limited	Co-operative Bank of South Sudan
	2020	2020	2020
	KShs'000	KShs'000	KShs'000
Interest and other income	1,975,907	65,180	1,681,635
Interest and commission expenses	(254,354)	(774)	(22,248)
	1,721,553	**64,406**	**1,659,387**
Operating expenses	(1,797,879)	(81,520)	(1,458,794)
Loss on net monetary position	-	-	(1,794,519)
Profit / (loss) before tax	(76,326)	(17,114)	(1,593,926)
Share of profit of an associate	-	-	(61,515)
Income tax expense	(93,578)	(6,120)	94,541
Profit / (loss) for the year	**(169,904)**	**(23,234)**	**(1,560,900)**
Other comprehensive income	98,546	(29,330)	3,098
Total comprehensive income	**(71,358)**	**(52,564)**	**(1,557,802)**
Allocated to non-controlling interest	(7,136)	(21,026)	(763,323)

(c) Kingdom Bank Limited

Summarised statement of financial position: -

As at 31 December 2021	Kingdom Bank Limited	Kingdom Securities Limited	Co-operative Bank of South Sudan
	2021	2021	2021
	KShs'000	KShs'000	KShs'000
Current assets	25,926,218	215,120	3,612,958
Non-current Assets	5,862,632	44,214	1,967,019
Liabilities	(29,784,740)	(144,219)	(3,946,051)
Total equity	**2,004,110**	**115,115**	**1,633,926**
Attributable to:-			
Equity holders of the parent	1,803,699	69,069	833,302
Accumulated non-controlling interests of the subsidiary	200,411	46,046	800,624

As at 31 December 2020	Kingdom Bank Limited	Kingdom Securities Limited	Co-operative Bank of South Sudan
	2020	2020	2020
	KShs'000	KShs'000	KShs'000
Current assets	23,841,998	189,965	5,900,950
Non-current Assets	6,864,967	93,593	2,533,545
Liabilities	(29,309,106)	(168,026)	(5,137,952)
Total equity	**1,397,859**	**115,532**	**3,296,543**
Attributable to:-			
Equity holders of the parent	1,258,073	69,319	1,681,237
Accumulated non-controlling interests of the subsidiary	139,786	46,213	1,615,306

(d) 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 23.5 million (2020KShs 1,794.5 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
2020	14,549	1.9
2021	14,434	1.03

33. INTEREST AND SIMILAR INCOME

	Group		Bank	
	2021	2020	2021	2020
Interest income calculated using the effective interest method	KShs'000	KShs'000	KShs'000	KShs'000
Loans and advances to customers	36,508,392	33,500,169	35,861,390	32,709,725
Debt instruments at amortised cost	7,624,068	8,629,948	7,592,061	7,422,574
Debt instruments at FVOCI	11,519,697	6,448,198	8,917,621	6,412,979
Amortization of financial instruments	(414,894)	(255,881)	(411,472)	(261,659)
Deposits and balances due from other banks	410,882	518,211	284,987	329,780
	55,648,145	**48,840,645**	**52,244,587**	**46,613,399**

34. INTEREST AND SIMILAR EXPENSE

	2021	2020	2021	2020
Interest expense calculated using the effective interest method	KShs'000	KShs'000	KShs'000	KShs'000
Call deposits	2,665,219	2,192,927	2,264,633	2,019,578
Fixed deposits	7,940,559	6,088,872	7,940,302	6,088,872
Savings accounts	967,244	1,041,268	966,883	1,039,866
Current accounts	1,751,378	1,616,139	1,751,309	1,616,092
Deposits and balances due to banks	195,682	217,006	188,990	171,710
Lease obligations	281,592	299,727	265,624	280,573
Borrowed funds	1,091,150	1,335,466	1,040,747	1,278,185
	14,892,824	**12,791,405**	**14,418,488**	**12,494,876**

35. FEES AND COMMISSIONS

	Group		Bank	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Fees and commissions income	15,233,684	12,901,027	13,452,556	10,976,392
Fees and commissions expense	(133,557)	(331,529)	(120,807)	(319,367)
Net fees and commissions income	**15,100,127**	**12,569,498**	**13,331,749**	**10,657,025**

35. FEES AND COMMISSIONS (Continued)

Disaggregated fees and commission information as at the period end

31 December 2021	Banking services KShs'000	Advisory & training KShs'000	Bancassurance KShs'000	Investment management KShs'000	Brokerage KShs'000	Total KShs'000
Fees and commission income						
Custodial	178,576	-	-	-	-	178,576
Share registration	14,206	-	-	-	-	14,206
Fund management	-	-	-	268,269	-	268,269
Brokerage	-	-	-	-	57,868	57,868
Consultancy	-	37,298	-	-	-	37,298
Training	-	34,472	-	-	-	34,472
Insurance agency	-	-	999,116	-	-	999,116
Ledger fees and service charges	1,390,987	-	-	-	-	1,390,987
Other fees & commissions	12,119,335	-	-	-	-	12,119,335
Total revenue from contracts with customers	**13,703,104**	**71,770**	**999,116**	**268,269**	**57,868**	**15,100,127**
Timing of revenue recognition						
Services transferred at a point in time	13,510,322	71,770	999,116	-	57,868	14,639,076
Services that are provided over time	192,782	-	-	268,269	-	461,051
Total revenue from contracts with customers	**13,703,104**	**71,770**	**999,116**	**268,269**	**57,868**	**15,100,127**
Timing of revenue recognition						
Services transferred at a point in time	13,510,322	71,770	999,116	-	57,868	14,639,076
Services that are provided over time	192,782	-	-	268,269	-	461,051
Total revenue from contracts with customers	**13,703,104**	**71,770**	**999,116**	**268,269**	**57,868**	**15,100,127**

31 December 2020	Banking services KShs'000	Advisory & training KShs'000	Bancassurance KShs'000	Investment management KShs'000	Brokerage KShs'000	Total KShs'000
Fees and commission income						
Custodial	155,973	-	-	-	-	155,973
Share registration	16,693	-	-	-	-	16,693
Fund management	-	-	-	218,970	-	218,970
Brokerage	-	-	-	-	54,927	54,927
Consultancy	-	39,249	-	-	-	39,249
Training	-	13,987	-	-	-	13,987
Insurance agency	-	-	841,829	-	-	841,829
Ledger fees and service charges	1,113,755	-	-	-	-	1,113,755
Other fees & commissions	10,114,115	-	-	-	-	10,114,115
Total revenue from contracts with customers	11,400,536	53,236	841,829	218,970	54,927	12,569,498
Timing of revenue recognition						
Services transferred at a point in time	11,227,870	53,236	841,829		54,927	12,177,862
Services that are provided over time	172,666			218,970		391,636
Total revenue from contracts with customers	11,400,536	53,236	841,829	218,970	54,927	12,569,498

36. NET TRADING INCOME

	Group		Bank	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Foreign exchange gain	2,849,297	2,837,870	2,703,645	2,305,791
	2,849,297	2,837,870	2,703,645	2,305,791

37 OTHER OPERATING INCOME

	Group		Bank	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Gain on disposal of property and equipment	7,717	19,044	7,717	19,044
Dividend income	847	1,444	847	1,701,444
Rental income	132,784	109,048	132,784	109,048
Gain on sale of financial assets at Fair value	707,840	982,948	707,840	982,948
Sundry Income	579,267	942,397	417,504	607,117
	1,428,455	2,054,881	1,266,692	3,419,601

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 monthly when it falls due.

38. EMPLOYEE COSTS

	Group		Bank	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Basic salaries	10,784,856	11,049,924	10,142,915	10,391,501
Allowances	419,423	415,432	400,719	395,111
Pension scheme contribution	-			
- Statutory Scheme	9,344	9,631	8,753	8,972
- Employee Scheme	838,446	827,659	813,228	773,044
Medical expenses	602,220	578,342	576,322	553,014
Education and training	53,673	24,512	52,431	24,269
Others	616,255	516,173	441,224	309,556
	13,324,217	13,421,673	12,435,592	12,455,467
The number of employees at the year-end was:	2021	2020	2021	2020
Management	613	601	576	568
Supervisory and unionizable	3,116	3,200	3,034	3,130
Others	517	597	427	495
	4,246	4,398	4,037	4,193

39. OTHER OPERATING EXPENSES

	Group		Bank	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Rent and maintenance costs for branch premises	1,009,559	1,032,853	899,231	949,452
Motor vehicle running & other equipment maintenance	2,089,907	2,187,899	2,069,922	2,107,386
Stationery and printing	271,211	558,351	258,732	551,002
Travelling and insurance	595,474	540,205	484,572	496,305
Telephone, postage, electricity and water	666,894	656,580	613,243	609,971
Contribution to Deposit Protection Fund	565,621	487,798	556,751	481,005
Directors' emoluments	197,849	245,715	144,027	147,925
Auditors' remuneration	39,851	41,555	18,974	17,408
Loss on net monetary position	23,587	1,794,519	-	-
Other operating and administrative expenses	7,042,707	5,460,816	5,377,390	4,424,351
	12,502,660	**13,006,291**	**10,422,842**	**9,784,805**

Other operating and administrative expenses relates to various expenses of low values of which the bank consider it will not be useful to disclose individually.

40. ECL-OTHER FINANCIAL ASSETS

	Group		Bank	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Credit loss expense				
ECL-off balance sheet balances	58,783	188,012	58,783	188,012
ECL- Investments in Government securities	302,621	427,096	302,621	422,638
ECL- Sundry debtors	180,460	-	5,103	-
	541,864	**615,108**	**366,507**	**610,650**
Credit loss write back				
ECL- Local Bank balances	(1,186)	(2,068)	(1,186)	(1,970)
ECL-Foreign bank balances	(3)	-	(3)	-
ECL-off balance sheet balances	-	-	-	-
ECL- Sundry debtors	-	(27,690)	-	(27,690)
	(1,189)	(29,758)	(1,189)	(29,660)
Net credit loss expense/ (write back)	**540,675**	**585,350**	**365,318**	**580,990**

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	
	2021	**2020**	**2021**	**2020**
Profit for the year attributable to equity holder of the parent (KShs'000)	16,729,008	11,594,089	15,598,263	13,719,268
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)	2.85	1.98	2.66	2.34
Diluted earnings per share (KShs)	2.85	1.98	2.66	2.34

42. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Financial Assets at fair value through other comprehensive income	Group		Bank	
	2021	**2020**	**2021**	**2020**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Gains/(losses) arising during the year	3,236,775	1,643,444	679,356	1,578,627
Reclassification to profit or loss	(3,796,000)	(917,864)	(1,084,840)	(917,864)
	(559,225)	**725,580**	**(405,484)**	**660,763**

43. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of profit before tax to cash generated from operations

		2021	2020	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES: -	**Note**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Profit before tax		**22,648,863**	**14,281,860**	**21,325,327**	**16,960,630**
Adjustments for: -					
Depreciation of property and equipment	18	1,486,349	1,687,344	1,162,788	1,323,247
Depreciation of right-of-use asset	19	1,268,050	1,317,487	1,196,802	1,196,781
Write-off on property and equipment	18	-	191	-	-
Amortization of leasehold	17	610	610	610	610
Gain on disposal of associate shares		-	-	-	-
Write-off on intangible assets	16	94,604	671,564	-	-
Movement in provisions		2,741,220	12,355,931	2,888,781	8,436,933
Leave provision	25	57,041	(34,601)	57,041	(31,198)
Allowance for credit losses		1,437,982	611,507	1,439,718	580,990
Unrealised exchange difference		(97,904)	(2,525,555)	(124,228)	(2,521,148)
Amortization of intangible assets	16	756,575	967,586	737,383	700,218
Amortization of capital grants	27	(18,476)	(18,475)	(18,476)	(18,475)
Gain on disposal of property and equipment		(7,717)	(19,044)	(7,717)	(19,044)
Share of (loss)/ profit in associates	15	(305,579)	149,939	-	-
Interest on lease liability	19	281,593	(299,727)	265,624	(280,573)
Exchange difference on borrowings	23	(1,249,607)	1,891,490	247,544	1,891,490
Accrued interest on borrowings	23	1,323,050	166,135	42,756	40,146
Loss on net monetary position		23,587	1,794,519	-	-
Cash flows from operating activities before working capital changes		**30,440,241**	**32,998,761**	**29,213,951**	**28,260,607**
Advances to customers		(26,302,325)	(32,277,427)	(26,951,042)	(23,626,333)
Other assets		(2,795,885)	(4,665,345)	(2,375,916)	(2,431,827)
Deposits from customers		29,095,312	45,806,536	29,256,640	40,051,261
Deposits from banks		570,212	44,915	99,614	(79,846)
Other liabilities		6,715,076	3,742,357	6,394,859	3,317,007
Central Bank of Kenya cash reserve ratio		(515,572)	590,134	(1,247,057)	1,592,777
FVOCI Investments		(24,313,435)	(21,808,986)	(23,170,879)	(21,264,251)
Derivative financial instruments		(124,216)	304,196	(124,216)	304,196
Cash generated from operating activities		**12,769,408**	**24,735,141**	**11,095,956**	**26,123,591**
Cash and cash equivalents comprises of:-					
Cash on hand		9,043,810	8,607,089	8,120,024	7,891,150
Cash with Central Bank of Kenya		21,833,819	17,816,271	19,391,126	12,904,226
Deposits and balances due from banking institutions		8,555,669	16,916,543	6,970,157	16,382,696
Items in the course of collection from other Banks		(667,838)	320,952	(667,838)	320,550
		38,765,460	**43,660,855**	**33,813,469**	**37,498,622**
Less: Central Banks restricted Cash		(16,983,327)	(16,467,755)	(16,712,169)	(15,465,112)
Cash and cash equivalents		**21,782,133**	**27,193,100**	**17,101,300**	**22,033,510**

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:

	Group and Bank	
	2021	2020
	KShs'000	KShs'000
Directors	349,618	400,791
Employees	11,827,617	11,003,462
Associates	7,360,551	5,383,254
	19,537,786	**16,787,507**
Interest income earned	**923,433**	**887,286**
Weighted average interest rate	**6%**	**6%**

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 (2020-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.

The Loan advanced to CIC Limited, an associate of the Bank, had a carrying amount of KShs 4.3 billion. The loan has a tenor of 60 months with 1 principal bullet payment on the 60th month and interest payment after every 4 months.

The Bank disbursed a loan to Kingdom Securities Limited of KShs 45 million during the year at the prevailing market rate of 13%. 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. The loan is non-secured.

(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:

	Group and Bank	
	2021	2020
	KShs'000	KShs'000
Directors and Employees (Key personnel)	653,926	881,969
Subsidiaries and Associate companies	434,980	662,234
Interest expensed	52,578	29,127
Weighted average interest rate	4.8%	3.3%

(c) Inter-company balances and transactions: -

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

		Bank	
Relationship		2021	2020
		KShs'000	KShs'000
Due from:-			
Co-optrust Investment Services Limited	Subsidiary	-	-
Co-op Consultancy & Bancassurance Intermediary Agency Ltd	Subsidiary	-	-
Co-opholdings Co-operative Society Limited	Parent	8,733	625
Co-operative Bank of South Sudan	Subsidiary	15,161	73,405
		23,894	**74,030**
Due to:-			
Insurance premium:-			
Co-operative Insurance Company Limited	Associate	**12,395**	**194,771**

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 (2020-194,771).

(d) Compensation of key management personnel: -

	Group		Bank	
	2021	2020	2021	2020
Non-executive directors	KShs'000	KShs'000	KShs'000	KShs'000
Directors' emoluments:				
-Fees	184,907	227,572	131,854	135,765
-Others	12,942	18,143	12,173	17,136
	197,849	245,715	144,027	152,901
Executive director				
-Short-term employee benefits	130,700	117,040	124,940	111,570
-Post-employment benefits/bonus	266,400	204,540	266,400	204,540
	397,100	321,580	391,340	316,110
Senior Managers:				
-Short-term employee benefits	1,254,106	1,659,884	1,182,157	1,559,049
-Post-employment pension	133,092	118,384	128,369	114,071
-Termination benefits	2,156	155,546	2,156	155,546
	1,389,354	1,933,814	1,312,682	1,828,666

(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 2021, KShs 157,472,620 (2020-KShs 89,519,458) was disbursed to the Foundation. At 31 December 2021, the Foundation held deposits of KShs 8,795,202 (2020-KShs 11,896,879) 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 841 million as at 31 December 2021 (2020- KShs 798 million). 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:

	2020	2020
	KShs'000	KShs'000
Rent paid to the scheme on leased property	8,584	7,805
Dividends paid on the Bank's ordinary shares	53,167	63,167

45. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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	After 12 months	Total	Within 12 months	After 12 months	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
As at 31 December 2021						
ASSETS						
Cash and balances with Central Banks	30,828,477	-	**30,828,477**	27,511,150	-	**27,511,150**
Deposits and balances due from banks	8,535,973	-	**8,535,973**	6,970,086	-	**6,970,086**
Investment in Financial Instruments	59,274,300	126,688,309	**185,962,609**	59,174,300	103,050,792	**162,225,092**
Loans and advances	87,422,678	222,772,619	**310,195,297**	84,020,630	220,563,807	**304,584,437**
Tax recoverable	-	-	**-**	-	-	**-**
Deferred tax asset	-	5,411,716	**5,411,716**	-	5,080,346	**5,080,346**
Prepaid Lease Rentals	-	33,303	**33,303**	-	33,303	**33,303**
Other assets	-	20,535,077	**20,535,077**	-	18,441,627	**18,441,627**
Investment in subsidiaries	-	-	**-**	-	3,884,925	**3,884,925**
Investment in associates	-	2,146,675	**2,146,675**	-	706,444	**706,444**
Property and equipment	-	6,389,748	**6,389,748**	-	5,094,508	**5,094,508**
Right of Use assets	-	3,956,444	**3,956,444**	-	3,411,854	**3,411,854**
Intangible assets	-	2,534,335	**2,534,335**	-	2,442,970	**2,442,970**
Good Will	-	3,294,000	**3,294,000**	-	-	**-**
Total assets	**186,061,428**	**393,762,226**	**579,823,654**	**177,676,166**	**362,710,576**	**540,386,742**
LIABILITIES						
Customer Deposits	405,928,870	1,796,895	**407,725,765**	396,760,867	1,925,426	**398,686,293**
Deposits and balances due to banks	792,102	-	**792,102**	754,572	-	**754,572**
Tax Payable	903,763	-	**903,763**	907,798	-	**907,798**
Provisions	-	173,866	**173,866**	-	173,617	**173,617**
Other Liabilities	26,515,933	-	**26,515,933**	24,800,210	-	**24,800,210**
Government grants	-	406,465	**406,465**	-	406,465	**406,465**
Loans and borrowings	139,057	42,775,565	**42,914,622**	48,437	20,096,292	**20,144,729**
Deferred tax liability	-	51,669	**51,669**	-	-	**-**
Total liabilities	**434,279,725**	**45,204,460**	**479,484,185**	**423,271,884**	**22,601,800**	**445,873,684**
Net	**(248,218,297)**	**348,557,766**	**100,339,469**	**(245,595,718)**	**340,108,776**	**94,513,058**

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

45. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (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 2020						
ASSETS						
Cash and balances with Central Banks	26,348,136	-	**26,348,136**	20,795,376	-	**20,795,376**
Deposits and balances due from banks	16,915,263	-	**16,915,263**	16,381,436	-	**16,381,436**
Investment in Financial Instruments	37,766,875	125,326,706	**163,093,581**	37,766,875	103,306,767	**141,073,642**
Loans and advances	39,236,716	247,397,476	**286,634,192**	36,780,125	243,742,051	**280,522,176**
Tax recoverable	-	666,502	**666,502**	-	697799	**697799**
Deferred tax asset	-	4,309,763	**4,309,763**	-	3,966,886	**3,966,886**
Prepaid Lease Rentals	-	33,912	**33,912**	-	33,912	**33,912**
Other assets	-	18,686,728	**18,686,728**	-	16,929,683	**16,929,683**
Investment in subsidiaries	-	-	**-**	-	3,512,920	**3,512,920**
Investment in associates	-	1,967,532	**1,967,532**	-	706,444	**706,444**
Property and equipment	-	7,939,594	**7,939,594**	-	5,577,625	**5,577,625**
Right of Use assets	-	4,362,015	**4,362,015**		3,925,238	**3,925,238**
Intangible assets	-	2,825,101	**2,825,101**		2,699,811	**2,699,811**
Good Will	-	3,294,000	**3,294,000**	-	-	**-**
Total assets	**120,266,990**	**416,809,329**	**537,076,319**	**111,723,812**	**385,099,136**	**496,822,948**
LIABILITIES						
Customer Deposits	156,991,761	221,638,692	**378,630,453**	152,514,302	216,915,351	**369,429,653**
Deposits and balances due to banks	221,890	-	**221,890**	654,958	-	**654,958**
Tax Payable	-	-	**-**	-	-	**-**
Provisions	-	116,825	**116,825**	-	116,576	**116,576**
Other Liabilities	19,901,662	-	**19,901,662**	18,761,706	-	**18,761,706**
Government grants	-	424,941	**424,941**	-	424,941	**424,941**
Loans and borrowings	1,273,656	44,752,485	**46,026,141**	425,940	21,836,734	**22,262,674**
Deferred tax liability	-	131,071	**131,071**	-	-	**-**
Total liabilities	**178,388,969**	**267,064,014**	**445,452,983**	**172,356,906**	**239,293,602**	**411,650,508**
Net	**(58,121,979)**	**149,745,315**	**91,623,336**	**(60,633,094)**	**145,805,534**	**85,172,440**

46. OPERATING LEASE COMMITMENTS

As lessor:

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

	Group and Bank	
	2021	2020
	KShs'000	KShs'000
Within One year	129,703	109,458
Between 2 and 5 years	468,338	333,974
Over 5 years	-	57,420
	598,041	500,852

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	
	2021	2020
	KShs'000	KShs'000
Within One year	993,548	1,348,565
Between 2 and 5 years	2,607,644	3,627,792
Over 5 years	572,431	366,851
	4,173,623	5,343,208

47. COMMITMENTS

	Group and Bank	
	2021	2020
	KShs'000	KShs'000
(i)Capital: Authorised and contracted for	190,453	385,172
(ii) Capital: Authorised and not contracted for	3,584,093	3,493,232
(iii) Loans committed but not disbursed at year end	6,387,393	14,563,650

48. CONTINGENT LIABILITIES

	Group and Bank	
	2021	2020
(a) Financial guarantees, Letters of credit and other undrawn commitments	KShs'000	KShs'000
Letters of credit	19,463,117	13,725,691
Guarantees	20,761,900	21,574,822
	40,225,017	35,300,513
Unutilised overdraft	886,937	920,743
Unutilised Credit Card	123,961	123,065
	1,010,898	1,043,808
Gross Carrying Amount	41,235,915	36,344,321
Allowance for credit losses	(1,002,433)	(943,650)
Net Carrying Amount	40,233,482	35,400,671

48. CONTINGENT LIABILITIES (Continued)

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 2021	**13,725,691**	**-**	**-**	**13,725,691**
Disbursement	97,406,900	-	-	97,406,900
Repayment (excluding write-off)	(91,669,474)	-	-	(91,669,474)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2021	**19,463,117**			**19,463,117**

	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
ECL allowance as at 1 January 2021	**576,841**	**-**	**-**	**576,841**
ECL on disbursements	204,990	-	-	204,990
ECL on Repayment (excluding write-off)	(386,658)	-	-	(386,658)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2021	**395,173**	**-**	**-**	**395,173**

48. CONTINGENT LIABILITIES (Continued)

Guarantees

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 1 January 2021	**21,574,823**	**-**	**-**	**21,574,823**
Disbursements	58,248,535	-	-	58,248,535
Repayment (excluding write-off)	(59,061,458)	-	-	(59,061,458)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2021	**20,761,900**	**-**	**-**	**20,761,900**

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
ECL allowance as at 1 January 2021	**346,213**	**-**	**-**	**346,213**
ECL on disbursements	485,468	-	-	485,468
ECL on Repayment (excluding write-off)	(241,767)	-	-	(241,767)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
	-	-	-	-
At 31 December 2021	**589,914**	**-**	**-**	**589,914**

Undrawn commitment

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 1 January 2021	1,043,808	-	-	1,043,808
Disbursements	452,257	-	-	452,257
Repayment (excluding write-off)	(485,167)		-	(485,167)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2021	**1,010,898**	**-**	**-**	**1,010,898**

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
ECL allowance as at 1 January 2021	20,596	-	-	20,596
ECL on disbursements	13,588	-	-	13,588
ECL on Repayment (excluding write-off)	(16,838)		-	(16,838)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2021	**17,346**	**-**	**-**	**17,346**

48. CONTINGENT LIABILITIES (Continued)

Letters of credit

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 1 January 2020	**5,571,338**	**-**	**-**	**5,571,338**
Disbursements	18,342,139	-	-	18,342,139
Repayment (excluding write-off)	(10,187,786)	-	-	(10,187,786)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2020	**13,725,691**	**-**	**-**	**13,725,691**

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
ECL allowance as at 1 January 2020	**407,485**	**-**	**-**	**407,485**
ECL on disbursements	229,831	-	-	229,831
ECL on Repayment (excluding write-off)	(60,475)	-	-	(60,475)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2020	**576,841**	**-**	**-**	**576,841**

48. CONTINGENT LIABILITIES (Continued)

Guarantees

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 1 January 2020	**19,056,592**	**-**	**-**	**19,056,592**
Disbursements	17,993,914	-	-	17,993,914
Repayment (excluding write-off)	(15,475,683)	-	-	(15,475,683)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2020	**21,574,823**	**-**	**-**	**21,574,823**

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
ECL allowance as at 1 January 2020	**328,988**	**-**	**-**	**328,988**
ECL on disbursements	186,131	-	-	186,131
ECL on Repayment (excluding write-off)	(168,906)	-	-	(168,906)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2020	**346,213**	**-**	**-**	**346,213**

Undrawn commitment

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 1 January 2020	**489,853**	**-**	**-**	**489,853**
Disbursements	641,924	-	-	641,924
Repayment (excluding write-off)	(87,969)		-	(87,969)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2020	**1,043,808**	**-**	**-**	**1,043,808**

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
ECL allowance as at 1 January 2020	**19,164**	**-**	**-**	**19,164**
ECL on disbursements	1,605	-	-	1,605
ECL on Repayment (excluding write-off)	(173)		-	(173)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2020	**20,596**	**-**	**-**	**20,596**

48. 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. Judgment was entered in favour of the Bank on 2nd November 2020. The Court dismissed the Plaintiff's suit and James Nderitu's Counterclaim against the Bank with costs. The Court entered Judgment for the Bank on its Counterclaim as follows: (i) Kshs. 145 Million against Kenya Continental Hotel Limited together with interest at the rate of 18% per annum from 29th January, 1999 until payment in full; (ii) Kshs.80,644,151.00 against Kenya Continental Hotel Ltd together with interest at the rate of 20% per annum from 25th September, 2000 until payment in full; (iii) Against the Guarantors a sum not exceeding Kshs. 100 Million each; (iv)The Bank was also awarded costs of the suit. Kenya Continental have appealed the decision and the matter shall be mentioned on 7th March 2022. There is no exposure to the Bank in this matter.

(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 Stockbrokers 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. Judgment was entered in the Scheme's favor by the Retirement Benefits Tribunal On 12th October 2021. The Claimant's appeal was dismissed. The Claimants have now instituted Judicial Review proceedings against the Tribunal's decision with the High Court. 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.

(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**

48. CONTINGENT LIABILITIES (Continued)

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. In July 2020, the case was determined by the Tax Appeals Tribunal and ruled in favour of the Bank. KRA has since challenged the ruling at the High Court of Kenya and the case is yet to be determined as at 31 December 2021.

No provision has been made in these financial statements for the principal tax and interest shown above as the directors based on the TAT ruling and facts of the matter 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 162.8 billion (2020 – KShs 124.029 billion). The income for the period for custodial services was KShs 202.9 million (2020- KShs 133.52 million) while the expenses amounted to KShs 64.0 million (2020- KShs 47.34 million).

The Group, through Co-op Trust Investment Services Limited manages securities with a value of KShs 189.25 billion (2020- KShs 127.48 billion) on behalf of customers. The total income for the period from fund management was KShs 268.27 million (2020- KShs 218.97 million), with total expenses amounting to KShs 143.91 million (2020- KShs 186.06 million).

50. ASSETS PLEDGED AS SECURITY

As at 31 December 2021, 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

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.

There have been no events, including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to period end which require adjustment of or disclosure in the consolidated financial statements or notes thereto.

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CO-OPERATIVE BANK
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