# Contents

# The Co-operative Bank of Kenya Limited and Subsidiaries Group information For The Year Ended 31 December 2014

## REGISTERED OFFICE AND HEAD OFFICE

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

## SUBSIDIARIES

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

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

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

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

## ASSOCIATE COMPANIES

CIC Insurance Group, CIC Plaza
Maza Road, Upper Hill.
Tel: 020-2823000,
Cell: 0721-632713, 0735-750885
Email: callc@cic.co.ke

## COMPANY SECRETARY

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

## SHARES REGISTRAR

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

## LAWYERS

Various
A list is available at the Bank

## AUDITOR

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

## Co-op Foundation Group

The Group MD & CEO Co-operative Bank Dr. Gideon Muriuki (Center) joins recent students who have benefited from the Co-op foundation programme in an induction session held at the banks Learning and Management Center in Karen in 2014.This is part of a four year programme by the bank to provide free secondary school education to over 3,400 bright and needy students from all regions of Kenya. He is joined by Mrs Rosemary Githaiga, the Company Secretary amongst other senior staff of the bank.

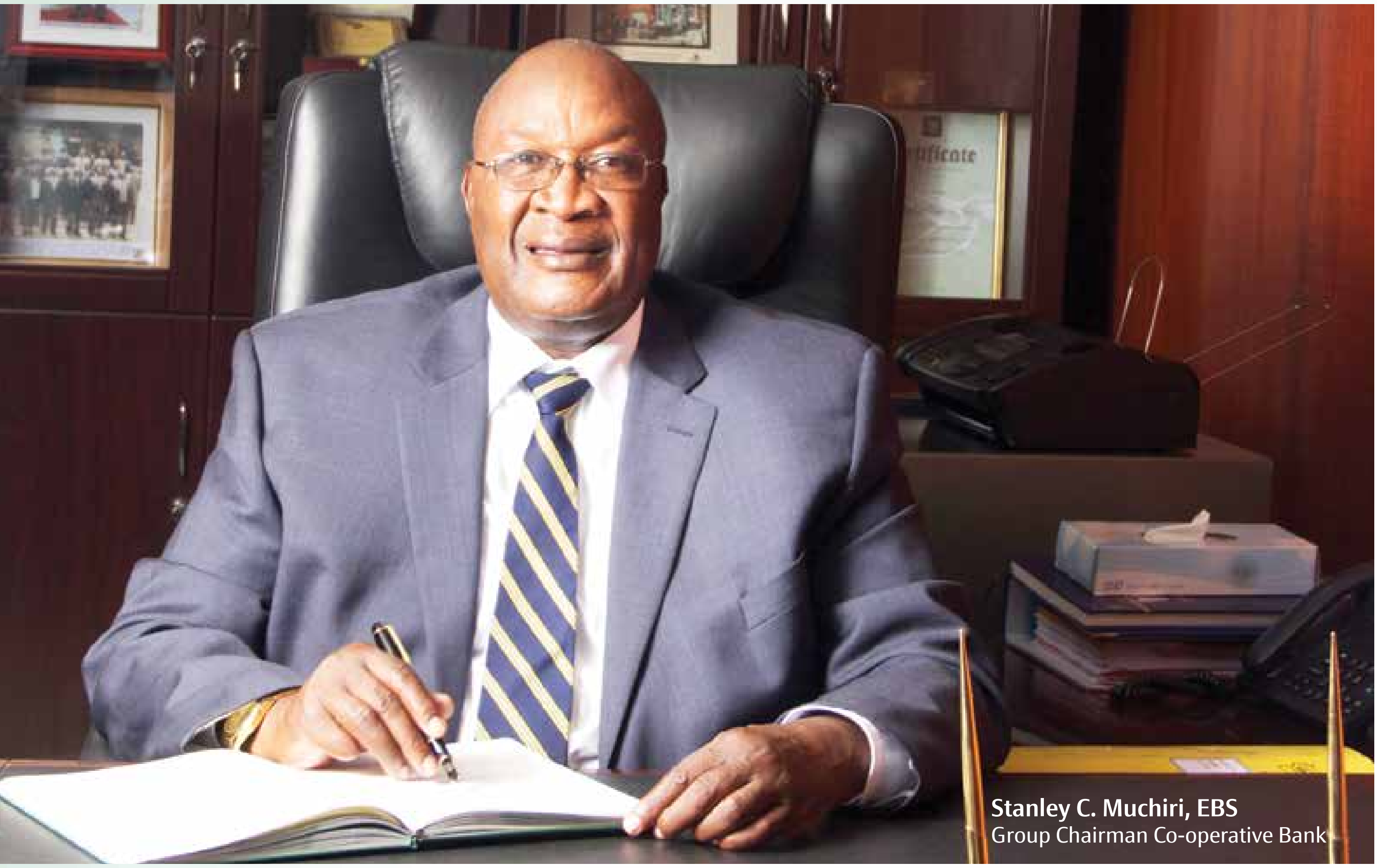
## Asset Leasing MOU

Co-operative Bank's Director of Corporate and Institutional Banking Lydia Rono (left) and Judy Anne Wanjiku, Managing Director, Vehicle and Equipment leasing Ltd sign the KShs. 1 Billion Leasing partnership, assisted by the Bank's Head of Asset Finance Joseph Thiongo.

## Banking the Diaspora

H.E. President Uhuru Kenyatta and the Bank's Group MD & CEO Dr. Gideon Muriuki at the inaugural Diaspora Investment Conference and Exhibition in April 2015. The bank has championed Kenyans living abroad to form Saccos, which are the most effective vehicles to not only build savings and wealth but also for the welfare and financial security of Kenyans abroad.

# Group Chairman's Statement



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

> "The Banking sector continued to record remarkable milestones, sustaining the pace of progressive reforms that have made Kenya one of the most competitive and innovative banking markets in Africa."

**Dear Shareholders,**
I am delighted to present to you the Annual Report and Audited Financial Statements of Co-operative Bank Group for the year ended December 31, 2014.

## Overview of the macro-economic environment in 2014

The year 2014 will be remembered as the year when Kenya undertook the rebasing of the National Account Statistics. The country's Gross Domestic Product was revised upwards by as much as 25.3 per cent to stand at USD $53.4 Billion (4.76 Trillion shillings) in 2013, up from USD $42.6 Billion (3.8 Trillion shillings). Kenya's economy now ranks 9th largest in Africa and 4th largest in Sub-Saharan Africa, and is now considered a "lower middle income" economy. The new ranking implies that the basic foundation for economic transformation is now in place. Real GDP growth was estimated at 5.3 per cent in 2014.

Other key economic indicators posted modest adjustments in the year, with overall inflation rate rising to an average of 6.90 per cent in 2014 up from 5.72 per cent in 2013 while the Kenya shilling retreated against the US dollar to post an average exchange rate of 87.9 from 86.1 in 2013. The depreciation of the shilling was partly attributable to the strengthening of the US Dollar against major currencies globally, coupled with domestic factors including the deterioration of Kenya's current account deficit.

## Banking Sector Developments

The Banking sector continued to record remarkable milestones, sustaining the pace of progressive reforms that have made Kenya one of the most competitive and innovative banking markets in Africa.

The year saw the introduction of the Kenya Banks' Reference Rate (KBRR) and Annual Percentage Rate (APR) frameworks in July 2014, aimed at fostering a transparent credit pricing framework and enhance the transmission of monetary policy signals through commercial banks' lending rates.

The cheque truncation process has progressively reduced the clearing period to T+1 enabling cheques to clear within one day of delivery to the bank. The rising adoption of the Agency Banking continued to enhance access to banking services to the majority, while the operationalization of Credit Reference Bureaus has reduced the costs of information search and customer risk-profiling. Full-file credit information sharing, which also includes micro-finance banks, commenced in February 2014.

Average banking sector interest spread has been on a gradual decline with lending rates having fallen from an average of 17.31 per cent in 2013 to 16.51 per cent in 2014. Over the same period, overall deposit rates increased from 6.50 per cent in 2013 to 6.59 per cent in 2014.

In the year under review, Kenya's banking sector registered notable growth in assets, driven by growth in deposits, injection of additional capital and retention of profits. The sector also registered improved performance in earnings while the level of non-performing loans reduced relative to the previous year 2013.

## Performance of the Group

The Co-operative Bank made a Profit before Tax and exceptional items of KShs.12.3 Billion compared to a profit before tax of KShs. 10.9 Billion same period last year, a 12.8% growth. Adjusted for Exceptional item, the bank posted a profit before tax of KShs. 10.9 Billion similar to the same period the previous year.

Profit after tax for the group was KShs. 8 Billion compared to KShs. 9.1 Billion previous year on account of higher tax bracket of 30% from 20% the previous year. This followed expiry of five-year tax rebate granted to newly-listed companies.

Our regional expansion strategy is on course and with our business in South Sudan already up and running, the Group will proceed to roll out similar operations in the region. The Co-operative Bank South Sudan is expected to contribute to the bottom line in 2015.

It is with great pride that I report that the Group CEO Dr. Gideon Muriuki was recognised at the 2014 International Banker Awards (Africa and Middle East Banking Category) as the Bank CEO of the Year – Africa. The Bank also received an award for Best Innovation in Retail Banking, whose citation lauded the bank for expanding to other African markets by way of joint ventures with co-operative societies in those countries, hailing it as a futuristic business model that is likely to deliver inclusive growth, and a more equitable sharing of the benefits of the rising prosperity of African economies.

The bank also attained Information Security Management System – ISO/IEC 27001:2013 certification, the first bank in East Africa to achieve this security certification.

At the 2014 World Finance Banking Awards, the bank was recognised as Best Commercial Bank in Kenya and at the 2014 East African Banking Awards we were feted for being Best Bank in Retail Banking and Best Bank in Micro-Finance.

## Dividends

In view of the performance of the group, the Board of Directors has recommended, subject to the Capital Markets Approval to the Annual General Meeting (AGM) a dividend of KShs. 0.50 per share. This level of dividend pay-out will enable the bank reward shareholders and at the same time reserve funds required to fuel the growth expected from the implementation of the bank's transformation agenda.

## Social Investment

The Group has in place a Social investment philosophy that empowers institutions and individuals to achieve self-reliance. The bank runs a full consultancy company, Coop Consultancy Services with 20 consultants, which serves as the main vehicle for the bank's social investment. Co-op Consultancy has executed 580 mandates in the last three years, supporting Saccos with capacity-building. The Group also supported the establishment of Kenya Co-operative Coffee Exporters Ltd (KCCE) to help small-holder coffee farmers maximize returns on their produce by taking greater control of the coffee value chain.

## Co-operative Bank Foundation

The Co-op Bank Foundation has been providing education scholarships to bright but needy students from all regions of Kenya. The foundation is fully funded by the bank and has so far supported 3,472 students since inception in 2007. The sponsorship includes full fees for secondary and university education, internships and career openings for beneficiaries. The bank awards scholarships per county and the rest are determined by the bank's regional co-operatives delegates.

## Partnership with the Co-operative movement

The Group continues to partner with the co-operative movement, specifically Saccos, who have availed and networked their FOSAs to the bank to offer banking services to their over two Million members. The Group appreciates the tremendous support from the over ten Million-member co-operative movement, where the bank retains a ninety five per cent market share.

## Acknowledgement

On my own behalf and on behalf of the Board of Directors, I take this opportunity to most sincerely thank you for walking with the Kingdom Bank and supporting us though and through. I would also like to appreciate all our stakeholders who have played a great role in supporting us to achieve the great milestones in 2014.

I thank the management and the entire staff of the Group for their diligent performance and steadfast support. I particularly salute the Team for their belief and dedication to the transformation project that will see us achieve great heights.

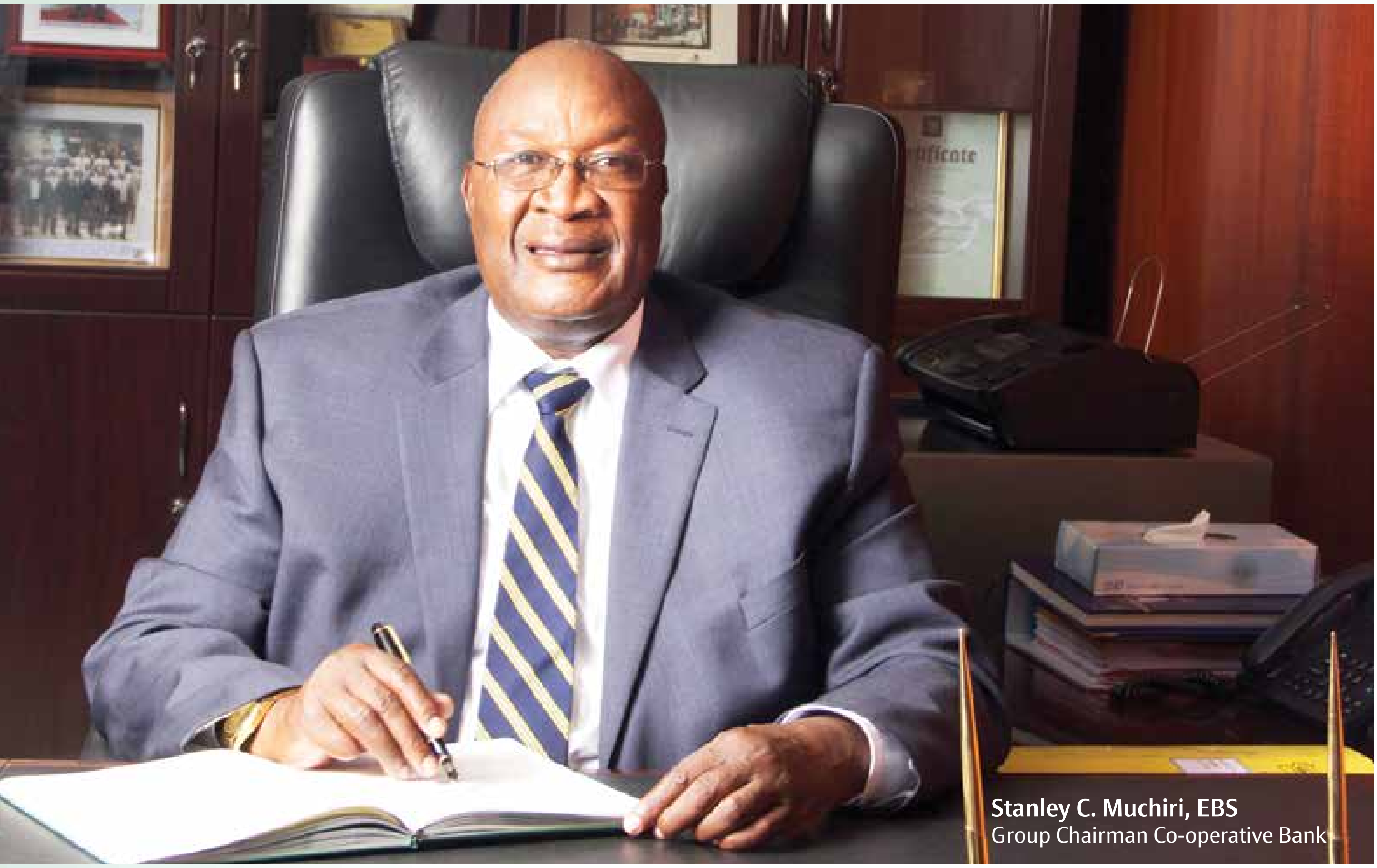
I acknowledge and appreciate the input and support that I have received from my fellow board members in this journey of guiding the business of the Group.

To our shareholders, thank you most sincerely for being there with us, and for believing that we can achieve even greater performance together, and ultimately an even higher return on your investment.

**Stanley C. Muchiri, EBS,**

Group Chairman

# Riporti Ya Mwenyekiti



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

> "Sekta ya benki imehifadhi mwenendo wa marekebisho fasaha ya sekta hii na ambayo yameifanya Kenya kuwa moja ya nchi za Afrika ambazo biashara zao za benki ni zenye ubunifu na ushindani mkubwa Zaidi"

**Wapendwa wanahisa,**

Nina furaha nyingi kutoa Riporti ya Mwaka ya Co-operative Bank Group ikiambatana na riporti ya mapato na matumizi ya pesa katika mwaka uliomalizika Desemba 31 2014 vile ilivyokaguliwa na kuthibitishwa na Mhasibu wetu.

## Hali ya mazingira ya ki-uchumi mwaka 2014

Mwaka wa 2014 utakumbukwa kama mwaka Kenya ilipobalisha mtindo unaotumika wa kukadiri pato la nchi na kulipandisha kwa kiwango cha asili-mia 25.3 hadi Dollar za Kiamerika Billioni 53.4 (shilingi Trillion 4.76) mwaka wa 2013 kutoka kiwango cha awali cha Dollar biliioni 42.6 (shilingi Trillion 3.8). Ukubwa wa uchumi wa Kenya sasa ni wa 9 Afrika na wa 4 katika nchi za Afrika zinazopakana na Sahara. Kenya sasa inatambuliwa kama nchi yenye uchumi wa wastani duniani. Hii inaamanisha kwamba msingi wa kubadilisha na kuboresha uchumi wa Kenya sasa uko tayari. Katika hali hiyo, uchumi wa Kenya ulikadiriwa kukua kwa kiwango ha asili-mia 5.3 mwaka wa 2014.

Hali zingine za kiuchumi hazikuonyesha mabadiliko yo yote makubwa. Mfumuko wa bei ulipanda hadi asilimia 6.90 mwaka wa 2014 kutoka asilimia 5.72 mwaka wa 2013.

Thamani ya shilingi ya Kenya ilipungua kidogo kutoka shilingi 86.1 mwaka wa 2013 hadi shilingi 87.9 kwa Dollar mwaka wa 2014. Kuzoroteka kwa thamani ya shilingi ya Kenya kulichangiwa na upungufu wa pato la pesa nchini na kuimarika kwa thamani ya Dollar duniani.

## Maendeleo yaliyofanywa na Secta ya Benki

Sekta ya benki imehifadhi mwenendo wa marekebisho fasaha ya sekta hii na ambayo yameifanya Kenya kuwa moja ya nchi za Afrika ambazo biashara zao za benki ni zenye ubunifu na ushindani mkubwa zaidi.

Mwaka huu wa 2014 tumeshuhudia kuanzishwa kwa Kenya Banks Reference Rates (KBRR) na Annual Percentage Rate (APR) ambazo malengo yao ni kuleta uwazi kati ya benki zote kuhusu viwango vya riba na mikopo.

Matumizi ya cheki yamendelea kufanikishwa na sasa cheki zinaweza kutoa pesa siku moja baada ya kuingizwa. Kuweko kwa afisi za ma-ejenti wa benki kila mahali kumwezesha watu wengi zaidi kutumia huduma za benki. Pia kuwepo kwa Credit Reference Bureau kumepunguza gharama za muda benki inaotumia kutafuta habari muhimu juu ya mteja anayetaka kuchukua mkopo. Mpango huu wa benki wa kubadilishana habari za wanaotaka mikopo ulianza mwezi wa February 2014.

Riba ziliendelea kushuka. Riba ya mikopo ilipungua kutoka kwa kiwango cha wastani cha asilmia 17.31 mwaka wa 2013 hadi asilimia 16.51 mwaka wa 2014. Katika muda huo huo, riba anayolipwa mteja kwa akiba aliyoweka benki iliongezeka kutoka asilimia 6.50 mwaka wa 2013 hadi asilimia 6.59 mwaka wa 2014.

Mwaka huo huo, kulikuwa na ongezeko la raslimali katika sekta ya benki kutokana na wingi wa pesa wateja walizoweka akiba, uwekezaji zaidi kutoka kwa wanahisa na kubakiza akiba kama rasilmali. Sekta pia ilishuhudia ongezeko la kutosha la mapato. Mikopo iliyokwama ilipungua ikilinganishwa na mwaka wa 2013.

## Utendakazi wa benki yetu

Faida ya Cooperative Bank mwaka wa 2014, kabla ya kukatwa kodi, ilikuwa ni shilingi Billioni 12.3 (ambayo ilikuwa ni pamoja mapato mengine yasiyohusika moja kwa moja), ukulinganisha na faida ya shilingi Billioni 10.9 kabla ya kodi mwaka wa 2013. Huu ni ukuaji wa biashara kwa kiweango wa asilimia 12.8 kati ya mwaka wa 2013 na 2014. Ukiondoa mapato yasiyohusika moja kwa moja, faida ya benki yetu mwaka wa 2014 inatoshana na ile 2013.

Faida yetu baada ya kutozwa kodi ilikuwa ni shilinngi Billioni 8 ukuilinganisha na Billioni 9.1 mwaka wa 2013. Tofauti hii ni kwa sababu mwaka wa 2013 tulitozwa kodi kwa kiwango cha asilimia 20. Mwaka wa 2014 kiwango hicho kilipanda hadi asilmia 30. Hii ilikuwa ni kwa sababu tulikuwa tumemaliza ile miaka 5 inayokubaliwa kupunguziwa kodi kwa kamapuni mpya katika Soko la Hisa.

Mikakati yetu ya kupanua shughuli za benki yetu katika kanda hii bado imo vile tulivyoipanga. Na kwa sababu benki yetu South Sudan imeingia kabisa kwa biashara, sasa sisi tuko tayari kufungua zingine kwingine katika kanda hii. Bank yetu South Sudan inatarajiwa kuchangia faida yetu mwaka wa 2015.

Najijvunia kutangaza kwamba wakati wa International Banker Awards (Africa and Middle East – Banking Category) Mkurugenzxi Mkuu wa benki yetu Bwana Gideon Muriuki alitangazwa Mkurugenzi Mkuu bora zaidi wa Bank mwaka wa 2014. Benki yetu pia ilipata tunzo la Best Innovation in Retail Banking kwa kuzitambua shughuli zake katika kupanua biashara yake katika kanda hii kwa kushikana na vyama vya Cooperative katika nchi zingine za Africa ili kuendesha biashara hizo kama Joint Venture. Tunzo hili lilisifu mwenendo huu wa kibiashara kama jambo lenye maono bora ya kufaidika pamoja katika ukuaji wa auchumi katika nchi zetu za Afrika.

Benki yetu pia iilithibitishwa kufaulu kwake katika Information Security Management System – ISO IEC 27001: 2013 Certification. Ndiyo benki ya kwanza kupawa CHETI hiki Afrika Mashariki.

Wakati wa World Finance Banking Awards 2014, benki yetu ilitambuliwa kama Commercial Bank bora zaidi nchini Kenya na katika East African Banking Awards tulipongezwa kwa kuwa benki bora zaidi katika Retail Banking na Micro-Finance.

## Gawio

Kulingana na vile benki ilivyofaulu kibiashara mwaka jana, Halmashauri ya Wakurugenzi imependekeza kwa Mkutano wa Mwaka (AGM) mgawo wa Sh. 0.50 kwa kila hisa ikiwa Capital Markets Authority itakubaliana na pendekezo hilo. Mgawo huu utawezesha benki yetu kuwatunukia wanahisa na wakati huo huo kubakiza kiwango cha faida ambacho kitatumika kuandesha shughuli za ajenda yetu ya mageuzi ya kibiashara.

## Uwajibikaji wetu kwa jamii

Benki yetu iko na kampuni yake ambayo mwongozo wake ni wa kuishauri jamii na watu binafsi waweze kuboresha hali zao za maisha na kuweza kujitegemea. Kampuni inayofanya shughuli hii ni Coop Consultancy Services. Ina washauri 20 na ndicho chombo cha benki yetu katiaka uwekezaji wetu kwa jamii. Katika miaka 3 iliyopita, Coop Consultancy imeshughulikia mahitaji 580 kusaidia SACCO kujenga uwezo wao wa utendakazi. Benki yetu ilisaidia kuanzishwa kwa kampuni ya Kenya Cooperative Coffee Exporters Ltd (KCCE) kuwezesha wakuima wadogo wa kahawa kufaidi mapato zaidi kutoka kwa zao lao kwa kujifanyia uzindikaji wa kiwango fulani wenyewe.

## Shirika la Co-operative Bank Foundation

Coop Bank Foundation ni Shirika ambalo limekuwa likiwapatia scholarship wanafunzi kutoka sehemu zote za Kenya ambao wana shida za karo na ni wenye bidii kwa masomo. Shirika hili linafadhiliwa kipesa na Cooperative Bank na tangu lianzishwe mwaka wa 2007, tayari limewasaidia wanafunzi 3,472. Msaada huu unaweza kuwa ni kumlipia mwanafunzi karo yote ya Shule ya Upili ama Chuo Kikuu (Univesity). Pia inaweza kuwa ni pamoja na kupewa nafasi ya kufuatilia taaluma unayoipenda.

Scholarship huwa zinapeanwa ki-County. Misaada mingine huwa inaachiwa wawakiliishi wa Cooperatives kutoka mikoa tofauti ya nchi.

## Tumo ndani ya Cooperative movement

Benki yetu bado inaeandelea kuwa ndani ya cooperative movement kwa kushirikiana na SACCO ambazo zimo katika mtandao wao wa FOSA unaoziwezesha kuwasambazia huduma za benki wanachama wao zaidi ya Millioni mbili. Cooperative Bank Group pia inashukuru kwa kuungwa mkono na wanachama Millioni 10 wa vyama vya ushirika ambako asilimia 95 ni wateja wa benk yetu.

## Shukurani

Kwa niaba ya Halmashauri ya Wakurugenzi, ningependa kuwashukuru nyote kwa kutuunga mkono kikweli. Nawashukuru pia washikadau wetu kwa vile walivyotusaidia kupiga hatua za kufanikisha benki yetu mwaka wa 2014.

Natoa pia shukrani zangu nyingi kwa mameneja na wafanya kazi wetu wote kwa vile walivyojitolea kazini kuhakikisha tuliyopanga yametekelezwa vilivyo. Naivulia kofia timu ya mameneja wetu kwa kuunga mkono kikamilifu mageuzi tuliyofanya mwaka wa 2014 na ambayo yatatuwezesha kufikia upeo wa malengo yetu.

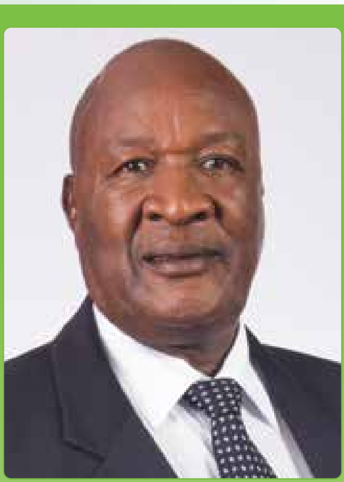
Kwa wenzangu katika Halimashauri ya Wakurugnzi, nawashukuru kwa vile mliniunga mkono katika safari hii ya kuielekeza biashara ya benki yetu iweze kukua kwa ufanisi mkubwa zaidi.

Nina shukrani nyingi kwa wenye hisa wetu kwa kuendelea kutushika mkono na kwa imani yenu kwamba pamoja tunaweza kufaulu zaidi na hata kuongeza thamani ya hisa zenu na mgao wa faida.

**Stanley C. Muchiri, EBS,**
Mwenyekiti

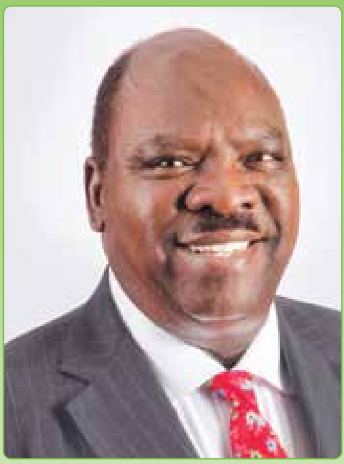
# The Board of Directors

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



## Stanley C. Muchiri, (69), EBS, Group Chairman

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



## Julius Riungu, (67), Vice Chairman

A businessman and leading educationist with over 20 years experience in the teaching profession. He has previously served as a Director in Coffee Board of Kenya and Coffee Research Foundation. He is Vice Chairman of Co-op Holdings Co-operative Society Limited and has served the co-operative movement in various capacities for over 16 years.

## Dr. Gideon Muriuki MBS, (50), Group Managing Director & CEO

Appointed Managing Director in 2001 and has presided over the Bank's turnaround from a massive loss position of KShs. 2.3 Billion in the year 2001, to a profit before tax of KShs. 10.9 Billion in 2014. Joined the Bank in 1996 as a Senior Corporate Manager then became Director, Corporate and Institutional Banking in 1999 before his appointment as Managing Director in 2001 with a clear mandate to return the Bank into profitable trading. Holds a Bachelor of Science degree in Mathematics, is a Fellow of the Kenya Institute of Bankers and was awarded an Honorary Doctorate in Business Management in year 2011. He has over 23 years' experience in banking and finance.

He is also the Managing Director of Co-optrust Investment Services Limited and Co-op Consultancy & Insurance Agency Ltd – both subsidiaries of the Bank. He is a Director of Kingdom Securities Limited, Vice-President Africa – International Co-operative Banking Alliance (ICBA), Executive Committee Member of the Kenya Bankers Association and Chairman, Governing Council of the Africa International University.

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

## Julius Sitienei, (60), Director

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

## Benedict W. Simiyu, (53), Director

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 Ngarisha Sacco (Former Bungoma Teachers Sacco). He is a Director of Co-op Holdings Co-operative Society Limited.

## Macloud Malonza, (46), Director

Joined the Board of Directors in 2005. 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.

## Richard L. Kimanthi, (58), Director

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

## Wanyambura Mwambia, (59), Representing Principal Secretary – National Treasury, Director

Mr. Wanyambura Mwambia 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 chequered career in the Civil service for a period of over 30 years in the Ministry of Foreign Affairs and Ministry of Finance & Planning. He brings on board a wealth of experience in finance and management in the public sector.

# The Board of Directors

## Wilfred Ongoro, (59), Director

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

## Rose Simani (Mrs), (56), Director, Independent

Joined the Board of Directors on 29th May 2009. She is a Human Resource Consultant in the areas of organizational and leadership development, recruitment, selection and retention, design of performance management tools and competitive reward systems, developing and delivering training programs in the area of performance management, soft skills and culture change management, and is currently the Managing Partner, Simcorp Human Resources Solutions. She has over 30 years of broad experience in human resources management and previously served as the Director of Human Resources at Housing Finance and also with British-American Tobacco (BAT) in senior positions in Manpower and Planning. Currently, she is a Committee member of the Kenya National Chamber of Commerce & Industry- Women in Business. She holds a Bachelor of Arts in Social Sciences and is pursuing her post graduate degree in human resources. She is a Fellow Member of the Institute of Human Resources and is on the Governing Council of Africa International University. She has attended various local and international trainings. She is a CIC Nairobi Delegate, representing Cooperative Bank of Kenya.

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

Mr. Patrick Musyimi was appointed to the Board by virtue of his position as the Commissioner for Co-operative Development. Mr. Musyimi holds a Bsc. Agriculture from the University of Nairobi and an Msc. Entrepreneurship from the Jomo Kenyatta University of Agriculture and Technology and has had a chequered career in the Civil service spanning a period of over 30 years steadily rising to his current position. He brings on board a wealth of experience on the co-operative sector.

## Donald K. Kibera, (67), Director, Independent

Joined the Board of Directors in 2009. He is a former Government of Kenya Director of External Resources Department at the Ministry of Finance and served in various other capacities like Deputy Secretary Cabinet Office – Office of the President and Chairman of the National Youth Service Task Force. He holds a Bachelor of Arts Degree and is a consultant at the Ministry of Finance, is Chairman of the Financial Committee of the Humanitarian Fund for Mitigations of Effects and Resettlement of victims of Post-2008 election violence, and also Chairman of the Government Task Force on Transport Policy.

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

Has over 25 years' experience as a lawyer and prior to joining Co-op Bank in 1996, worked for Hamilton Harrison & Mathews Advocates. She is an Advocate of the High Court of Kenya, a member of the Institute of Certified Public Secretaries CPS(K) and an Associate Member of the Chartered Institute of Arbitrators. As the Company Secretary of the Co-op Bank Group, she has responsibility for overall provision of legal counsel and company secretarial services, fraud prevention and investigations and information security. She is also the Trust Secretary for the Co-operative Bank Foundation, the corporate social responsibility vehicle of the bank. She is also a Director of CIC Insurance Group Limited.

# Board of Directors of Kenya Subsidiary Companies

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

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

### Dr. James M. Kahunyo, (60), Director

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

### David Muthigani Muriuki, (46), Director

Joined the Board 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 Coopholdings Co-operative Society Limited.

### Patrick K. Githendu, (61), Director

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

### James N. Njiru, (47), Director

Joined the Board of the subsidiaries in May 2014. He is a business man and an Educationist. He holds a Diploma in Business Management and has wide experience in co-operative movement. He is a Director of Coopholdings Co-operative Society Limited.

### Scholastica Odhiambo (Mrs), (55), Director

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

### Godfrey K. Mburia, (58), Director

Joined the Board of the subsidiaries in 2004. He is a professional accountant and served as Head of Finance, Meru Central Farmers Union. He is a Director of Coopholdings Co-operative Society Limited.

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

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

## Suzana Donato Deng, (48), Chairperson

Appointed Chairperson of Co-operative Bank of South Sudan on 8th February 2013. She is a South Sudanese citizen by birth. She is a medical doctor by profession; the holder of an M.B.B.S. degree from Juba University with Distinction in Surgery. She has served in various positions in the medical field in both South Sudan and the United States of America, including at the Chandler Medical Center, Kentucky USA and Colorado Health and Sciences Center. She is also the Chairperson of the Chamber of Women Entrepreneurs (South Sudan) and Chairperson of TCI Consultancy, South Sudan.

## Zachary Chianda, (57), Managing Director

He was appointed Managing Director of Co-operative Bank of South Sudan on 23rd June 2014. A career banker with over 31 years experience in banking and has worked in various senior positions in the Co-operative Bank of Kenya including Director Co-operatives Banking and Director Corporate & Institutional Banking.. He holds a Bachelor of Science Degree in Financial Services from the University of Manchester Science and Technology (UMIST) and is an Associate of Chartered Institute of Bankers (ACIB) of UK. He also holds a Diploma in General Management from Jutland Technology Institute Aarhus (Denmark) and a Certificate in Bank Management from Odense Business School (Denmark). He has served in other capacities in the Bank in the past including as a Trustee of the Bank's Pension Fund.

## Prof Mathew Gordon Udo, (56), Director

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 29 years. He holds an Msc (Agric) Animal production from the Sokoine University of Agriculture Morogoro Tanzania and a BA Sa (Hons) Agriculture (animal production) from Gezira University of Agriculture wad Medani Sudan. He was appointed Professor of animal genetics and animal breeding – CNRES University of Juba, - which position he continues to hold.

## Mr. Wani Buyu Dyori, (69), Director

He was appointed a director in Co-op Bank of South Sudan on 23rd August 2012. He is a South Sudan citizen and is currently Under Secretary at the Ministry of Finance and Planning Juba. He is a seasoned finance and planning technocrat with a decorated service on financial matters in South Sudan.

# Group Managing Director & CEO's Report

**Dr. Gideon Muriuki, 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."

It is my great delight to present to you the Annual Report of the Co-operative Bank Group for the year ended 31st December 2014. This is a momentous period in the history of the bank, as we undertake a bold Transformation Agenda dubbed 'the soaring eagle' that is intended to achieve strategic transformation of the business as part of our 2015-2019 Strategic Corporate Plan.

## Financial Performance

The Group sustained the track record of profitability in year 2014, delivering a Profit before tax of KShs. 10.92 Billion, a commendable growth of 12.8 per cent when adjusted for a one-off early retirement costs of KShs. 1.34 Billion, compared to the same period in 2013 when the group posted KShs. 10.87 Billion.

Customer deposits increased to KShs. 220.86 Billion from KShs. 180.89 Billion, a 22.1 per cent rise. This was underpinned by the growth in a remarkable 24.4 per cent increase in customer numbers which have steadily grown from 4.1 Million in 2013 to 5.1 Million customers in 2014. Loans and advances grew by KShs. 42.33 Billion from KShs. 141.61 Billion in 2013 to KShs. 183.94 Billion in 2014.

Total operating income increased from KShs. 27.9 Billion to KShs. 32.1 Billion a 15.1% jump. Net interest income also rose from KShs. 15.9 Billion to KShs. 19.1 Billion. Total operating expense grew from KShs. 16.6 Billion in 2013 to KShs. 20.3 Billion in 2014 which was 22.3% increase. This surge in costs is attributed to the substantial investments we made in expanding service channels including retail outlets and ICT to support business growth.

The group subsidiaries also performed well, vindicating the Group's universal banking model intended to deliver a wholesome product offering to clients. Co-op Trust Investment Services Limited registering a profit before tax of KShs. 94.59 Million, Kingdom Securities KShs. 53.98 Million while Coop Consultancy and Insurance Agency recorded KShs. 118.49 Million profit. The Group's associate business CIC Insurance Group contributed KShs. 270.98 Million. Our subsidiary in South Sudan made a loss of KShs. 541.9 Million on account of the difficult operating environment. We expect the Co-operative Bank South Sudan to break even in year 2015 and make positive contribution to the bottom line.

## Bank transformation and Business development

The Bank engaged McKinsey & Company – a global consultancy company, in August 2014 to perform a "growth and efficiency review" of the Group's business. Subsequently, the Bank commenced 'The soaring eagle' transformation project to implement the bold Transformation Agenda.

## 'The Soaring Eagle' Transformation Project

An eagle has a legendary reputation in self-renewal. Inspired by this painful but necessary process that an eagle has to go through to rejuvenate and prevail, the bank has undertaken a transformation project intended to re-tool and re-energize the business for superior competitiveness in Kenya's banking sector going forward, hence 'The Soaring Eagle'.

Implementation of the new growth model is underway with key focus areas already identified.

Year 2014 has been especially monumental as the transformation project has seen us carry out an **organization re-design** to create a customer-centric organizational structure. This entails the organisation of business units and front-line bankers by segments, instead of products to ensure that the bank increases staff productivity, riding on the well-established network of over 142 branches, over 5.1 Million account holders and a well-established 'Universal Banking Model'.

Following the above restructuring, some of the roles in the organization were realigned while others became redundant, and the bank therefore released one hundred and sixty staff mainly from the management cadres in December 2014. The redundancy process cost the bank a one-off Ksh 1.34 Billion, and will see the bank save up to KShs 500 annually, resulting in a KShs 1.84 Billion upswing in earnings in 2015.

The second pillar of the transformation is **branch transformation and channel migration** that entails the optimal utilization of the Group's huge investment in delivery channels to deliver enhanced customer experience and growth in transaction volumes. Branch transformation is ongoing, that has seen the rapid enhancement of ambience and customer convenience in branches. This has been made possible by actively migrating customers who wish to do routine transactions to alternative channels such as ATMs and Coop kwa Jirani bank agents, which also helps grow our non-funded commissions.

The third pillar is **enhanced frontline productivity** leveraging on the well- established and diversified products and services to our various customer segments. Our new customer-centric model will enable us to serve more products per customer due to cross-selling, increase cheap and stable deposits and also boost transaction-based incomes.

To improve staff productivity, we have adopted a new performance management tool based on leaner **key performance indicators (KPIs)** that is better aligned to strategy. KPIs will offer a superior leverage on our young and vibrant team and enhance staff productivity and overall performance of the bank.

We have also rolled-out **shared services and digitization** model under a Chief Operating Officer (COO) that will see the digitization and automation of key business processes including loan origination, customer delivery systems and voucher-processing among others. This will see us markedly improve our time and cost efficiencies.

Digitization will be extended to our **credit process** to establish cost-efficient process flows effective to our customers. We are glad to note that our risk management framework is robust and is anchored on automation of loan origination system, robust credit management framework and enhanced collection of loans and advances.

Lastly, we have **Re-Engineered Reporting & Analytics** by investing in enhanced financial management tools notably MIS, ERP and CRM to sharpen our lead and sales generation capabilities and improved management reporting.

## New frontiers

The group has an innovative strategy for regional expansion in new frontiers such as Uganda, Rwanda, Tanzania and Ethiopia riding on the unique co-operative model. Our partnership with the Government of South Sudan (Co-op Bank 51% and GOSS 49%) has seen us successfully operate 2 branches and an additional three to be opened in 2015. The subsidiary is expected to break even in 2015 as the joint venture offers great opportunity for long-term sustainability of the business.

## Future Outlook

The future of the Group is promising on account of the growth strategies we have put in place, including the full execution of the 'Soaring Eagle' transformation agenda. The Group is looking at a growth in profit before tax of up to thirty per cent in 2015, a growth in loans and advances of between twenty five to thirty per cent and a growth in customer deposits of between twenty to twenty five per cent.

## In conclusion

The future of the Co-operative Bank is bright. I take this opportunity to thank the entire team of the Co-operative Bank Group for their dedicated support that has driven the performance that we celebrate today.

I would also like to most sincerely thank all our customers for believing in us, our strategic partners and related stakeholders for trusting in us, supporting us to dream of delivering even more impressive performance in the days ahead.

Lastly but not least I most sincerely thank the Group Chairman, Mr. Stanley Muchiri and the entire Group Board of Directors for their steadfast support and for always offering guidance to the 'Kingdom Bank' as it soars to new heights.

I thank you and may God richly bless you.

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

# Ripoti ya Mkurugenzi Mtendaji

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

> "Tunaamini kwamba Mashirika ya Cooperative ni vyombo muhimu vya kusambaza huduma za benki kwa watu wengi zaidi."

Nina furaha nyingi kuwapa ya Cooperative Bank ya mwaka uliomalizikia Desemba 31, 2014. Huu ni wakati wa maana sana katika historia ya benki yetu. Wakati ambako tunajishughulisha na ajenda muhimu ya mageuzi ambayo tumeipatia jina la 'The Soaring Eagle' na ambayo madhumuni yake ni kufanya mageuzi katika biashara yetu kulingana na malengo ambayo tumeyaweka.

## Utenda kazi wetu kifedha

Benki yetu imeendela kupata faida na nina furaha kutangaza kwamba mwaka wa 2014 faida kabla ya kutozwa kodi ilikuwa ni shilingi Billioni 10.92 na ni baada ya kujumuishwa malipo kwa walioombwa kustaafu mapema na ilikuwa ni kiiwango cha shilingi Billioni 1.34. Hii inaonyesha kwamba pato hili liliongezeka kwa asilimia 12.8 ikilinganishwa na pato la shilingi Billioni 10.87 mwaka wa 2013.

Kiwango cha akiba za wateja kiliongezeka na kufikia shilingi Billioni 220.86 kutoka shillingi Billioni 180 nukta 89 mwaka wa 2013 – ongezeko la asilmia 22.1. Ongezeko la kiwango cha akiba kilienda sembamba na ongezeko la idadi ya wateja kwa kiasi cha asilimia 24.4. Idadi hii imeendelea kukua bila kupungua kutoka milioni 4.1 mwaka wa 2013 hadi milioni 5.1 mwaka wa 2014. Mikopo na maadvance zilikua kwa kiasi cha shilingi Billioni 42.33 kutoka shilingi Billioni 141.61 mwaka wa 2013 hadi shilingi Billioni 183.94 mwaka wa 2014.

Kiwango cha rasilmali zilizotumika kufanyia biashara kiliongezeka kutoka shilingi bilioni 27.9 mwaka wa 2013 hadi bilioni 32.1 mwaka wa 2014 – kikiwa ni asilimia 15.1. Pato kutoka kwa biashara baada ya kuondoa gharama liliongezeka kutoka shilingi Billioni 15.9 mwaka 2013 hadi Billioni 19.1 mwaaka wa 2014. Gharama za kufanyia biashara ziliongezeka kutoka shilingi Billioni 16.6 mwaka wa 2013 hadi Billioni 20.3 mwaka wa 2014 ambacho ni asilmia 22.3. Ongezeko hili la gharama lilitokana na uwekezaji tuliofanya katika kupanua shughuli zetu na ICT kuthibiti ukuaji wa biashara yetu.

Kampuni zetu pia zilikuwa na matokeo mazuri na kuweza kuchangia mfumo wetu wa kuwapatia wateja hudumu zote kwa pamoja. Co-op Trust Investment Services Limited ilipata faida ya shilingi Millioni 94.59 kabla ya kutozwa kodi. Kingdom Securities shilingi Millioni 53.98 kabla ya kukatwa kodi. Co-op Consultancy na Insurance walipata faida ya shilingi Millioni 118.49 kwa pamoja na kabla ya kukatwa kodi.

Kampuni inayohusiana nasi ya CIC Insurance ilichangia faida yetu kwa kiwango cha shilingi Millioni 270.98. Benki yetu ya South Sudan ilipata hasara ya shilingi Millioni 541.9 kwa sababu ya mazingira magumu ya kibiashara. Tunatarajia itakuwa katika hali kupata faida mwaka wa 2015.

## Mabadiliko yenye kukuza biashara

Mwezi wa Agosti 2014, Benki yetu ilipatia kampuni maarufu duniani McKinsey & Company kazi ya kuchunguza ukuuaji na utendakazi wa biashara yetu. Baada ya hapo, benki yetu ilianza kutekeleza mageuzi ya kibiashara ambayo yamekuja kujulikana kama 'The soaring eagle' mradi ambao ni wa kuleta mabadiliko makubwa katika biashara yetu.

## Mradi wa 'The Soaring Eagle' lengo lake ni nini?

Tai ni ndege anajulikana kwa vile anavyojigeuza upya baada ya muda fulani. Tai hufanya hivyo ili kujiwezesha kuendelea kuishi vizuri zaidi. Si jambo rahisi. Na wakati mwingi huwa ni jambo lenye uchungu ingwa ni la lazima kwa Tai. Kwa kutiwa moyo na kitendo hiki cha Tai, Benki yetu imechukua hatua ya kufuata nyayo za Tui. Imeanza mpango wake mwenyewe wa kufanya mageuzi katika utendakazi wa biashara yetu ili kujiweka kwa nafasi bora zaidi katika ushindani wa kibiashara za benki siku zijazo.

## Kutekelezwa kwa mradi huu kumeanza

Mwaka wa 2014 utakuwa ni wa kukumbukwa kwa sababu mageuzi chini ya mradi huu yalianza kutekelezwa kukiwa na lengo kubwa la kubadilisha kabisa vile mteja anavyohudumiwa katika benki zetu. Mteja amewekwa katikati na huduma zimemzunguka yeye. Kwa njia hii inatarajiwa kwamba wafanya kazi wetu watakuwa ni wenye kutoa huduma bora zaidi kwa wateja wetu ambao sasa wamefikia idadi ya Millioni 5.1 na wameenea kote katika matawi yetu 142 kote nchini.

Kufuatia kutekelezwa kwa mageuzi haya, shughuli walizofanya wafanyakazi wetu wengine zilikuwa hazihitajiki tena. Wafanya kazi 160 ilibidi waachishwe kazi. Wengi wao walikuwa wanafanya kazi katika kiwango cha mameneja na waliondoka kazini mwezi wa Desemba 2014. Malipo ya mwisho ya wafanyakazi hawa yaligharimu benki shilingi Billioni 1.34. Kitendo hiki kitasaidia benki kupunguza gharama zake kwa kiasi cha shilingi Millioni 500 kila mwaka na kitaongeza pato letu kwa kiasi cha shilingi Billioni 1.84 mwaka wa 2015.

Nguzo ya pili katika mradi huu ni ya mageuzi katika sehemu za kutolea huduma. Benki yetu imewekeza kwa kiwango kikubwa katika sehemu ambazo wateja wanazitumia kupokea huduma zetu. Katika mageuzi yanayoendelea, sehemu hizi zitaweza kufanyiwa mageuzi ili ziweze kutoa huduma bora zaidi kwa wateja wetu na pia kuweza kuwavutia wateja wapya. Matawi yetu yanaendelea kupewa sura mpya ambazo zinawafanya wateja kufurahia kupokea huduma ndani ya matawi haya. Katika nguzo hii, wateja watakuwa wanaelekezwa mahali ambako wataweza kuopkea huduma kwa njia mwafaka zaidi. Kwa mfano wanaweza kuelekezwa kwa ATM au Co-op Kwa Jamii kulingana na huduma wanayotaka.

Nguzo ya tatu ni kuongeza utoaji huduma kulingana na huduma tofauti ambazo tumewatayarishia wateja wetu kulingana na mahitaji yao. Katika mageuzi haya ambako mteja yuko katikati na huduma zimemzunguka ni wazi tutaweza kuwashughulikia wateja wengi zaidi kwa huduma tofauti wanazohitaji. Hii pia itaongeza kiwango cha akiba na pato tunalopata kutoka kwa malipo ya huduma tunazopeana wateja.

Kuboresha utendakazi, mikakati mipya imebuniwa kuweza kutambua jinsi kila mfanya kazi wetu anavyotenda kazi na ikiwa kutendakazi kwake kunariishisha au la. Mikakati hii ni mizuri sana kwa wafanyakazi wetu vijana.

Benki pia imeamua kuenda digital katika shughuli fulani kama zile zinazohusu maombi ya mikopo, mawasiliano ya aina fulani na wateja, matayarisho ya vocha na kadhalika. Hii itapunguzia wafanyakazi muda wanaotumia kufanya shughuli hizi na kuweza kutumia muda huo kufanya shughuli zingine muhimu.

Na mwisho ni kwamba kwa upande wa pesa, tumeweka mikakati ambayo itatuwezesha kupokea na kupeleka habari ya vile pesa znatumika ili wanaohusika waweze kufanya mabadiliko mara moja ikiwa inahitajika kufanya hivyo.

## Soko mpya

Benki yetu tayari iko na mpango wa vile itaweza kufanya biashara ya benki katika mataifa kama vile Uganda, Tanzania na Ethiopia kupitia kwa Vyama vya Ushirika. Ushirikiano wetu na Serikali ya Sudan (Co-op Bank ikiwa na hisa 51% na GOSS 49%) imetuwezesha kuwa na matawi wawili ambayo yanaendelea na kazi bila shida. Mengine matatu yanatarajiwa kufunguliwa mwaka wa 2015. Matawi ambayo yako sasa yanatajiwa kuanza kufanya faida mwaka wa 2015 na kusaidia kuimarisha biashara hii yetu kwa kushirikiana na Serikali ya Sudan.

## Matarajio ya siku za mbeleni

Matarajio ya Benki yetu ya siku za mbeleni ni mazuri na hasa kutokana na mikakati ambayo tumeiweka na ambayo ni pamoja na malengo tuliyo nayo katika mradi wetu wa 'Soaring Eagle'. Benki yetu inakusudia mwaka wa 2015 kupata faida ya kiwango cha asilmia 30 kabla ya kukatwa kodi na kiwango cha mikopo kukua kwa asilmia 25 hadi 30. Akiba za wateja zinataraajiwa kukua kwa kiwango cha kati ya asilmia 20 na 25.

## Kwa kumalizia

Hali ya baadaye ya Co-operative Bank ni nzuri. Nachukuaa nafasi hii kuishukuru timu yetu ya wafanyakazi ambao ni kwa juhudi zao tumeweza kuwa na mwaka mzuri kibiashara na ambao ndio tunaushherehea hii leo.

Shukurani nyingi pia nazitoa kwa wateja wetu wote na washirki wetu kibiashara kwa kutuunga mkono vilivyo mwaka wote wa 2014. Tunaamini tutazidi kufanya kazi pamoja na kuleta matokeo bora zaiidi siku zijazo.

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

Asanteni na Mungu awabariki

**Dr. Gideon Muriuki, MBS**
Mkurugenzi Mtendaji.

# Board of Management

## Board of Management of Co-operative Bank of Kenya Limited

### Dr. Gideon Muriuki, MBS (50), Group Managing Director & CEO

Appointed Managing Director in 2001. Joined the bank in 1996 as a Senior Corporate Manager then Director, Corporate and Institutional Banking in 1999. Holds a Bachelor of Science degree in Mathematics, is a Fellow of the Kenya Institute of Bankers and was awarded an Honorary Doctorate in Business Management. He has over 24 years experience in banking and finance. He is also the Managing Director of Co-optrust Investment Services Limited and Co-op Consultancy & Insurance Agency Ltd – both subsidiaries of the Bank. He is a Director of Kingdom Securities Limited, Vice-President Africa – International Co-operative Banking Alliance (ICBA), Executive Committee Member of the Kenya Bankers Association and Chairman, Governing Council of the Africa International University He was voted the **CEO OF THE YEAR AFRICA 2014** by the International Banker.

### Anthony Mburu, (49), Director, Credit Management

A career banker with over 21 years of banking experience both in Kenya and the region. Most of these years were spent in the line of Credit and Risk Management. He holds a Bachelors degree in Commerce and has attended various proprietary and international Credit courses. He is also a Director of Kenya Co-operative Coffee Exporters (KCCE) Limited.

### Samuel Birech, (51), Chief Operating officer

He joined the bank in 2002. Sam was appointed Chief Operating Officer in December 2014 and is a career banker with over 20 years banking experience in local and international banks . He has held various senior positions and was previously the director Retail banking for 8 years where he presided over the transformation of the Retail and SME Business at the Bank. He is currently responsible for driving operational efficiency and excellence in shared services to provide frontline teams with seamless delivery systems and processes deriving from his wide experience in overall frontline Business and risk management. 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.

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

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

### Patrick Nyaga, (47), Director, Finance & Strategy Division

Has over 21 years experience mainly in auditing and banking. Previously served at KPMG (EA), with the main focus being audit of financial institutions and especially banks in Kenya and the region. He then joined main-line banking where he has worked for over 12 years. He holds an MBA from Strathmore Business School, a Bachelor of Commerce degree in Accounting, is a Certified Public Accountant (K) and a member of ICPAK. He is also a Director of CIC General Insurance Limited.

## Lydia Rono, (49), Director, Corporate & Institutional Banking Division

She has held many senior positions at the Bank in her 28 years banking experience. She is responsible for crucial business growth in the Corporate & Institutional Banking division providing leadership in the various business units under her. She holds an MBA and a Bachelors of Commerce degree. She has attended various local and international managements courses.

## Maurice Matumo, (40), Director, Retail & Business Banking Division

Joined the bank in 2006. He is in charge of Retail and Business Banking Division of the Bank, responsible for network and business growth with special focus on consumer and SME value creation. He is an experienced banker with 17 years experience in Kenya and abroad with a rich and extensive experience in business development, Human capital management and strategic channel development. He holds a Bachelor of Business Management degree from Moi University and has attended various local and international courses.

## William Ndumia, (41), Director, Transformation

Joined the bank in 2006. He is in Charge of the Transformation office giving leadership to the various transformation initiatives and programs to achieve the banks growth and efficiency strategies. He has been in the bank for over 9 years previously as 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 in Mechanical Engineering and has attended various courses on project management and risk management both locally and internationally. He has overseen execution of various technical projects including the implementation of the core banking system, card management system and a global review of all bank processes among others.

## Evelyne Munyoki, (43), Head, Human Resources Division

She drives the bank's Human Resources Division responsible for the People Agenda with a primary focus on performance, talent and employee engagement. She is an experienced strategic HR partner to the Bank's Business with over 18 years' experience in HR with five of those years in the banking and financial services sector. She is a proven professional in development and execution of Human Capital strategy, HR Business Partnering, Talent management, design and implementation of Employee Engagement initiatives. She holds a Masters degree in International Business Administration (Finance major) and a Bachelors of Arts in Land Economics. She is a Certified Professional Career Coach and a member of the Institute of Human Resources Management (K).

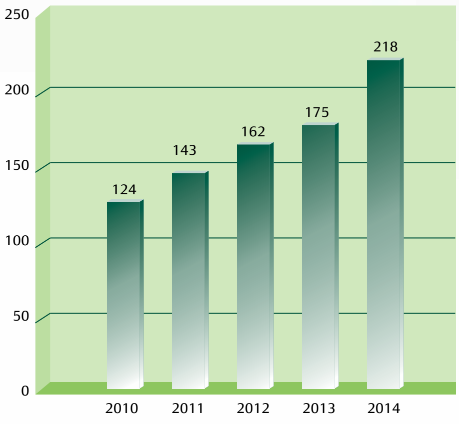
## Vincent Marangu, (35), Acting Head, Co-operatives Division

Joined the Bank in 2003 and has wide experience in business and financial advisory working with co-operatives and rural finance sectors as Head of Co-op Consultancy and Insurance Agency Ltd. Vincent has key competencies in corporate finance, strategic planning, business planning, organizational development and business operations review. He has consulted for co-operatives in Kenya and East Africa region and implemented many donor projects with international agencies. He holds a Bachelors 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 Cooperators (APC), Kenya.

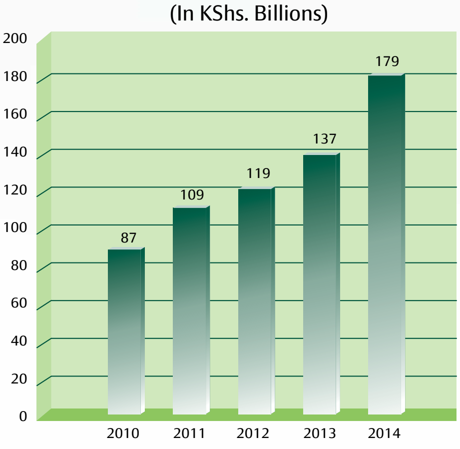
# Business Review

| Five Year Financial Review | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| **Statement of Financial Position** | | | **KShs. Millions** | | |
| Cash and short term funds | 20,775 | 21,616 | 31,100 | 30,754 | 37,146 |
| Loans & Advances to Customers (gross) | 90,965 | 114,101 | 123,824 | 141,608 | 183,942 |
| Impairment losses on loans & advances | (4,346) | (4,692) | (4,736) | (4,521) | (4,456) |
| Government & other Securities | 34,391 | 22,237 | 33,391 | 41,055 | 47,722 |
| Property and equipment | 6,943 | 9,336 | 11,133 | 13,102 | 11,830 |
| Other assets | 5,611 | 5,714 | 5,876 | 9,217 | 9,212 |
| **Total Assets** | **154,339** | **168,312** | **200,588** | **231,215** | **285,396** |
| Customer Deposits | 129,226 | 144,514 | 163,149 | 180,887 | 220,858 |
| Loans & Borrowings | 139 | 234 | 4,572 | 10,252 | 18,269 |
| Other liabilities | 4,379 | 2,613 | 3,500 | 3,492 | 3,392 |
| **Total liabilities** | **134,359** | **147,360** | **171,221** | **194,631** | **242,519** |
| Net assets/Shareholders Equity | 19,980 | 20,951 | 29,367 | 36,584 | 42,877 |
| | | | | | |
| **Income Statement** | | | | | |
| Net Interest Income | 9,503 | 11,885 | 13,581 | 15,869 | 19,135 |
| Non-Interest Income | 6,168 | 6,451 | 10,200 | 12,021 | 12,951 |
| Operating Expenses | 9,231 | 11,417 | 13,171 | 16,605 | 20,265 |
| Provision for loans impairment | 799 | 710 | 999 | 778 | 1,176 |
| Share of profit of associate | 130 | 158 | 374 | 365 | 271 |
| Profit before Tax | 5,771 | 6,366 | 9,984 | 10,872 | 10,916 |
| Profit after tax | 4,580 | 5,366 | 7,724 | 9,108 | 8,015 |
| Earnings per share | 1.31 | 1.54 | 1.84 | 2.2 | 1.69 |
| Dividend per share | 0.4 | 0.4 | 0.5 | 0.5 | 0.5 |
| | | | | | |
| **KEY RATIOS (%)** | | | | | |
| | | | | | |
| **PROFITABILITY** | | | | | |
| Return on Equity-ROE (%) | 25% | 26% | 31% | 30% | 20% |
| Return on Total Assets (%) | 3.5% | 3.3% | 4.2% | 4.5% | 3.1% |
| | | | | | |
| **EFFICIENCY** | | | | | |
| Cost to income (%) | 64% | 66% | 60% | 62% | 67 % |
| Interest expenses on Interest income (%) | 22% | 27% | 39% | 27% | 30% |
| | | | | | |
| **CAPITAL ADEQUACY** | | | | | |
| Shareholders equity/Total assets (%) | 13% | 12% | 15% | 16% | 15% |
| Capital funds/Total assets (%) | 5% | 5% | 4% | 3% | 3% |
| | | | | | |
| **ASSET QUALITY** | | | | | |
| Impairment provisions/ Gross loans & advances (%) | 5% | 0.60% | 0.80% | 0.80% | 2.4% |
| Non-performing loans (NPLs) to Gross loans (%) | 5% | 4.00% | 3.80% | 3.80% | 4.3% |
| Loan loss provisions to Non-performing loans (NPLs) (%) | 89% | 90% | 76% | 74% | 56% |
| Loan loss provisions to Shareholders equity (%) | 21% | 22% | 16% | 12% | 10% |
| | | | | | |
| **LIQUIDITY** | | | | | |
| Gross Loans to Deposit Ratio in % | 70% | 79% | 76% | 76% | 83% |
| Borrowed funds/Total deposits (%) | 0.10% | 0.20% | 2.80% | 5.70% | 8.3% |
| Borrowed funds/Gross Loans (%) | 0.20% | 0.20% | 3.70% | 7.00% | 9.9% |

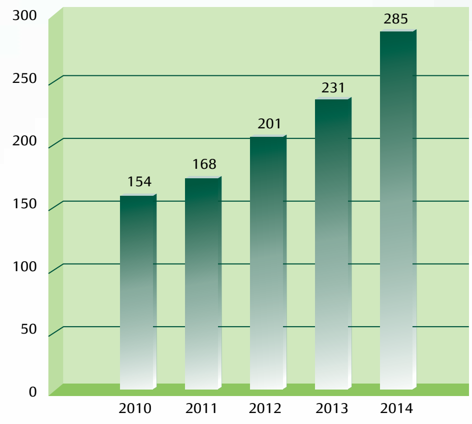
Customer deposit (in KShs. Billions)



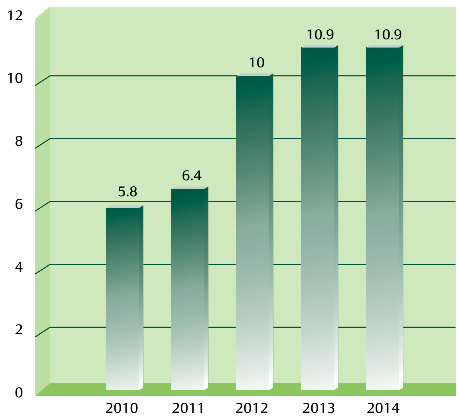

Loans and advances to customers -net (In KShs. Billions)



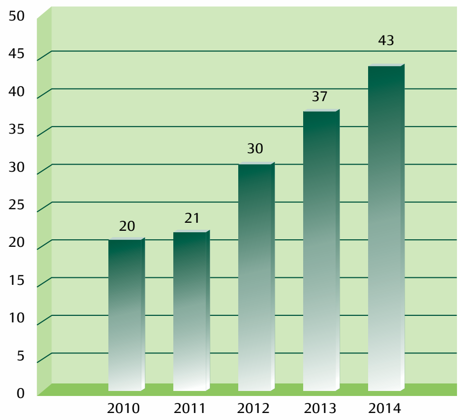

Total Assets (KShs. Billions)



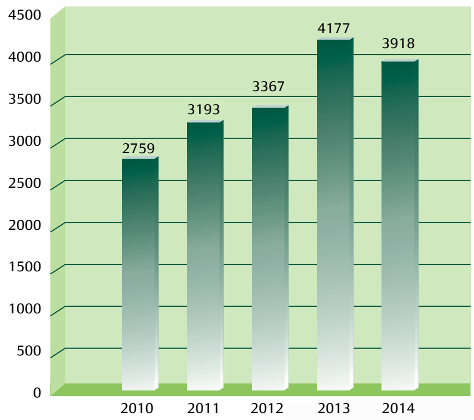

Profit/(Loss) before tax (In KShs. Billions)



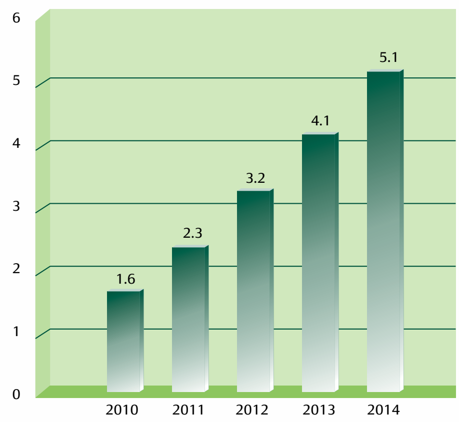

Total Shareholders Funds (In KShs. Billions)



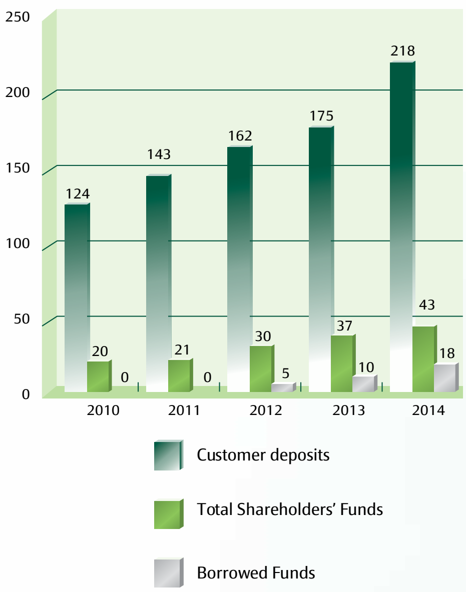

Staff Numbers




Customer Numbers (In Millions)




Funding Distribution (In KShs. Billions)




Capital strength (KShs. Billions)

# Sustainability Review

The Co-operative Bank of Kenya was established a short while after Kenya secured independence in 1963. It was founded by Kenyan co-operative societies and unions well versed in the difficulties of accessing credit from existing banks. Whereas these banks were all too eager to accept deposits, they were unwilling to advance co-operative societies credit, without the guarantee of securities, financial statements, credit histories, or various other formal requirements.

Co-operatives were fast emerging as key mobilisers of resources that enabled farmers, mostly in coffee, cotton, dairy and pyrethrum, to jointly market their produce and they needed crucial support by way of affordable credit. The formation of the Co-operative Bank would go on to enable previously underserved areas of the Kenyan economy and pave the way for sustainable prosperity. This difficulty in accessing affordable financial services drove co-operatives to seek an alternative path, culminating in the establishment of their own bank to serve their own interests.

Registered as a co-operative society on June 19th 1965, the Co-operative Bank did not open its doors, however, until January 1968, and then managed to close out its first full year in profit, marking the first of many successes over the years to come. The bank has since become a full-service universal bank, offering a range of services spanning retail banking, corporate and trade finance, foreign exchange, mobile and internet services, stock brokerage, fund management, asset finance, mortgage, bancassurance, and custodial and registrar services – all in addition to banking co-operatives.

Since its beginnings as a humble co-operative, the Co-operative Bank today represents the number one point of contact for Kenya's over 10 Million-member strong Co-operative movement with mobilized savings of over KShs. 250 Billion or 30% of National Savings and over 555,000 persons. The movement controls a majority 65 percent stake in the bank.

Co-operative Bank in many ways represents the changing face of Kenya; with an asset base of over KShs. 285 Billion and over 5.1 Million account holders; the bank is one of the largest and fastest growing banks in East Africa.

## A model for inclusive growth

If there is one unique feature that distinguishes Co-operative Bank from peers, it is the 'activist' nature of its business strategy; the Bank regularly intervenes in selected sectors of the economy with a view to achieving transformation in challenged sectors, notably in agriculture, for the benefit of the majority who depend on it for a livelihood.

The Bank intervenes directly in the lives of its customers by way of making targeted investments; a method that has so far achieved largely positive results. This strategy means that the bank is better equipped to tackle the issues worst afflicting those living in the country, whether they be social, economic or even political, and make a measurable difference to the economy as a whole.

The Kingdom bank is guided by a strong vision, mission and core values:

### i. Vision:

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

### ii. Mission:

To offer value-added financial services to our chosen market segments with special emphasis on the co-operative movement through a highly effective network of service points, excellent customer service and a highly motivated team of qualified personnel.

### iii. Our core values:

- We Are Proud To Be Co-op Bank;
- We Value Our Bank's Reputation;
- We Employ Best Practices;
- We Value Our Customers;
- We Execute At Speed;
- We Grow Our People.

# 1. ENHANCING ACCESS TO INNOVATIVE & VALUE – ADDING FINANCIAL SERVICES

## 1.1. Sacco-Link & FOSA Partnerships

The bank offers retail banking and related products through front-office service points (FOSAs) located at SACCO premises and to date over 567 SACCO FOSAs are in operation. In addition, the bank invested in the SaccoLink Switch which has integrated the bank's and SACCOs' financial systems, thereby providing a solution through which ATMs, mobile banking, point of sale (POS) channels and internet banking is facilitated. In this partnership, we offer wholesale banking services to co-operative societies who then provide to their members retail services complete with full technological capabilities. To date, over 184 SACCOs are enlisted in this partnership and over 727,600 ATM cards have been issued to co-operative members, out of which 14% were issued in the year 2014.

## 1.2. Co-op Consultancy & Insurance Agency Ltd (CCIA) - The Corporate Capacity-Building partner

Co-op Consultancy & Insurance Agency Ltd.'s (CCIA) core mandate is to enhance efficiency and profitability of co-operative societies through provision of affordable capacity-building solutions. This subsidiary of the Bank provides professional services at highly concessionary terms, with the Bank providing the subsidy. Over the years, CCIA has impacted over 3,000 societies in the areas of formulation and review of society by-laws, corporate strategic and tactical plans and development operating manuals. This in addition to consultancy services on microfinance, lease negotiation, business advisory, restructuring and turn-around, performance management, staff training and recruitment, forensic audits and information technology systems procurement as well as assessment for risk-control. In 2014 the bank provided these specialised services to 168 Saccos. In addition to impacting the wider Eastern Africa Region at Kilimanjaro Co-operative Bank in Tanzania as well as partnership with the Government of South Sudan towards set up of a farmers' co-operative union at Aweil Rice Irrigation Scheme.

## 1.3. Equipping for Management & Leadership Excellence - Co-operative Bank Leadership and Management Centre (LMC)

One of our core values as a bank is to grow our people. Learning is entrenched in the day to day working of all Co-operative Bank Staff. Located at Karen, the Co-operative Bank Leadership Management Centre (CBL&MC) conducts training to the co-operative movement as part of our commitment to enhance competencies and equip them with skills. Advanced courses ran include board seminars on corporate governance, Central Management Committee (CMC) workshops, co-operatives management & compliance, delegates training, credit administration, among otehrs In 2014, the Management Centre carried out 64 courses in which over 825 Saccos participated and 5,379 participants were trained.

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

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

**Eastern Produce Horticultural and Traditional Food Crops Project –** Partnership with Government of Kenya-Ministry of Agriculture under the International Fund for Agricultural Development (IFAD) programme.

**Micro and Small Enterprises (SME) lending –** Partnership with European Investment Bank to enhance access to loans for Micro and Small Enterprises (SME) including self-employed entrepreneurs and sole proprietorship in income generating activities and productive sectors such as retail-trade, agro-industries, fishing, food processing, manufacturing, construction, transport and tourism.

**Millennium Villages Project –** Partnership with Soros Economic Development Fund (SEDF) under the Millennium Promise Alliance (MPA) to support integrated social and business development services for more than 500,000 people in rural communities.

**Micro Finance Institutions and Saccos financial deepening –** Partnership with AFD Microfinance to promote financial deepening by providing affordable loans to Micro Finance Institutions and Saccos.

Coffee Farm Input Loans- under the Stabex programme, farm input loans are offered at a low interest rate of 5% p.a.

Coffee export marketing support- Kenya Co-operative Coffee Exporters Ltd (KCCE) was established to assist farmers take greater control of the export and marketing of their produce. The bank supported its set-up and it is remarkable that since commencement of operations in 2009, farmers have seen an increase in earnings from KShs. 20 to over KShs. 130 per kilogram of cherry.

**Women Enterprise Fund –** The bank is in partnership with Government of Kenya, Ministry of Gender to enhance access of loan facilities to women.

## 1.5. Economic Growth through Small and Microenterprises (SMEs)

Across the world, small and microenterprises (SMEs) are the primary source of employment to citizens. With activation of the new County Government structure, the bank is consistently reviewing products with a view to enhance potential of our clients, especially small and microenterprises (SMEs) as they endeavour to take advantage of new opportunities arising. Our country-wide branch network covering over 40 counties is geared-up to offer our customers all the necessary support. Our procurement policy also favours local suppliers as part of our broader support to the economy.

## 1.6. Convenient Agent & Point of Sale (POS) Banking

Our Bank is at the forefront in implementation of agency banking model, currently working with over 9,000 agents countrywide. Agents, who will include co-operative societies, supermarkets, ordinary shops, petrol stations among other outlets enable customers' access banking services 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 preferred location.

## *1.7. MCo-op Cash* Mobile Wallet

During the 3rd quarter of 2014, the bank launched yet another innovative alternative banking channel under the brand name - 'MCo-op Cash'. This is a mobile wallet that enables both customers and non-customers across all networks to open bank accounts, apply for loans and also make cash and utility payments straight from their mobile phones.

MCo-op Cash has innovative platforms and will also enable users to transfer funds across banks, micro finance institutions and mobile networks, and thereby deliver a greatly-improved service experience to users.

Already over 1.42 Million customers have registered to date and the target is to register the bank's over 5.1 Million account holders and the over 10 Million Kenyans in the Co-operative Movement that is the largest in Africa. The service is accessed through USSD code, *667#.

## 1.8. Seamless Internet Banking

Our bank's products and brand propositions are designed to far exceed customer expectations and respond to diversification and sophistication of customer needs as well as changes in the business environment. The bank's internet-banking solution Co-opNet has contributed to growth in customer base especially for Kenyans in the Diaspora and already serves over 33,500 clients.

## 1.9. Excellence in Customer Experience

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

## 1.10. Regional Expansion on course

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


**The Kingdom Bank through which God will bess his people of South Sudan:** Managing Director, Zachary Chianda (Center) Joined by Elijah Wamalwa, Head of Retail & Operations Department (Left) and Willaim Mayar Wol, Deputy Head - Government, Co-operatives & Institutional Banking (Right), after installing the plaque registering the 'Kingdom Bank' declaration made by the Board of Directors of Co-operative Bank of South Sudan on 23rd October 2013.

## 2. CARING FOR THE ENVIRONMENT

### 2.1. Sustainable Consumption & Reducing Environmental Impact

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

### 2.2. Green Projects Financing & Partnerships

We seek to establish partnerships with industry members, government agencies, relevant environmental bodies, suppliers, customers and the general public to promote and achieve a high standard of environmental care. It is pursuant to this objective that the bank has entered into agreement with the French Agency for Development (AFD) towards financing of Renewable Energy and Energy Efficiency projects in the country. The EUR 30 Million (USD 39 Million) credit agreement signed in 2011 enables the Bank on-lend to its customers undertaking projects targeting diversification of energy resources and transition towards renewable energy solutions.

Similarly, the bank has a long-standing link with the Nairobi County Government to maintain green-gardens around Co-operative House and the commuter area of Railways bus stage. We have also collaborated with schools and government agencies in tree-planting activities in support of Kenya's effort to increase forest cover to the recommended 10% of area. Assessed individually, these may look like modest efforts, but the collective impact of many other companies doing the same will change the direction of environmental degradation that the world faces today.

## 3. GROWING HUMAN CAPITAL

### 3.1. Employer of Choice

Our bank has made it a priority to create an energetic and enjoyable workplace with a reputation to attract and retain the best talent in the market through high levels of employee satisfaction and fair terms of engagement. Our competitive remuneration systems stimulate superior performance and reward high achievers for their contribution. The bank respects employee individuality within practices of our corporate culture and brand image as a means of enhancing personal fulfilment. We appreciate the need for staff to balance work and personal commitments and have created a mutually acceptable environment that as far as possible is sensitive to the different needs of individuals.

In this regard, we support staff in child-rearing responsibilities by providing time off work for male and female staff in line with existing labour laws. We continue with our policy that allows nursing mothers have shorter working days to enhance convenience in child care. Our bank maintains cordial relations with the staff union, including appropriate implementation of mutually agreed collective bargaining agreements.

### 3.2. Principle of Diversity

The bank endeavours to preserve gender and cultural diversity in our employee mix and takes pride as an equal opportunity employer for all qualified persons. This has created an inclusive environment where individuals and teams harness strengths in diversity to maximise potential and excel in performance.

By way of departmental forums, the bank raises employee understanding of strength in diversity and ascertains the spirit of patriotism and oneness to maintain all-round staff wellbeing.

**Staff Profile:**

| | Category | Year 2014 | % | Year 2013 | % |
|---|---|---|---|---|---|
| i) | **No. of employees:** | **3,918** | | **4,177** | |
| | Male | 2,231 | 57% | 2,384 | 57% |
| | Female | 1,687 | 43% | 1,793 | 43% |
| ii) | **No. of employees of age 35 or under:** | **3,305** | | **3,394** | |
| | Male | 1,895 | 57% | 1,972 | 58% |
| | Female | 1,410 | 43% | 1,422 | 42% |
| iii) | **No. of senior management positions:** | **56** | | **73** | |
| | Male | 39 | 70% | 48 | 66% |
| | Female | 17 | 30% | 25 | 34% |
| iv) | **Average years of service:** | **5.2** | | **4.85** | |
| | Male | 4.89 | | 4.34 | |
| | Female | 5.62 | | 5.5 | |
| v) | **Employees taking leave for child-rearing:** | **448** | | **256** | |
| | Male | 269 | 60% | 134 | 52% |
| | Female | 179 | 40% | 122 | 48% |

## 3.3. Building Pride & Passion

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

## 3.4. We Grow Our People through Life-long Learning

The bank is committed to the development and success of team-members through first-class training, leadership-building and skills enrichment. Our policy is aimed at creating a more powerful business culture that inspires our people to see the world from our clients' perspective in delivery of good customer experiences. Towards this objective, the bank offers interest-free education loans to employees for use in their preferred learning or certification program.

### 3.5. Employee Welfare & Sports Activity

At Co-operative Bank, we view each other as part of one big family and each member's welfare is our collective responsibility. We continue to invest in out-of-office staff activities such as sports events and team-building in reflection of our deep commitment to staff welfare. Our men and womens' basketball teams are formidable competitors in the respective National Leagues with the mens' team being Kenya Basketball Federation (KBF) Champions in 2011 and 2014. The bank also supports a volleyball team for men in the Premier League.

### 3.6. Health, Safety & Wellness Programme

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

### 3.7. HIV/Aids Policy towards Positive Living

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

## 4. SAFEGUARDING FINANCIAL SYSTEM SECURITY

### 4.1. Raising Anti-Money Laundering and Fraud Awareness among Staff

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

### 4.2. Whistle-Blowing Program

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

### 4.3. Customer Awareness

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

## 5. CO-OPERATIVE BANK FOUNDATION

Co-operative Bank Foundation was established in 2007 as a registered trust in recognition of the need to enhance the existing Corporate Social Investment (CSI) initiatives by the bank. At that point, the bank felt it was a duty that it should not only grow financially but also develop a deeper commitment to help the growth of the community. We believe that our role goes beyond profit-making to include promoting the long-term economic prosperity and quality of life for everyone in our communities.

In the year of establishment, the bank successfully rolled out on Education program to pay school fees for needy secondary school students. In 2011 the foundation launched the university and vocational internship programs.

### 5.1. Education and Training

Inequality in education opportunities continues to represent a major barrier to the realization of people potentials in the country. Good education is critical to improve income, employment and enterprise opportunities.

Kenya has made some progress over the past few decades in making higher education more accessible, however disparities still persist in student access to colleges and universities. These disparities limit the workforce opportunities, democratic participation and life chances of poor needy students. Co-op foundation is supporting the government increase access to education for the young people both at secondary school and university level.

#### Number of beneficiaries

The secondary scholarship program was initiated in the year 2007 and has grown from an initial sponsorship of 30 students per region, to 60 students per region and 5 students per county for the 47 counties in Kenya. In the year 2014, a total of 655 students were selected for secondary school sponsorship. To date, the foundation has supported 3,353 students in Secondary school education, 112 at university level and 7 in various colleges.

During the last financial year, the Foundation invested a total of KShs. 122.5 Million towards this worthy course. This brings the total amounts donated to education through the foundation since inception to KShs. 461.7 Million

## 5.2. Staff Community Activities

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

## 5.3. National Projects and Economic Development

As part of the wider community in which we operate, the bank collaborates with various stakeholders involved in poverty eradication, advancement of education and activities addressing local challenges such as inadequate access to health services. In 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 Beyond Zero campaign, Kenya Diabetes Management and Information Centre as well as the Kenya Psychological Association. The bank takes part in activities of national importance and we supported the Kenya National Assembly Prayer Day.

Other key sponsorships include: Kenya Power Marathon, Nation Media Group Governors Summit, National Police Service Athletics Team, Mau - Egerton 1st Annual Marathon, Daystar University Marathon, Boda Boda Challenge, Bible Translation and Literacy Marathon (aims to raise funds for bible translation) and Wildlife Direct - Hands off our elephants among others.

**Transforming Lives**

Her Excellency the First Lady receives a KShs. 12 Million donation from the Group Managing Director and CEO Co-operative Bank Dr. Gideon Muriuki towards 2015 First Lady's Half Marathon that was held on 8th March 2015. The Marathon raises funds for critical maternal health care and anti-infant mortality medical services across the country under Beyond Zero Campaign.

# Corporate Governance

## Statement on Corporate Governance

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

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

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

## Code of Conduct

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

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

## THE BOARD

### Board composition

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

### Appointments and induction to the Board

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

### Board responsibilities

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

Setting the strategic direction of the bank and putting in place appropriate policies, systems and structures for their successful implementation;

Establishing and maintaining the Bank's overall systems of planning, accounting and internal controls that facilitate prudent risk assessment and management;

Setting policy guidelines for management and ensuring competent management of the business including the selection, supervision and remuneration of Senior Management;

Ensuring that the business of the Bank is conducted in compliance with relevant laws and regulations; and

Monitoring the bank's performance and reporting this to shareholders especially at the Annual General Meeting.

### Board and Strategy meetings

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

## Board Chairman and Managing Director

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

## Board Performance Evaluation

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

## Directors' remuneration

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

## Internal control and Audit

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

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

## Risk Management and Compliance

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

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

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

# Corporate Governance *cont.*

## 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 bank may result in a conflict of interest, the director is obliged to declare the same and exclude themselves from any discussion or vote over the matter in question. Directors also have a duty to avoid situations of appointment to positions or acquisition of significant interest in businesses competing with the Group. Business transactions with directors and related parties are disclosed in notes to the financial statements.

## Board Sub-committees

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

- Audit and Risk Committee;
- Staff and Nomination Committee; and
- Credit Committee.

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

## Audit and Risk Committee

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

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

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

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

The terms of reference of the Committee are achieved through review and evaluation of the financial status of the bank, review of internal controls, consider performance and findings of internal auditors and recommend appropriate remedial action, nominate external auditors for appointment by shareholders, review management reports and reports from external auditors concerning deviations and weaknesses in accounting and operational controls, coordinate between the internal audit function and external auditors, monitor the ethical conduct of the institution and consider the development of ethical standards and requirements, including effectiveness of procedures for handling and reporting complaints, review any related party transactions that may arise within the banking institution, set out the nature, role, responsibility and authority of the risk management and independent compliance functions in the Bank and its subsidiaries and outline the scope of risk management work, monitor external developments relating to the practice of corporate accountability and the reporting of specifically associated risks, including emerging and prospective impact, provide independent and objective oversight and review of the information presented by the management taking account of risk concerns raised by the Asset Liability Committee meetings on financial, business and strategic risk.

## Staff and Nomination Committee

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

- Mr. S. C. Muchiri – Chairman
- Mr. J. Riungu – Vice-Chairman
- Mr. Patrick Musyimi – Ag. Commissioner for Co-operative Development
- Mr. Julius Sitienei
- Mr. Benedict W. Simiyu
- Dr. Gideon Muriuki – Group Managing Director & CEO

The Committee reviews the broad policy framework relating to the bank's and its subsidiaries' human resources, including policies on the hiring, firing, remuneration package, promotions, medical, staff loans, and all other matters as spelt out in the staff policy manual, training and staff development, staff welfare, code of conduct and performance index. The

Committee also reviews the mix of skills and experience and other qualities of the Board as a whole, its Committees and the contribution of each and every director, including the Chairman in order to assess the effectiveness of the Board. The Committee reviews Board Evaluation procedures and results as well as considers reviews and recommends to the full Board of directors candidates for directorship as proposed by the shareholders and the Chief Executive.

## Board Credit Committee

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

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

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

## Management Committees

The Board has put in place key Management Committees with defined terms of reference and scope of authority and reporting structure. The current Management Committees are as follows;

**The Board of Management** – This is the Executive Committee constituted to assist the Managing Director in day-to-day management of the bank's business, including formulation and implementation of business strategy and policy. This Committee is chaired by the Managing Director and includes Division Directors and other senior managers co-opted from time to time.

**The Credit Board of Management** – Its mandate is to receive, review and consider material, high-value and sensitive credit cases and matters. It currently has membership of all Division Directors.

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

**Business Support Committee (BUSCO)** - This is the Operational Risk Committee of the Bank that has the responsibility of overall monitoring and control of Operating, Regulatory and Market Risks facing the Bank.

**The Expenditure Management Committee** - This is the Tender Committee of the Bank that has as its primary mandate to receive, consider and approve capital and recurrent expenditure with reference to approved budget limits and annual cost efficiency targets.

**The Staff Disciplinary Committee** - This committee receives and reviews staff disciplinary cases referred by Human Resources Development and makes recommendations to the Chief Executive as is appropriate.

# Corporate Governance *cont.*

Schedule of attendance of Board meetings during the period:

| Directors | Co-operative Bank Group | | | | Co-operative Bank of Kenya Ltd Board Sub-committees | | |
|---|---|---|---|---|---|---|---|
| | Co-perative Bank of Kenya Ltd | Coop Bank South Sudan | Co-op Consultancy & Insurance Agency Ltd | Co-optrust Investment Services Ltd | Audit & Risk Committee | Staff and Nomination committee | Credit Committee |
| Schedule of meetings: | 7 | 4 | 5 | 5 | 4 | 4 | 3 |
| S. C. Muchiri, EBS – Group Chairman | 7 | | 5 | 5 | | 4 | |
| J. Riungu – Vice Chairman | 7 | | | | 4 | 4 | |
| Dr. G. Muriuki, MBS – Group Managing Director & CEO | 7 | | 5 | 5 | | 4 | 3 |
| J. Sitienei | 7 | | | | | 4 | |
| P. M. Musyimi, HSC – Commissioner of Co-operatives | 5 | | | | | 4 | |
| R. L. Kimanthi | 7 | | | | | | 3 |
| G.J.S. Wakasyaka, Rtd Major – Retired 25.05.2014 | 2 | | | | | 1 | |
| B.W Simiyu – Appointed 30.05.2014 | 3 | | | | | 3 | |
| M. Malonza | 6 | | | | | | 3 |
| W. Ongoro | 7 | | | | | | 3 |
| D. Kibera | 7 | | | | | | 3 |
| W. J. Mwambia – Representing PS Ministry of Finance | 7 | | | | 4 | | |
| R. Simani (Mrs) | 7 | | | | 4 | | |
| E.K. Mbogo – Retired 25.05.2014 | | | | | | | |
| J.N. Njiru – Appointed 13.05.2014 | | | 4 | 4 | | | |
| P. K. Githendu | | | 5 | 5 | | | |
| G. K. Mburia | | | 4 | 4 | | | |
| S. Odhiambo (Mrs) | | | 4 | 4 | | | |
| Dr. J. Kahunyo | | | 5 | 5 | | | |
| C. Kabira – Retired 25.05.2014 | | | 1 | 1 | | | |
| D.M. Muthigani – Appointed 13.05.2014 | | | 4 | 4 | | | |
| **Co-opbank South Sudan** | | | | | | | |
| | | Full BOD | Audit | | | | |
| Schedule of meetings: | | 4 | 3 | | | | |
| S. C. Muchiri, EBS – Group Chairman | | 4 | 3 | | | | |
| J. Riungu – Vice Chairman | | 4 | | | | | |
| Dr. G. Muriuki, MBS – Group Managing Director & CEO | | 3 | 3 | | | | |
| Dr. Suzana Donato Deng | | 1 | | | | | |
| Zachary Chianda – Appointed 23.06.2014 | | 2 | | | | | |
| William Osir – Retired 23.06.2014 | | 1 | | | | | |
| Prof. Mathew Gordon Udo | | 4 | 3 | | | | |
| Wani Buyu Dyori | | 4 | | | | | |
| Rosemary Githaiga | | 4 | | | | | |

Attendance is shown only where director is a member of a particular board or committee.
All directors are non-executive, except for the Managing Director who is executive.

## Communication with Shareholders

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

Shareholders have direct access to the Company Secretary. There is regular dialogue with individual and institutional investors on matters relating to their shareholding and activities of the business.

Enquiries are welcome and are dealt with in an informative and timely manner. The Bank has engaged the services of a professional Registrar to facilitate appropriate responses to shareholder queries and smooth transfer of shares.

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

## Shareholding Information:

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

| 2014 | | | |
|---|---|---|---|
| | **NAME** | **NO. OF SHARES** | **%** |
| 1 | CO-OP HOLDINGS CO-OP SOCIETY LTD | 3,156,429,504 | 64.56 |
| 2 | Dr. GIDEON MAINA MURIUKI | 97,160,850 | 1.99 |
| 3 | NIC CUSTODIAL SERVICES A/C 077 | 34,582,753 | 0.89 |
| 4 | KENYA COMMERCIAL BANK NOMINEES LTDA/C 771A | 27,396,433 | 0.56 |
| 5 | STANDARD CHARTERED NOMINEES NON-RES A/C KE17605 | 24,144,330 | 0.49 |
| 6 | STANDARD CHARTERED NOMINEES A/C 9230 | 23,019,137 | 0.47 |
| 7 | STANDARD CHARTERED NOMINEES RESD A/C KE11443 | 19,781,917 | 0.40 |
| 8 | CFC STANBIC NOMINEES LTD A/C NR1030682 | 19,181,428 | 0.39 |
| 9 | CFC STANBIC NOMINEES LTD A/C R57601 | 15,333,427 | 0.31 |
| 10 | STANDARD CHARTERED NOMINEE ACCOUNT KE17682 | 15,114,017 | 0.31 |
| | **TOTAL** | **3,432,143,796** | **70.38** |

Co-opHoldings Co-operative Society Limited is the strategic and majority shareholder in the bank representing the block strategic shareholding by the Kenyan Co-operative Movement with 3824 (Yr 2013-3,815) Co-operative Societies covering Millions of Kenyans.

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

| | 2014 | | |
|---|---|---|---|
| | **NAME** | **NO. OF SHARES** | **%** |
| 1 | HARAMBEE COOPERATIVE SAVINGS & CREDIT SOCIETY LTD | 120,714,860 | 3.82 |
| 2 | H & M COOPERATIVE SAVINGS & CREDIT SOCIETY LTD | 104,372,893 | 3.31 |
| 3 | KENYA POLICE SACCO SOCIETY LTD | 92,904,355 | 2.94 |
| 4 | AFYA COOPERATIVE SAVINGS & CREDIT SOCIETY LTD | 92,829,660 | 2.94 |
| 5 | MASAKU TEACHERS COOP SAVINGS & CREDIT SOCIETY LTD | 91,697,527 | 2.91 |
| 6 | KIPSIGIS TEACHERS COOP SAVINGS & CREDIT SOCIETY LTD | 84,579,600 | 2.68 |
| 7 | TELEPOST CO-OPERATIVE SAVINGS & CREDIT SOCIETY LIMITED | 75,638,570 | 2.40 |
| 8 | K-UNITY SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED | 73,187,640 | 2.32 |
| 9 | CO-OPERATIVE BANK COOP SAVINGS & CREDIT SOCIETY LTD | 62,598,760 | 1.98 |
| 10 | NAWIRI SAVINGS AND CREDITCO-OPERATIVE SOCIETY LTD | 57,877,680 | 1.83 |
| | **TOTAL** | **856,401,545** | **27.13** |

# Corporate Governance *cont.*

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

| 2014 | | |
|---|---|---|
| **DIRECTOR** | **NO. OF SHARES** | **%** |
| S.C. Muchiri, EBS – Chairman | 6,253,333 | 0.13 |
| Julius M Riungu – Vice Chairman | 6,037,333 | 0.12 |
| Dr. G. M. Muriuki, MBS – Managing Director | 97,160,850 | 1.99 |
| M. Malonza | 4,300,000 | 0.09 |
| S. Odhiambo (Mrs) | 1,761,170 | 0.04 |
| P.K. Githendu | 66,513 | 0.00 |
| G. Mburia | 4,500,000 | 0.09 |
| J.N. Njiru | 1,400 | 0.00 |
| D.M. Muthigani | - | - |
| J. Sitienei | 5,452,533 | 0.11 |
| C. Kabira | 5,726,140 | 0.12 |
| P. M. Musyimi, HSC – Ag. Commissioner of Co-operative Development | 7,000 | 0.00 |
| R. L. Kimanthi | 16,267 | 0.00 |
| B.W. Simiyu | 2,800 | 0.00 |
| W. Ongoro | 1,276,970 | 0.03 |
| D. Kibera | - | - |
| R. Simani (Mrs) | - | - |
| W. J. Mwambia – Representing PS National Treasury | - | - |
| R. Githaiga (Mrs) – Company Secretary | 2,152,080 | 0.04 |
| **TOTAL** | **134,714,389** | **2.76** |

## Long and Dedicated Service Certificate of appreciation

The Chairman of the Co-operative Bank of Kenya Mr. Stanley C. Muchiri congratulates the Retiring Director, Fredrick Odhiambo, Commissioner of Co-operatives who was retiring from the Civil Service and the Board of Directors.

**Shareholding distribution Schedule:**

| | 2014 | | |
|---|---|---|---|
| **Category** | **No. of shareholders** | **No. of shares** | **%** |
| 1-500 shares | 9,478 | 1,900,226 | 0.04 |
| 501-5,000 shares | 40,957 | 79,349,921 | 1.62 |
| 5,001-10,000 shares | 32,293 | 227,245,333 | 4.65 |
| 10,001-100,000 shares | 14,498 | 296,170,120 | 6.06 |
| 100,001-1,000,000 shares | 683 | 191,082,062 | 3.91 |
| 1,000,001 shares and over | 211 | 4,093,568,633 | 83.72 |
| **TOTAL** | **98,120** | **4,889,316,295** | **100.00** |

**Shareholders' profile:**

| | 2014 | | |
|---|---|---|---|
| **Category** | **No. of shareholders** | **No. of shares** | **%** |
| Kenyan individual investors | 94,881 | 846,072,948 | 17.30 |
| Kenyan institutional investors | 2,953 | 3,869,937,749 | 79.15 |
| East African individual investors | 28 | 309,685 | 0.01 |
| East African institutional investors | 10 | 3,436,950 | 0.07 |
| Foreign individual investors | 176 | 3,693,024 | 0.08 |
| Foreign institutional investors | 72 | 165,865,939 | 3.39 |
| **TOTAL** | **98,120** | **4,889,316,295** | **100.00** |

## Co-op Foundation Internships Programme

The Group Managing Director and CEO, Dr. Gideon Muriuki, welcomes the beneficiaries of the Co-op Bank Foundation scholarships for an internship program at the Bank prior to the commencement of their university education. Co-op Bank Foundation annually funds 28 of the top KCPE students on its secondary school scholarship program for university education. Currently 112 students from all the regions of Kenya are receiving university scholarships and 28 more from 2014 are about to join the program.

# Report of the Directors

## For the year ended 31 December 2014

The directors submit their report together with the audited financial statements for the year ended 31 December 2014, which show the state of the Group's and the Bank's affairs. This is in accordance with Section 22 of the Banking Act (Cap 488) and Section 157 of the Kenyan Companies Act (Cap 486).

### 1. PRINCIPAL ACTIVITIES

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

### 2. GROUP OPERATIONS

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

### 3. RESULTS

The results of the Group for the year are set out on page 7.

### 4. DIVIDEND

The directors recommend payment of a first and final dividend of KShs. 0.50 (2013 - KShs. 0.50) for every ordinary share of KShs. 1. The dividends will be paid on or about 29th June 2015 to the shareholders registered on the Bank's register at the close of business on 28th May 2015. The register will remain closed for one day on 29th May 2015 for the preparation of dividend warrants.

### 5. RESERVES

The movement in the Group's reserves is shown on page 13 of these financial statements.

### 6. GROUP DIRECTORS

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

**Co-operative Bank of Kenya and Kenya subsidiaries:-**

S. C. Muchiri, EBS - Group Chairman
J. M. Riungu - Vice Chairman
Dr. G. Muriuki, MBS - Group Managing Director & CEO
J. Sitienei
R. L. Kimanthi
Major (Rtd) G.J.S. Wakasyaka, OGW - Retired on 25 May 2014
M. Malonza
S. Odhiambo (Mrs)
Dr. J. Kahunyo
C. Kabira, HSC - Retired on 25 May 2014
P.K. Githendu
G. K.Mburia
E. K.Mbogo - Retired 25 May 2014
W. Ongoro, HSC
D. Kibera
R. Simani (Mrs)
B.W. Simiyu - Appointed 30 May 2014
J.N. Njiru - Appointed 13 May 2014
D.M. Muthigani - Appointed 13 May 2014
Wanyambura Mwambia - Representing PS, National Treasury
Patrick Musyimi, HSC - Acting Commissioner for Co-operative Development

**Co-operative Bank of South Sudan:-**

Dr. Suzana Donato Deng - Chairperson
Zacharia Chianda - Managing Director – Appointed 23 June 2014
William Osir - Managing Director - Retired 23 June 2014
Prof. Mathew Gordon Udo
Wani Buyu Dyori

### 7. AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act and subject to section 24(1) of the Banking Act.

### 8. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 17th March 2015.

By order of the Board

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GROUP MANAGING DIRECTOR & CEO

# Statement of Directors' Responsibilities

## For the year ended 31 December 2014

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

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

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

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GROUP CHAIRMAN

............................................................

VICE CHAIRMAN

............................................................

GROUP MANAGING DIRECTOR & CEO

............................................................

COMPANY SECRETARY

17th March 2014

**Awarding some of the best**

The Chairman of the Co-operative Bank of Kenya presenting an award to the Sacco with the Highest Deposits in the Bank from North Eastern Kenya to Garissa Madogo Sacco Vice Chairman Mr. Mohamed Hajir.

# Report of the Independent Auditors

## TO THE MEMBERS OF THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the consolidated and bank's financial statements of The Co-operative Bank of Kenya Limited and its subsidiaries, which comprise the statements of financial position as at 31 December, 2014 and the income statement, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 7 to 90.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

### AUDITORS' RESPONSIBILITY

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

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

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

### OPINION

In our opinion, the consolidated and bank's financial statements present fairly, in all material respects, the consolidated and bank's financial position of The Co-operative Bank of Kenya Limited and subsidiaries as at 31 December, 2014, and its consolidated and bank's financial performance and its consolidated and bank's cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

### REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

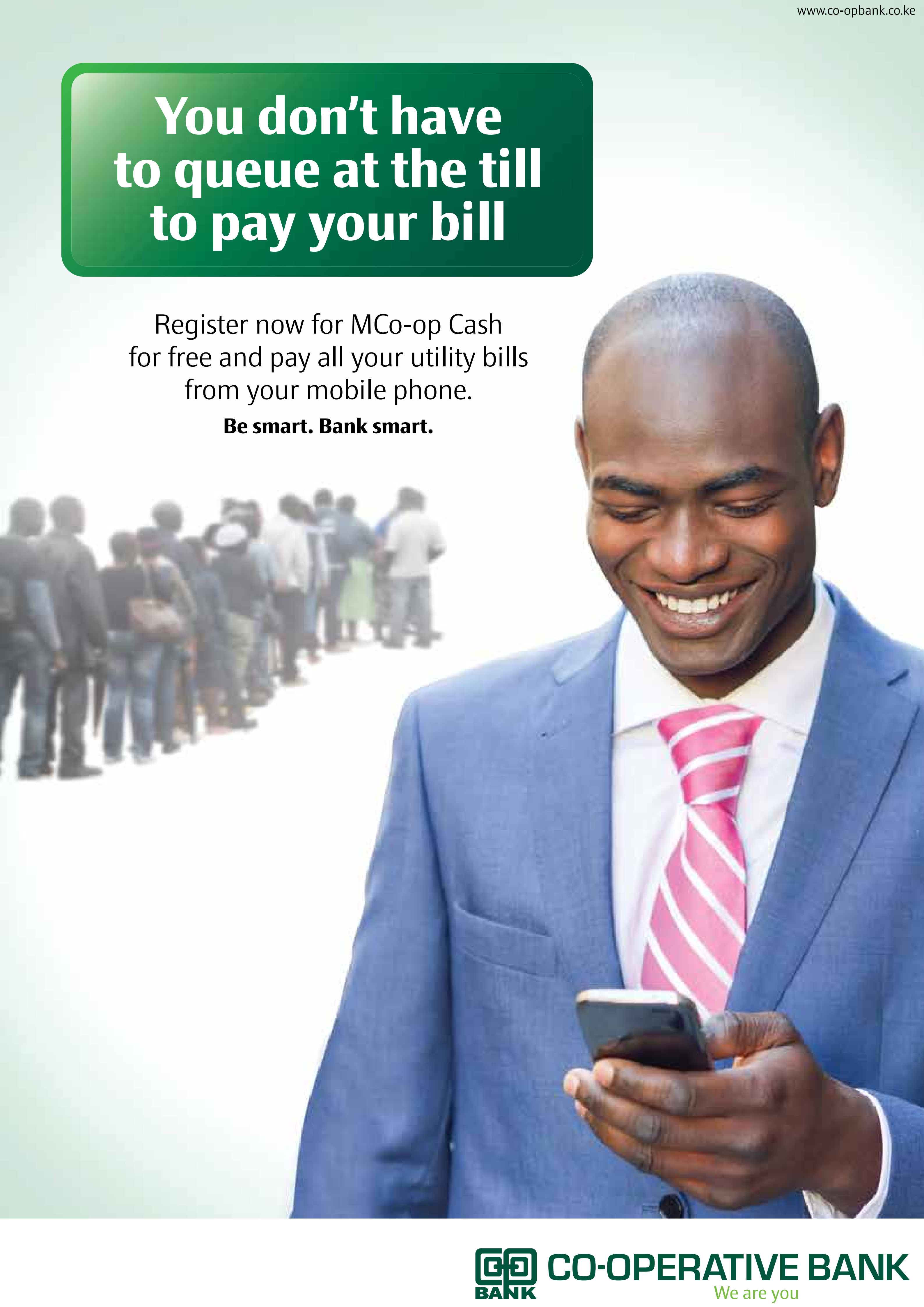
Ernst & Young

EY

Certified Public Accountants (Kenya)

Nairobi

31st March, 2015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# Consolidated Statement of Financial Position

## For the year ended 31 December 2014

| | Note | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with Central Bank of Kenya | 7 | 24,335,332 | 20,713,169 |
| Deposits and balances due from banks | 8 | 12,810,858 | 10,040,915 |
| Held-for-trading investments | 9 | 30,568 | 30,566 |
| Held-to-maturity investments | 10 | 24,643,526 | 14,028,393 |
| Available-for-sale investments | 11 | 21,140,469 | 25,306,913 |
| Derivative financial instruments | 12 | 191,549 | 294,266 |
| Loans and advances to customers | 13(a) | 179,486,355 | 137,087,227 |
| Investment in associate | 15 | 1,907,722 | 1,688,888 |
| Other assets | 16 | 8,401,889 | 8,758,953 |
| Intangible assets | 17(a) | 1,712,902 | 1,833,822 |
| Prepaid lease rentals | 18 | 37,570 | 38,180 |
| Property and equipment | 19 | 10,078,698 | 11,230,379 |
| Deferred tax asset | 20 | 618,629 | 66,658 |
| Tax recoverable | 24(b) | - | 97,029 |
| **TOTAL ASSETS** | | **285,396,067** | **231,215,358** |
| **LIABILITIES** | | | |
| Deposits and balances due to banks | 21 | 3,159,444 | 5,462,337 |
| Customer deposits | 22(a) | 217,698,323 | 175,425,121 |
| Loans and borrowings | 23 | 18,269,487 | 10,252,392 |
| Tax payable | 24(b) | 149,821 | - |
| Provisions | 25 | 93,570 | 74,866 |
| Other liabilities | 26 | 2,612,511 | 2,862,381 |
| Government grants | 27 | 535,792 | 554,270 |
| **TOTAL LIABILITIES** | | **242,518,948** | **194,631,367** |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT** | | | |
| Share capital | 28 | 4,889,317 | 4,190,844 |
| Share premium | 29 | 2,889,789 | 3,588,262 |
| Revaluation reserve | 30(a) | 408,074 | 429,704 |
| Retained earnings | 30(b) | 32,206,653 | 26,439,285 |
| Available-for-sale reserve | 30(c) | (793,356) | (1,243,221) |
| Statutory reserve | 30(d) | 718,421 | 718,026 |
| Foreign currency translation reserve | 30(e) | 31,444 | 1,060 |
| Proposed dividends | 31 | 2,444,658 | 2,095,422 |
| | | **42,795,000** | **36,219,382** |
| Non-controlling interest | 32 | 82,119 | 364,609 |
| **TOTAL EQUITY** | | **42,877,119** | **36,583,991** |
| **TOTAL LIABILITIES & EQUITY** | | **285,396,067** | **231,215,358** |

The financial statements were approved by the Board of Directors on 17th March 2015 and signed on its behalf by: -

S.C. Muchiri, EBS - Group Chairman ..............................

J.M. Riungu - Vice Chairman ..............................

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

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

# Consolidated Income Statement

## For the year ended 31 December 2014

| | Note | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|---|
| Interest income | 33 | 27,210,668 | 21,785,057 |
| Interest expense | 34 | (8,076,153) | (5,915,809) |
| **NET INTEREST INCOME** | | **19,134,515** | **15,869,248** |
| Fees and commission income | 35 | 8,714,867 | 7,160,979 |
| Fees and commission expense | 35 | (136,782) | (170,487) |
| **NET FEES AND COMMISSION INCOME** | | **8,578,085** | **6,990,492** |
| Net trading income | 36 | 3,585,374 | 4,389,375 |
| Amortisation of government grants | 27 | 18,478 | 20,447 |
| Other operating income | 37 | 769,312 | 620,241 |
| **TOTAL OTHER INCOME** | | **4,373,164** | **5,030,063** |
| **OPERATING INCOME** | | **32,085,764** | **27,889,803** |
| Net impairment losses on loans and advances | 13(d) | (1,175,598) | (778,157) |
| Amortisation of intangible assets | 17(a) | (341,817) | (178,201) |
| Amortisation of leasehold land | 18 | (610) | (611) |
| Depreciation of property and equipment | 19(a) | (1,953,664) | (1,528,961) |
| Employee costs | 38 | (9,780,667) | (8,013,780) |
| Other operating expenses | 39 | (8,188,173) | (6,883,017) |
| **OPERATING EXPENSES** | | **(21,440,529)** | **(17,382,727)** |
| **OPERATING PROFIT** | | **10,645,235** | **10,507,076** |
| Share of profit of an associate | 15 | 270,976 | 365,369 |
| **PROFIT BEFORE TAX** | | **10,916,211** | **10,872,445** |
| INCOME TAX EXPENSE | 24(a) | (2,901,214) | (1,764,259) |
| **PROFIT FOR THE YEAR** | | **8,014,997** | **9,108,186** |
| **Attributable to:** | | | |
| Equity holders of the parent | | 8,265,370 | 9,233,281 |
| Non-controlling interest | | (250,373) | (125,095) |
| | | **8,014,997** | **9,108,186** |
| Basic earnings per share (KShs) | 40 | 1.69 | 2.20 |
| Diluted earnings per share (KShs) | 40 | 1.69 | 1.89 |

# Consolidated Statement of Comprehensive Income

## For the year ended 31 December 2014

| | Note | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|---|
| **PROFIT FOR THE YEAR** | | **8,014,997** | **9,108,186** |
| OTHER COMPREHENSIVE INCOME, NET OF TAX | | | |
| **Other comprehensive income to be reclassified to profit or loss in subsequent periods:** | | | |
| Net movement on available-for-sale investments | 41 | 449,865 | (180,334) |
| Exchange differences on translation of a foreign operation | | 30,384 | 1,060 |
| Other comprehensive income of an associate | | - | 22,669 |
| **OTHER COMPREHENSIVE INCOME, NET OF TAX** | | **480,249** | **(156,605)** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF INCOME TAX** | | **8,495,246** | **8,951,581** |
| **Attributable to:-** | | | |
| Equity holders of the parent | | **8,702,569** | 9,076,676 |
| Non-controlling interest | | (207,323) | (125,095) |
| | | **8,495,246** | **8,951,581** |

# Bank Statement of Financial Position

## For the year ended 31 December 2014

| | Note | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with Central Bank of Kenya | 7 | 22,924,932 | 19,296,488 |
| Deposits and balances due from banks | 8 | 12,814,862 | 10,056,793 |
| Held-for-trading investments | 9 | 30,510 | 30,510 |
| Held-to-maturity investments | 10 | 24,460,192 | 13,820,482 |
| Available-for-sale investments | 11 | 21,032,444 | 25,306,913 |
| Derivative financial instruments | 12 | 191,549 | 294,266 |
| Loans and advances to customers | 13(a) | 178,978,586 | 137,051,537 |
| Investment in subsidiaries | 14 | 1,806,449 | 1,748,494 |
| Investment in associate | 15 | 755,118 | 755,118 |
| Other assets | 16 | 8,430,687 | 8,583,559 |
| Intangible assets | 17(b) | 1,363,210 | 1,311,566 |
| Prepaid lease rentals | 18 | 37,570 | 38,180 |
| Property and equipment | 19 | 9,253,832 | 10,424,834 |
| Deferred tax asset | 20 | 609,156 | 56,113 |
| Tax recoverable | 24(b) | - | 99,631 |
| **TOTAL ASSETS** | | **282,689,097** | **228,874,484** |
| **LIABILITIES** | | | |
| Deposits and balances due to banks | 21 | 3,241,726 | 5,462,337 |
| Customer deposits | 22(a) | 216,174,313 | 174,776,225 |
| Loans and borrowings | 23 | 18,269,487 | 10,252,392 |
| Tax payable | 24(b) | 129,171 | - |
| Provisions | 25 | 92,840 | 72,841 |
| Other liabilities | 26 | 2,430,440 | 2,658,642 |
| Government grants | 27 | 535,792 | 554,270 |
| **TOTAL LIABILITIES** | | **240,873,769** | **193,776,707** |
| **EQUITY** | | | |
| Share capital | 28 | 4,889,317 | 4,190,844 |
| Share premium | 29 | 2,889,789 | 3,588,262 |
| Revaluation reserve | 30(a) | 403,408 | 407,035 |
| Retained earnings | 30(b) | 31,264,374 | 25,354,077 |
| Available-for-sale reserves | 30(c) | (794,062) | (1,255,707) |
| Statutory reserve | 30(d) | 717,844 | 717,844 |
| Proposed dividends | 31 | 2,444,658 | 2,095,422 |
| **TOTAL EQUITY** | | **41,815,328** | **35,097,777** |
| **TOTAL LIABILITIES & EQUITY** | | **282,689,097** | **228,874,484** |

The financial statements were approved by the Board of Directors on 17th March 2015 and signed on its behalf by:-

S.C. Muchiri, EBS - Group Chairman ..............................

J.M. Riungu - Vice Chairman ..............................

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

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

# Bank Income Statement

## For the year ended 31 December 2014

| | Note | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|---|
| Interest income | 33 | 27,126,063 | 21,903,506 |
| Interest expense | 34 | (8,066,583) | (5,915,809) |
| **NET INTEREST INCOME** | | **19,059,480** | **15,987,697** |
| Fees and commission income | 35 | 8,082,819 | 6,830,166 |
| Fees and commission expense | 35 | (136,782) | (170,487) |
| **NET FEES AND COMMISSION INCOME** | | **7,946,037** | **6,659,679** |
| Net trading income | 36 | 3,369,421 | 4,386,070 |
| Amortisation of government grants | 27 | 18,478 | 20,447 |
| Other operating income | 37 | 989,483 | 494,200 |
| **TOTAL OTHER INCOME** | | **4,377,382** | **4,900,717** |
| **OPERATING INCOME** | | **31,382,899** | **27,548,093** |
| Net impairment losses on loans and advances | 13(d) | (1,133,519) | (773,291) |
| Amortisation of intangible assets | 17(b) | (303,558) | (175,565) |
| Amortisation of leasehold land | 18 | (610) | (611) |
| Depreciation of property and equipment | 19(b) | (1,840,607) | (1,514,249) |
| Employee costs | 38 | (9,402,605) | (7,825,352) |
| Other operating expenses | 39 | (7,529,778) | (6,553,568) |
| **OPERATING EXPENSES** | | **(20,210,677)** | **(16,842,636)** |
| **PROFIT BEFORE TAX** | | **11,172,222** | **10,705,457** |
| INCOME TAX EXPENSE | 24(a) | (2,820,894) | (1,726,266) |
| **PROFIT FOR THE YEAR** | | **8,351,328** | **8,979,191** |
| Basic earnings per share (KShs) | 40 | 1.71 | 2.14 |
| Diluted earnings per share (KShs) | 40 | 1.71 | 1.84 |

# Bank Statement of Comprehensive Income

For the year ended 31 December 2014

| | Note | 2014<br>KShs'000 | 2013<br>KShs'000 |
|---|---|---|---|
| **PROFIT FOR THE YEAR** | | **8,351,328** | **8,979,191** |
| **OTHER COMPREHENSIVE INCOME:** | | | |
| **Other comprehensive income to be reclassified to profit or loss in subsequent periods:** | | | |
| Net movement on available-for-sale investments | 41 | 461,645 | (178,221) |
| **OTHER COMPREHENSIVE INCOME, NET OF TAX** | | **461,645** | **(178,221)** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX** | | **8,812,973** | **8,800,970** |

# Consolidated Statement of Changes In Equity

## For the year ended 31 December 2014

Attributable to the equity holders of the parent

| | Share capital | Share premium | Revaluation reserve | Statutory reserve | Available-for-sale 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 |
| **As at 1 January 2013** | **4,190,844** | **3,588,262** | **416,106** | **451,784** | **(1,062,887)** | **-** | **2,095,422** | **19,558,597** | **29,238,128** | **129,208** | **29,367,336** |
| Total comprehensive income | | | | | | | | | | | |
| Profit / (loss) for the year | - | - | - | - | - | - | - | 9,233,281 | **9,233,281** | (125,095) | **9,108,186** |
| Other comprehensive income | - | - | 22,669 | | (180,334) | 1,060 | - | - | **(156,605)** | - | **(156,605)** |
| Acquisition of a Subsidiary (note14) | - | - | - | - | - | - | - | - | **-** | 360,321 | **360,321** |
| Realisation of revaluation surplus | - | - | (9,071) | - | - | | - | 9,071 | **-** | - | **-** |
| Transfers to statutory reserve | - | - | - | 266,242 | - | | - | (266,242) | **-** | 175 | **175** |
| 2012- Dividends paid | - | - | - | - | - | | (2,095,422) | - | **(2,095,422)** | - | **(2,095,422)** |
| Proposed dividends | - | - | - | - | - | | 2,095,422 | (2,095,422) | **-** | - | **-** |
| **At 31 December 2013** | **4,190,844** | **3,588,262** | **429,704** | **718,026** | **(1,243,221)** | **1,060** | **2,095,422** | **26,439,285** | **36,219,382** | **364,609** | **36,583,991** |
| **As at 1 January 2014** | **4,190,844** | **3,588,262** | **429,704** | **718,026** | **(1,243,221)** | **1,060** | **2,095,422** | **26,439,285** | **36,219,382** | **364,609** | **36,583,991** |
| Total comprehensive income | | | | | | | | | | | |
| Profit /(loss) for the year | | | | | | | | 8,265,370 | **8,265,370** | (250,373) | **8,014,997** |
| Other comprehensive income | | | | | 449,865 | 30,384 | | | **480,249** | - | 480,249 |
| Realisation of revaluation surplus | | | (9,071) | | | | | 9,071 | **-** | - | - |
| Deferred tax on realisation of revaluation surplus | | | 2,722 | | | | | (2,722) | **-** | - | |
| Deferred tax on realisation of revaluation surplus- prior year | | | 2,722 | | | | | (2,722) | **-** | - | |
| Transfers to statutory reserve | | | | 395 | | | | (395) | **-** | - | |
| Issue of bonus shares (note 29) | 698,473 | (698,473) | | | | | | | **-** | - | - |
| Reversal of Kingdom Securities NSE seat value (note 17) | - | - | (18,003) | - | - | - | - | (56,576) | **(74,579)** | (32,117) | |
| 2013- Dividends paid | | | | | | | (2,095,422) | | **(2,095,422)** | - | |
| Proposed dividends | | | | | | | 2,444,658 | (2,444,658) | **-** | - | |
| **At 31 December 2014** | **4,889,317** | **2,889,789** | **408,074** | **718,421** | **(793,356)** | **31,444** | **2,444,658** | **32,206,653** | **42,795,000** | **82,119** | **42,877,119** |

# Bank Statement of Changes in Equity

## For the year ended 31 December 2014

| | Share capital | Share premium | Revaluation reserve | Statutory reserve | Available-for-sale reserve | Proposed dividends | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| **As at 1 January 2013** | **4,190,844** | **3,588,262** | **416,106** | **451,784** | **(1,077,486)** | **2,095,422** | **18,727,297** | **28,392,229** |
| Total comprehensive income | | | | | | | | - |
| Profit for the year | - | - | - | - | - | - | 8,979,191 | **8,979,191** |
| Other comprehensive income | - | - | - | - | (178,221) | - | | **(178,221)** |
| Realisation of revaluation surplus | - | - | (9,071) | - | - | - | 9,071 | - |
| Transfer from retained earnings | - | - | - | 266,060 | - | - | (266,060) | - |
| 2012- Dividends paid | - | - | - | - | - | (2,095,422) | | **(2,095,422)** |
| Proposed dividends | - | - | - | - | - | 2,095,422 | (2,095,422) | - |
| **At 31 December 2013** | **4,190,844** | **3,588,262** | **407,035** | **717,844** | **(1,255,707)** | **2,095,422** | **25,354,077** | **35,097,777** |
| **As at 1 January 2014** | **4,190,844** | **3,588,262** | **407,035** | **717,844** | **(1,255,707)** | **2,095,422** | **25,354,077** | **35,097,777** |
| Total comprehensive income | | | | | | | | - |
| Profit for the year | - | | | - | | - | 8,351,328 | **8,351,328** |
| Other comprehensive income | - | | | - | 461,645 | - | | **461,645** |
| Issue of bonus shares (note 29) | 698,473 | 698,478 | | - | | - | - | - |
| Realisation of revaluation surplus | | | 9,071 | | | | 9,071 | - |
| Deferred tax on realisation of revaluation surplus | - | | 2,722 | - | | - | (2,722) | - |
| Deferred tax on realisation of revaluation surplus- prior year | - | | 2,722 | - | | - | (2,722) | - |
| 2013- Dividends paid | | | | | | (2,095,422) | | **(2,095,422)** |
| Proposed dividends | | | | | | 2,444,658 | (2,444,658) | - |
| **At 31 December 2014** | **4,889,317** | **2,889,789** | **403,408** | **717,844** | **(794,062)** | **2,444,658** | **31,264,374** | **41,815,328** |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2014

| | Note | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|---|
| Cash generated from operating activities | 42 | 13,559,297 | 11,963,084 |
| Tax paid | 24(b) | (3,206,418) | (2,679,178) |
| **Net cash flows generated from operating activities** | | **10,352,879** | **9,283,906** |
| **INVESTING ACTIVITIES:-** | | | |
| Purchase of property and equipment | 19(b) | (782,612) | (3,018,173) |
| Purchase of intangible assets | 16(b) | (469,087) | (664,028) |
| Proceeds from disposal of property and equipment | | 8,797 | 12,150 |
| Purchase of held-to-maturity investments | 10 | (13,661,079) | (13,784,364) |
| Maturity of held-to-maturity investments | 10 | 3,045,946 | 3,129,502 |
| Dividends from an associate | 14 | 52,142 | 52,128 |
| **Net cash flows used in investing activities:-** | | **(11,805,893)** | **(14,272,785)** |
| **FINANCING ACTIVITIES:-** | | | |
| Proceeds from borrowings | 23 | 8,156,960 | 5,787,690 |
| Repayment of borrowings | 23 | (293,995) | (212,079) |
| Dividends paid to equity holders of the parent | | (2,095,422) | (2,095,422) |
| **Net cash flows used in financing activities** | | **5,767,543** | **3,480,189** |
| Net movement in cash and cash equivalents | | 4,314,529 | (1,508,690) |
| Effect of foreign exchange differences | | (54,776) | (80,153) |
| Cash and cash equivalents at the beginning of the year | | 22,018,778 | 23,607,621 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | **42** | **26,278,531** | **22,018,778** |

# Bank Statement of Cash Flows

## For the year ended 31 December 2014

| | | 2014 | 2013 |
|---|---|---|---|
| **OPERATING ACTIVITIES:-** | **Note** | **KShs'000** | **KShs'000** |
| Cash generated from operating activities | 42 | 13,552,772 | 10,964,263 |
| Tax paid | 24(b) | (3,145,135) | (2,639,081) |
| **Net cash flows from operating activities** | | **10,407,637** | **8,325,182** |
| **INVESTING ACTIVITIES:-** | | | |
| Purchase of property and equipment | 19(b) | (650,220) | (2,204,949) |
| Purchase of software | 17(b) | (377,372) | (390,884) |
| Additional capital to a subsidiary | | (57,955) | (1,508,494) |
| Proceeds from disposal of property and equipment | | 8,495 | 12,150 |
| Purchase of held-to-maturity investments | 10 | (13,477,745) | (13,784,364) |
| Maturity of held-to-maturity investments | 10 | 2,838,035 | 3,177,807 |
| **Net cash flows used in investing activities** | | **(11,716,762)** | **(14,698,734)** |
| **FINANCING ACTIVITIES:-** | | | |
| Proceeds from borrowings | 23 | 8,156,960 | 5,787,690 |
| Repayment of borrowings | 23 | (293,995) | (212,079) |
| Dividends paid | | (2,095,422) | (2,095,422) |
| **Net cash flows from financing activities** | | **5,767,543** | **3,480,189** |
| Net movement in cash and cash equivalents | | 4,458,418 | (2,893,363) |
| Net foreign exchange differences | | (204,260) | (79,815) |
| Cash and cash equivalents at the beginning of the year | | 20,617,976 | 23,591,154 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | **42** | **24,872,134** | **20,617,976** |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 1. GENERAL INFORMATION

The Co-operative Bank of Kenya Limited is a financial institution incorporated in Kenya under the Companies Act (Chapter 486) as a public limited liability company, licensed under the Kenyan Banking Act (Chapter 488) and domiciled in Kenya. The consolidated financial statements comprise the Bank and its subsidiaries together referred to as "the Group". The Group is primarily involved in corporate and retail banking, investment and asset management services in various parts of Kenya. Shares of the Bank are listed on the Nairobi Stock Exchange (NSE). The group information is included on page 1 of these financial statements.

## 2. ACCOUNTING POLICIES

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

(a) Basis of preparation

The consolidated financial statements are prepared under the historical cost convention as modified by the measurement at fair value of available –for-sale investments, derivative financial instruments, other financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through profit or loss, land and buildings carried under the revaluation model.

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

(b) Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries and associate as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns
- When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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

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

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 2. ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

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

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

(c) Changes in accounting policies and disclosures

**New and amended standards and interpretations**

The following standards and amendments where effective for annual periods beginning on or after 1 January 2014. The nature and the impact of each new standard and amendment is as described below:

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

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

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

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

*Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

*IFRIC 21 Levies*

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group

*Annual Improvements 2010-2012 Cycle*

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 2. ACCOUNTING POLICIES (continued)

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

**Standards issued but not yet effective**

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

*IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

*Amendments to IAS 19 Defined Benefit Plans: Employee Contributions*

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

*Annual improvements 2010-2012 Cycle*

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

*IFRS 2 Share-based Payment*

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

*IFRS 3 Business Combinations*

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 2. ACCOUNTING POLICIES (continued)

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

**Standards issued but not yet effective (continued)**

*IFRS 8 Operating Segments*

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

*IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

*IAS 24 Related Party Disclosures*

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

*Annual improvements 2011-2013 Cycle*

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

*IFRS 13 Fair Value Measurement*

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39,as applicable).

*IAS 40 Investment Property*

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 2. ACCOUNTING POLICIES (continued)

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

**Standards issued but not yet effective (continued)**

*Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests*

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

*Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

*Amendments to IAS 27: Equity Method in Separate Financial Statements*

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements as they don't intend to equity account their investments in the separate books of the bank.

(d) Significant accounting estimates and assumptions

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

*Estimates and assumptions*

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

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 2. ACCOUNTING POLICIES (continued)

(d) Significant accounting estimates and assumptions (continued)

*Going concern*

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

*Fair value of financial instruments*

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

*Impairment losses on loans and advances*

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

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

*Impairment of available–for–sale investments*

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

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

*Deferred tax assets*

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

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 2. ACCOUNTING POLICIES (continued)

(e) Recognition of income and expenses

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

*i. Interest and similar income and expenses*

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

Interest income is recognised in profit or loss for all interest bearing instruments on an accrual basis taking into account the effective yield on the asset. Interest income continues to be accrued on the reduced carrying amount of impaired and provided for financial assets using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest on the Government and Donor funds is recognised as income on accrual basis

*ii. Fee and commission income*

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

*iii. Dividend income*

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

*iv. Rental income*

Rental income is accounted for on a straight-line basis over the lease terms on ongoing leases and is recognised on a monthly basis when it falls due.

*v. Net trading income*

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

(f) Cash and cash equivalents

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

(g) Property and equipment

*Recognition and measurement*

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

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 2. ACCOUNTING POLICIES (continued)

(g) Property and equipment (continued)

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

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

*Depreciation*

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

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

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

(h) Business combinations and goodwill

Business combinations are accounted for using the acquisition method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, the discount on acquisition is recognised directly in profit and loss in the year of acquisition.

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

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

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 2. ACCOUNTING POLICIES (continued)

(h) Business combinations and goodwill (continued)

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

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

(i) Intangible assets

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

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

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

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

*(a) Computer software licences*

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

*(b) Other intangible assets*

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

The NSE seat was initially measured at cost. After initial recognition, an intangible asset with an indefinite useful life was carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated impairment losses. The revaluation is 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 give 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. Therefore, the revaluation reserve on NSE seat in the statement of changes in equity has been reduced by KShs. 226 Million, being the difference between the carrying amount of the NSE seat and the fair value on the trading right. 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. 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. Any impairment losses are accounted for through profit or loss.

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.

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 2. ACCOUNTING POLICIES (continued)

(j) Investment in an associate

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence but not control or joint control.

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

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

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

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

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

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

(k) Finance and operating leases

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

i) Operating leases:
Where:-

- Group is the lessee

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

- Group is the lessor

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

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 2. ACCOUNTING POLICIES (continued)

(k) Finance and operating leases (continued)

ii) Finance leases:

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

Minimum lease payments made under finance leases are apportioned between the finance income and the reduction of the outstanding asset. The finance income is allocated to each period during the lease term so as to produce a constant rate of interest on the remaining balance of the asset.

(l) Financial assets

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

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

*(a) Financial assets at fair value through profit or loss*

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

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

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

*Held-to-maturity financial assets*

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

*Loans and receivables*

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

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 2. ACCOUNTING POLICIES (continued)

(l) Financial assets (continued)

*(a) Financial assets at fair value through profit or loss (continued)*

*Available-for-sale financial assets*

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

*Amortised cost*

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

(m) 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 to by the Group.

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

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

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

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 properties.

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 2. ACCOUNTING POLICIES (continued)

(n) 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 Bank's exposure to credit or price risks. The derivative instruments become assets or liabilities as a result of fluctuations in foreign exchange rates relative to their terms.

The Bank uses the following derivative instruments:

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

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

(o) Impairment of financial assets

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

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

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 2. ACCOUNTING POLICIES (continued)

(o) Impairment of financial assets (continued)

*(1) Financial assets carried at amortised cost*

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

For loans and advance impairment losses are computed based on:

*i) Central Bank of Kenya Prudential Guidelines*

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

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

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

*ii) International Accounting Standard (IAS) 39*

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

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

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

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

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 2. ACCOUNTING POLICIES (continued)

(o) Impairment of financial assets (continued)

*(1) Financial assets carried at amortised cost (continued)*

*ii) International Accounting Standard (IAS) 39*

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

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

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

*(3) Renegotiated loans*

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

The impairment test can also be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

*(4) Derecognition of financial assets*

A financial asset is derecognised when:

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

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

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

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 2. ACCOUNTING POLICIES (continued)

(p) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at amortised cost

*(a) Customer deposits*

Customer deposits include call, fixed, current account and savings deposits. The fair value of savings, deposits and current accounts with no specific maturity is assumed to be the amount payable on demand at end of the reporting period, i.e. their carrying values at this date. The fair values of 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

*(b) Deposits from/ to other banks*

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

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

*(c) Other borrowed funds and borrowing costs*

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

*(d) Financial guarantee contracts*

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

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 2. ACCOUNTING POLICIES (continued)

(q) Provisions

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

(r) Offsetting

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

(s) Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within 'Non-current assets held for sale'. The bank did not have repossessed assets in the current year (2013: nil).

(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 end of each reporting period. Any resulting gains or losses on exchange are dealt with in profit or loss in the period in which they arise. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, whilst assets carried at fair value are translated at the exchange rate when the fair value was determined.

ii) Group companies

For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

On consolidation, the assets and liabilities of foreign operations are translated into the group's functional currency at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

(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 contributions to the scheme are charged to the profit or loss in the year to which they relate. The Group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to KShs. 200 per employee per month.

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

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

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 2. ACCOUNTING POLICIES (continued)

(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 realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of reporting period. Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in 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.

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 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.

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

(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, government securities and deposits and balances due from banking institutions. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Cash and cash equivalents are measured at amortised cost.

(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.

(z) Fiduciary assets

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

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 2. ACCOUNTING POLICIES (continued)

(aa) Impairment of non-financial assets

The carrying amounts of the group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In determining fair value less costs of disposal, an appropriate valuation model is used.

Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for a property previously re-valued where the valuation was taken to other comprehensive income. In this case, the impairment loss is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets other than goodwill an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased.

If such indication exists, the group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. Impairment losses on goodwill are not reversed.

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 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 and other banks and investment securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

*Management of credit risk*

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

(1) Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

(2) Establishing the authorisation structure for the approval and renewal of credit facilities.

(3) Reviewing and assessing credit risk.

(4) Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks.

(5) Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types.

(6) Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Each business unit is required to implement Group credit policies and procedures, with credit approval authorities delegated from the Board's 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.

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 3. FINANCIAL RISK MANAGEMENT (continued)

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

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | **2014** | **2013** | **2014** | **2013** |
| | | **KShs. '000** | **KShs. '000** | **KShs. '000** | **KShs. '000** |
| **Carrying amount (note 13(a))** | **13(a)** | **187,171,625** | **145,735,287** | **186,621,777** | **145,699,597** |
| Staff loans marked-to-market | 16 | (3,228,529) | (4,053,334) | (3,228,529) | (4,053,334) |
| **Individually assessed for impairment:** | | | | | |
| Grade 5: Loss category | | 763,158 | 1,183,892 | 763,158 | 1,183,892 |
| Grade 4: Doubtful category | | 3,836,963 | 2,791,828 | 3,836,963 | 2,791,828 |
| Gross amount | | 4,600,121 | 3,975,720 | 4,600,121 | 3,975,720 |
| Allowance for impairment | | (1,765,845) | (2,666,242) | (1,765,845) | (2,666,242) |
| **Carrying amount** | | **2,834,276** | **1,309,478** | **2,834,276** | **1,309,478** |
| **Collectively assessed for impairment:** | | | | | |
| Grade 1: Normal | | 166,821,341 | 132,655,793 | 166,821,341 | 132,620,103 |
| Grade 2: Watch list | | 11,818,391 | 6,976,031 | 11,818,391 | 6,976,031 |
| Gross amount | | **178,639,732** | **139,631,824** | **178,639,732** | **139,596,134** |
| Allowance for impairment | | (2,022,765) | (1,550,775) | (2,022,765) | (1,550,775) |
| **Carrying amount** | | **176,616,967** | **138,081,049** | **176,616,967** | **138,045,359** |
| **Past due loans (Grade 3 - Substandard):** | | | | | |
| Past due up to 30 days | | 2,162,854 | 1,895,181 | 2,162,854 | 1,895,181 |
| Past due 31-60 days | | 687,934 | 13,405 | 687,934 | 13,405 |
| Past due 61-90 days | | 392,808 | 16,384 | 392,808 | 16,384 |
| Past due 91-150 days | | 138,328 | 202,774 | 138,328 | 202,774 |
| **Gross amount** | | 3,381,924 | 2,127,743 | 3,381,924 | 2,127,743 |
| Allowance for impairment | | (491,361) | (377,708) | (491,361) | (377,708) |
| **Carrying amount** | | **2,890,563** | **1,750,035** | **2,890,563** | **1,750,035** |
| **Net carrying amount** | **13 (a)** | **179,486,355** | **137,087,227** | **178,978,586** | **137,051,537** |

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

*Maximum exposure to credit risk before collateral held:*

| | Group | | Bank | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| **Items recognised in the statement of financial position:** | | | | |
| Items in the course of collection | 557,806 | 509,030 | 557,806 | 449,770 |
| Deposits and balances due from banking institutions | 12,810,858 | 10,040,915 | 12,814,862 | 10,056,793 |
| Financial assets: | | | | |
| -Derivatives | 191,549 | 294,266 | 191,549 | 294,266 |
| -Held-to-maturity | 24,643,526 | 14,028,393 | 24,460,192 | 13,820,482 |
| -Held-for-trading | 30,568 | 30,566 | 30,510 | 30,510 |
| -Available-for-sale | 21,140,469 | 25,306,913 | 21,032,444 | 25,306,913 |
| Interest receivable | 1,895,590 | 1,450,079 | 1,895,590 | 1,450,079 |
| Loans and advances to customers | 179,486,355 | 137,087,227 | 178,978,586 | 137,051,537 |
| | **240,756,721** | **188,747,389** | **239,961,539** | **188,460,350** |
| **Items not recognised in the statement of financial position (note 46)** | 14,110,553 | 16,971,431 | 14,110,553 | 16,971,431 |
| | **254,867,274** | **205,718,820** | **254,072,092** | **205,431,781** |

Maximum exposure to credit risk before collateral held represents the worst-case scenario of credit risk exposure without taking account of any collateral held or any other credit enhancements attached. While collateral is an important means to mitigate against credit risk, the Group's primary policy is to issue loans after establishing capacity of the customer to repay. Unsecured facilities amount to KShs. 51,154 Million (2013- KShs. 41,037 Million). All other facilities are secured by collateral in the form of charges over cash, land and buildings, marketable securities, plant and machinery among others.

*Impaired loans*

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

*Past due but not impaired loans*

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

*Loans with renegotiated terms*

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

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| Due from banks | - | - |
| Financial assets at fair value through profit or loss | - | - |
| Loans and advances to customers:- | - | - |
| Commercial loans | 512,655 | 480,354 |
| | **512,655** | **480,354** |

*Allowances for impairment*

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

*Write-off policy*

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

*Collateral on loans and advances*

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

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

| | | Group & Bank | |
|---|---|---|---|
| | | 2014 KShs'000 | 2013 KShs'000 |
| **(i)** | **Categorised by loans & advances:** | | |
| | Doubtful & loss categories | 5,848,241 | 2,766,360 |
| | Past due but not impaired (Sub-standard) category | 2,391,943 | 1,850,527 |
| | Normal & watch categories | 727,879,233 | 325,048,156 |
| | | **736,119,417** | **329,665,043** |
| **(ii)** | **Categorised by nature of collateral:** | | |
| | Land & buildings | 383,814,628 | 129,968,061 |
| | Cash & other pledges | 4,470,856 | 2,390,671 |
| | Motor vehicles | 170,271,344 | 156,571,382 |
| | Hypothecation of stock | 2,944,768 | 607,138 |
| | Debentures & guarantees | 103,696,585 | 36,195,632 |
| | Other chattels | 70,921,236 | 3,932,159 |
| | | **736,119,417** | **329,665,043** |

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

*Concentration of Risk*

Concentration indicates the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. Excessive concentration arises when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

To avoid excessive concentration of risk, the Bank's policies and procedures include specific guidelines that ensure maintenance of a diversified portfolio across bank products, industry sectors, geographic spread, credit ratings, customer segments and exposure to single or related counterparties. Concentrations of credit risk which have been identified are controlled and managed accordingly.

| **Loans and advances:-** | **Group** | | **Bank** | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** |
| **(i) Concentration by sector:** | | | | |
| Agriculture | 7,634,993 | 7,516,210 | 7,634,993 | 7,516,210 |
| Manufacturing, energy & water | 17,370,109 | 10,150,684 | 17,370,109 | 10,150,684 |
| Financial services | 27,536,496 | 24,622,265 | 27,536,496 | 24,622,265 |
| Tourism & hospitality | 1,513,466 | 1,537,534 | 1,513,466 | 1,537,534 |
| Wholesale and retail trade | 30,228,752 | 18,579,007 | 30,228,752 | 18,579,007 |
| Transport and communication | 10,176,957 | 6,208,064 | 10,176,957 | 6,208,064 |
| Real Estate, building & construction | 22,907,987 | 16,804,887 | 22,358,139 | 16,769,554 |
| Consumer & household | 69,802,865 | 60,242,897 | 69,802,865 | 60,242,541 |
| | **187,171,625** | **145,661,548** | **186,621,777** | **145,625,858** |
| Less: staff loans marked-to-market | (3,228,529) | (4,053,334) | (3,228,529) | (4,053,334) |
| | **183,943,096** | **141,608,214** | **183,393,248** | **141,572,525** |
| **(ii) Concentration by business:** | | | | |
| Corporate | 64,054,732 | 53,319,703 | 64,054,732 | 53,284,370 |
| Mortgage & Asset Finance | 27,601,694 | 20,476,636 | 27,601,694 | 20,476,636 |
| Small, Medium and Microenterprises | 23,015,069 | 16,230,778 | 23,015,069 | 16,230,778 |
| Retail | 67,276,451 | 51,217,627 | 66,726,603 | 51,217,271 |
| Agribusiness | 5,223,679 | 4,416,804 | 5,223,679 | 4,416,804 |
| | **187,171,625** | **145,661,548** | **186,621,777** | **145,625,859** |
| Staff loans marked-to-market | (3,228,529) | (4,053,334) | (3,228,529) | (4,053,334) |
| | **183,943,096** | **141,608,214** | **183,393,248** | **141,572,525** |

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

*Settlement Risk*

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

| | Group | | Bank | |
|---|---|---|---|---|
| **Customer deposits:-** | **2014** | **2013** | **2014** | **2013** |
| | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** |
| Private enterprises | 55,727,629 | 45,829,555 | 55,727,629 | 45,138,654 |
| Non-profit institutions | 17,255,006 | 12,714,996 | 17,255,006 | 12,714,996 |
| Individuals | 67,748,605 | 62,841,235 | 67,748,605 | 62,574,745 |
| Others | 76,967,083 | 54,039,335 | 75,443,073 | 54,347,830 |
| | **217,698,323** | **175,425,121** | **216,174,313** | **174,776,225** |

(b) Liquidity risk

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

*Management of liquidity risk*

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

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

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

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 3. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

*Exposure to liquidity risk*

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

| 31 December 2014 | 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 | 24,335,332 | - | - | - | - | **24,335,332** |
| Deposits and balances due from banks | 12,783,679 | - | 27,179 | - | - | **12,810,858** |
| Investment in financial instruments | 501,618 | 4,992,114 | 3,301,564 | 23,166,472 | 14,853,668 | **46,815,436** |
| Loans and advances to customers | 22,954,080 | 3,295,803 | 22,724,409 | 79,505,166 | 52,512,935 | **180,992,393** |
| **Total undiscounted financial assets** | **60,574,709** | **8,287,917** | **26,053,152** | **102,671,638** | **67,366,603** | **264,954,019** |
| **FINANCIAL LIABILITIES** | | | | | | |
| Deposits and balances due to banks | 2,459,444 | 700,000 | - | - | - | **3,159,444** |
| Customers' deposits | 175,026,131 | 29,087,532 | 13,584,260 | 400 | - | **217,698,323** |
| Loans | - | 100,000 | - | 10,126,701 | 8,042,786 | **18,269,487** |
| **Total undiscounted financial liabilities** | **177,485,575** | **29,887,532** | **13,584,260** | **10,127,101** | **8,042,786** | **239,127,254** |
| **Net liquidity gap at 31 December 2014** | **(116,910,866)** | **(21,599,615)** | **12,468,892** | **92,544,537** | **59,323,817** | **25,826,765** |
| Assets not recognised in statement of financial position (note 46) | 1,586,695 | 3,056,482 | 8,230,385 | 1,236,992 | - | 14,110,554 |
| Liabilities not recognised in statement of financial position (note 46) | 1,586,695 | 3,056,482 | 8,230,385 | 1,236,992 | - | 14,110,554 |

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 3. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

| 31 December 2013 | 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 | 20,713,169 | - | - | - | - | **20,713,169** |
| Deposits and balances due from banks | 9,500,296 | 540,619 | - | - | - | **10,040,915** |
| Investment in financial instruments | 1,768,921 | 3,348,402 | 5,159,240 | 13,727,403 | 15,685,412 | **39,689,378** |
| Loans and advances to customers | 15,384,998 | 1,824,100 | 19,597,090 | 63,614,506 | 37,793,106 | **138,213,800** |
| **Total undiscounted financial assets** | **47,367,384** | **5,713,121** | **24,756,330** | **77,341,909** | **53,478,518** | **208,657,262** |
| **FINANCIAL LIABILITIES** | | | | | | |
| Deposits and balances due to banks | 5,462,337 | - | - | - | - | **5,462,337** |
| Customers' deposits | 141,933,446 | 26,572,605 | 6,888,290 | 650 | 30,130 | **175,425,121** |
| Loans | - | 30,000 | - | 5,265,475 | 4,956,917 | **10,252,392** |
| **Total undiscounted financial liabilities** | **147,395,783** | **26,602,605** | **6,888,290** | **5,266,125** | **4,987,047** | **191,139,850** |
| **Net liquidity gap at 31 December 2013** | **(100,028,399)** | **(20,889,484)** | **17,868,040** | **72,075,784** | **48,491,471** | **17,517,412** |
| Assets not recognised in statement of financial position (note 46) | 8,616,352 | 3,802,004 | 4,060,127 | 492,949 | - | 16,971,431 |
| Liabilities not recognised in statement of financial position (note 46) | 8,616,352 | 3,802,004 | 4,060,127 | 492,949 | - | 16,971,431 |

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:

| | 2014 | 2013 |
|---|---|---|
| | % | % |
| At 31 December | 33.8 | 32.6 |
| Average for the year | 31.9 | 36.2 |
| Maximum for the year | 33.8 | 40.3 |
| Minimum for the year | 30.5 | 28.8 |
| Statutory minimum ratio | 20.0 | 20.0 |

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk

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

*Management of market risk*

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

*Exposure to market risk – trading portfolios*

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

Exposure to interest rate risk *– non- trading portfolios*

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

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

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

(i) Financial risk management (continued)

Market risk (continued)
Exposure to interest rate risk

| 31 December 2014 | 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 | - | - | - | - | - | 24,335,332 | **24,335,332** |
| Deposits and balances due from banks | 12,783,679 | - | 27,179 | - | - | - | **12,810,858** |
| Investment in financial instruments | 497,443 | 4,950,575 | 3,274,092 | 22,973,704 | 14,730,071 | - | **46,425,885** |
| Loans and advances to customers | 22,763,079 | 3,268,377 | 22,535,320 | 78,843,604 | 52,075,975 | - | **179,486,355** |
| Other assets | - | - | - | - | - | 22,337,637 | **22,337,637** |
| **Total assets** | **36,044,201** | **8,218,952** | **25,836,591** | **101,817,308** | **66,806,046** | **46,672,969** | **285,396,067** |
| **LIABILITIES** | | | | | | | |
| Deposits and balances due to banks | 3,159,444 | - | - | - | - | - | **3,159,444** |
| Customers' deposits | 175,026,131 | 29,087,532 | 13,584,260 | 400 | - | - | **217,698,323** |
| Loans | - | 100,000 | - | 10,126,701 | 8,042,786 | - | **18,269,487** |
| Other financial liabilities | - | - | - | - | - | 46,268,813 | **46,268,813** |
| **Total liabilities** | **178,185,575** | **29,187,532** | **13,584,260** | **10,127,101** | **8,042,786** | **46,268,813** | **285,396,067** |
| **Interest sensitivity gap** | **(142,141,374)** | **(20,968,580)** | **12,252,331** | **91,690,207** | **58,763,260** | **404,156** | - |

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

(i) Exposure to interest rate risk (Continued)

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

(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 | 2014 Carrying amount KShs'000 | 1% increase | 1% decrease | 2013 Carrying amount KShs'000 | 1% increase | 1% decrease |
|---|---|---|---|---|---|---|
| Deposits and balances due from banks | **12,810,858** | 128,109 | (128,109) | **10,040,915** | 100,409 | (100,409) |
| Held -for- trading investments | **30,568** | 306 | (306) | **30,566** | 306 | (306) |
| Held to maturity investments | **24,643,526** | 246,435 | (246,435) | **14,028,393** | 140,284 | (140,284) |
| Available for sale investments | **21,140,469** | 211,405 | (211,405) | **25,306,913** | 253,069 | (253,069) |
| Loans and advances to customers | **179,486,355** | 1,794,864 | (1,794,864) | **137,087,227** | 1,370,872 | (1,370,872) |
| | | | | - | | |
| | - | **2,381,118** | **(2,381,118)** | - | **1,864,940** | **(1,864,940)** |
| **LIABILITIES & EQUITY** | | | | | | |
| Deposits and balances due to banks | **3,159,444** | (31,594) | 31,594 | **5,462,337** | (54,623) | 54,623 |
| Customers' deposits | **217,698,323** | (2,176,983) | 2,176,983 | **175,425,121** | (1,754,251) | 1,754,251 |
| Loans and borrowings | **18,269,487** | (182,695) | 182,695 | **10,252,392** | (102,524) | 102,524 |
| | - | **(2,391,273)** | **2,391,273** | | **(1,911,399)** | **1,911,399** |
| **Effect on profit before tax** | - | **(10,155)** | **10,155** | | **(46,458)** | **46,458** |
| **As percentage of profit before tax (%)** | | **(0.09%)** | **0.09%** | | **(0.43%)** | **0.43%** |
| **Effect on equity** | - | **(7,109)** | **7,109** | | **(32,521)** | **32,521** |
| **As percentage of equity (%)** | | **0%** | **0%** | | **0%** | **0%** |

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

**(ii) Exposure to currency risk**

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

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

| CURRENCY TYPE | USD | GBP | EURO | JPY | CHF | ZAR | OTHERS | TOTAL |
|---|---|---|---|---|---|---|---|---|
| **EXCHANGE RATE** | **91** | **141** | **110** | **1** | **91** | **8** | | |
| **31 December 2014** | **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 | 12,211,538 | 94,362 | 2,659,769 | 3,837 | 60,409 | 2,478 | 60,933 | 15,093,326 |
| Loan and advances | 20,095,044 | 24,620 | 3,738 | - | - | - | - | 20,123,402 |
| Other foreign assets | 751,587 | 9,170 | 4,609 | 1 | - | 5 | 1,397 | 766,769 |
| **Total statement of financial position items** | **33,058,169** | **128,152** | **2,668,116** | **3,838** | **60,409** | **2,483** | **62,330** | **35,983,497** |
| Items not recognised in statement of financial position | 12,116,479 | 92,252 | 3,994,901 | 14,931 | - | 1,168 | 23,953 | 16,243,684 |
| **Total Foreign Assets** | **45,174,648** | **220,404** | **6,663,017** | **18,769** | **60,409** | **3,651** | **86,283** | **52,227,181** |
| **Foreign Currency Liabilities:** | | | | | | | | |
| Balances due to banks abroad | - | - | - | - | - | - | - | - |
| Deposits | 10,414,269 | 102,845 | 2,564,492 | 9,112 | 1,558 | 576 | 900 | 13,093,751 |
| Loan and advances | 12,954,484 | - | - | - | - | - | - | 12,954,484 |
| Other foreign liabilities | 2,435,374 | 13,256 | 19,668 | 11 | 35 | 26 | 1,122 | 2,469,493 |
| **Total statement of financial position items** | **25,804,127** | **116,101** | **2,584,160** | **9,123** | **1,593** | **602** | **2,022** | **28,517,728** |
| Items not recognised in statement of financial position | 16,772,510 | 92,252 | 3,388,961 | 14,931 | 22,607 | 27,128 | 29,669 | 20,348,059 |
| **Total Foreign liabilities** | **42,576,637** | **208,353** | **5,973,121** | **24,054** | **24,200** | **27,730** | **31,691** | **48,865,787** |
| **Net Exposure at 31 December 2014** | **2,598,011** | **12,051** | **689,896** | **(5,285)** | **36,209** | **(24,079)** | **54,592** | **3,361,394** |

# Notes to the Consolidated Financial Statements *cont.*

## For the year ended 31 December 2014

### (ii) Exposure to currency risk (Continued)

| **CURRENCY TYPE** | **USD** | **GBP** | **EURO** | **JPY** | **CHF** | **ZAR** | **OTHERS** | **TOTAL** |
|---|---|---|---|---|---|---|---|---|
| **EXCHANGE RATE** | **86** | **142** | **119** | **1** | **97** | **8** | | |
| **31 December 2013** | **KShs`000** | **KShs`000** | **KShs`000** | **KShs`000** | **KShs`000** | **KShs`000** | **KShs`000** | **KShs`000** |
| **Foreign Currency Assets:** | | | | | | | | |
| Cash and balances with banks abroad | 5,405,685 | 465,798 | 3,164,673 | 1,463,707 | 71,254 | 6,725 | 108,743 | 10,686,586 |
| Loan and advances | 14,291,540 | 10,487 | 282 | - | - | - | - | 14,302,309 |
| Other foreign assets | 238,544 | 958 | 1,226 | - | - | 5 | 13,683 | 254,416 |
| **Total statement of financial position items** | **19,935,769** | **477,242** | **3,166,180** | **1,463,707** | **71,254** | **6,731** | **122,426** | **25,243,310** |
| Items not recognised in statement of financial position | 12,848,088 | 719,338 | 1,848,804 | 251,644 | - | - | 2,350 | 15,670,223 |
| **Total Foreign Assets** | **32,783,857** | **1,196,580** | **5,014,984** | **1,715,351** | **71,254** | **6,731** | **124,776** | **40,913,533** |
| **Foreign Currency Liabilities:** | | | | | | | | |
| Balances due to banks abroad | - | - | - | - | - | - | - | - |
| Deposits | 7,993,676 | 420,062 | 2,677,186 | 1,511,192 | 271 | 2,824 | 1,036 | 12,606,247 |
| Loan and advances | 4,977,056 | - | - | - | - | - | - | 4,977,056 |
| Other foreign liabilities | 961,735 | 34,279 | 133,724 | 10 | 16 | 12 | 643 | 1,130,420 |
| **Total statement of financial position items** | **13,932,467** | **454,341** | **2,810,909** | **1,511,202** | **287** | **2,836** | **1,679** | **18,713,722** |
| Items not recognised in statement of financial position | 18,616,966 | 719,338 | 2,432,996 | 209,673 | 51,333 | 8,472 | 71,789 | 22,110,568 |
| **Total Foreign liabilities** | **32,549,434** | **1,173,679** | **5,243,906** | **1,720,876** | **51,621** | **11,308** | **73,468** | **40,824,291** |
| **Net Exposure at 31 December 2013** | **234,423** | **22,901** | **(228,921)** | **(5,524)** | **19,633** | **(4,577)** | **51,308** | **89,243** |

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

**(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:-

| | **2014** | | | **2013** | | |
|---|---|---|---|---|---|---|
| | **Carrying amount KShs'000** | **10% appreciation** | **10% depreciation** | **Carrying amount KShs'000** | **10% appreciation** | **10% depreciation** |
| **Foreign Currency Assets:** | | | | | | |
| USD | **33,058,170** | (3,305,817) | 3,305,817 | **19,935,769** | (1,993,577) | 1,993,577 |
| GBP | **128,152** | (12,815) | 12,815 | **477,242** | (47,724) | 47,724 |
| EURO | **2,668,116** | (266,812) | 266,812 | **3,166,180** | (316,618) | 316,618 |
| JPY | **3,828** | (384) | 384 | **1,463,707** | (146,371) | 146,371 |
| CHF | **60,409** | (6,041) | 6,041 | **71,254** | (7,125) | 7,125 |
| ZAR | **2,483** | (248) | 248 | **6,731** | (673) | 673 |
| Other currencies | **62,330** | (6,233) | 6,233 | **122,426** | (12,243) | 12,243 |
| | **-** | **(3,598,350)** | **3,598,350** | **-** | **(2,524,331)** | **2,524,331** |
| **Foreign Currency Liabilities:** | | | | | | |
| USD | **25,804,124** | 2,580,413 | (2,580,413) | **13,932,467** | 1,393,247 | (1,393,247) |
| GBP | **116,101** | 11,610 | (11,610) | **454,341** | 45,434 | (45,434) |
| EURO | **2,584,160** | 258,417 | (258,417) | **2,810,909** | 281,091 | (281,091) |
| JPY | **9,123** | 912 | (912) | **1,511,202** | 151,120 | (151,120) |
| CHF | **1,593** | 159 | (159) | **287** | 29 | (29) |
| ZAR | **602** | 60 | (60) | **2,836** | 284 | (284) |
| Other currencies | **2,022** | 202 | (202) | **1,679** | 168 | (168) |
| | | **2,851,773** | **(2,851,773)** | | **1,871,372** | **(1,871,372)** |
| **Effect on profit before tax** | | **(746,577)** | **746,577** | | **(652,959)** | **652,959** |
| **As percentage(%) of profit before tax** | | **(6.87%)** | **6.87%** | | **(6.01%)** | **6.01%** |
| **Effect on equity** | | **(522,604)** | **522,604** | | **(457,071)** | **457,071** |
| **As percentage(%) of equity** | | **(1.2%)** | **1.2%** | | **(1.1%)** | **1.1%** |

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

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

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

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 4. CAPITAL MANAGEMENT

*Regulatory capital*

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

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

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

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

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

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:

| | 2014 | 2013 |
|---|---|---|
| **Tier I Capital:** | **KShs'000** | **KShs'000** |
| Ordinary share capital | 4,889,317 | 4,190,844 |
| Share premium | 2,889,789 | 3,588,262 |
| Retained earnings (current year profits - 50%) | 31,264,373 | 25,354,077 |
| Other reserves | 535,792 | 554,268 |
| Less: Investments in equity of other institutions & deferred tax | (2,117,651) | (1,564,609) |
| **Core Capital** | **37,461,620** | **32,122,842** |
| **Tier II Capital:** | | |
| Revaluation reserves (25%) | 100,852 | 101,759 |
| Term subordinated debt | 17,254,143 | 10,252,392 |
| Loan loss provisions | 717,845 | 717,844 |
| **Supplementary capital** | **18,072,840** | **11,071,995** |
| **Total regulatory capital** | **55,534,460** | **43,194,837** |
| **Total risk weighted assets** | **256,510,900** | **205,151,872** |
| **Capital ratios:** | | |
| Core capital to Total deposit liabilities (CBK minimum 8%) | 17.1% | 18.2% |
| Core capital to Total risk weighted assets (CBK minimum 8%) | 14.6% | 15.7% |
| Total capital to Total risk weighted assets (CBK minimum 12%) | 21.6% | 21.1% |

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 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 is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

## 5. SEGMENT REPORTING

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

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

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

The Group's segment operations are all financial with a majority of revenues deriving from interest. The management relies primarily on net interest revenue to assess the performance of the segment. 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 2014 or 2013.

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 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 2014** | **Wholesale banking KShs'000** | **Retail banking KShs'000** | **Un-allocated KShs'000** | **Total KShs'000** |
|---|---|---|---|---|
| Net interest income | 7,436,047 | 11,698,468 | - | 19,134,515 |
| Non-funded income | 907,191 | 7,248,462 | 4,795,596 | 12,951,249 |
| Operating income | 8,343,238 | 18,946,930 | 4,795,596 | 32,085,764 |
| Depreciation | (549,688) | (1,103,373) | (300,596) | (1,953,657) |
| Amortisation | (143,642) | (96,512) | (102,291) | (342,445) |
| Other operating expenses | (5,218,112) | (11,856,224) | (2,070,091) | (19,144,427) |
| Share of profit in associate | - | - | 270,976 | 270,976 |
| **Profit before tax** | **2,431,796** | **5,890,821** | **2,593,594** | **10,916,211** |

| **Profit or loss for the year ended 31 December 2013** | **Wholesale Banking KShs'000** | **Retail banking KShs'000** | **Un-allocated KShs'000** | **Total KShs'000** |
|---|---|---|---|---|
| Net interest income | 5,602,795 | 10,100,568 | 284,334 | 15,987,697 |
| Non-funded income | 4,531,599 | 7,103,649 | 266,858 | 11,902,106 |
| Operating income | 10,134,394 | 17,204,217 | 551,192 | 27,889,803 |
| Depreciation | (29,124) | (1,022,748) | (477,089) | (1,528,961) |
| Amortisation | (41) | (15,324) | (163,447) | (178,812) |
| Other operating expenses | (1,222,550) | (9,823,130) | (4,629,273) | (15,674,953) |
| Share of profit in associate | - | - | 365,368 | 365,368 |
| **Profit before tax** | **8,882,679** | **6,343,015** | **(4,353,249)** | **10,872,445** |

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 5. SEGMENT REPORTING (continued)

| Statement of financial position as at 31 December 2014 | Wholesale banking KShs'000 | Retail banking KShs'000 | Un-allocated KShs'000 | Total KShs'000 |
|---|---|---|---|---|
| **Assets:** | | | | |
| Segment assets | 76,011,616 | 126,919,495 | - | **202,931,111** |
| Unallocated assets | - | - | 82,464,956 | **82,464,956** |
| **Total assets** | **76,011,616** | **126,919,495** | **82,464,956** | **285,396,067** |
| **Liabilities and equity:** | | | | |
| Segment liabilities | 105,247,352 | 163,670,677 | - | **268,918,029** |
| Unallocated liabilities | - | - | 16,478,038 | **16,478,038** |
| Inter-segment lending | (29,235,736) | (36,751,182) | 65,986,918 | **-** |
| **Total liabilities and equity** | **76,011,616** | **126,919,495** | **82,464,956** | **285,396,067** |
| **Other disclosures** | | | | |
| Capital expenditure | 340,033 | 567,765 | 368,901 | **1,276,699** |

| Statement of financial position as at 31 December 2013 | Wholesale banking KShs'000 | Retail banking KShs'000 | Un-allocated KShs'000 | Total KShs'000 |
|---|---|---|---|---|
| **Assets:** | | | | |
| Segment assets | 131,011,276 | 79,025,696 | - | **210,036,972** |
| Unallocated assets | - | - | 21,178,386 | **21,178,386** |
| **Total assets** | **131,011,276** | **79,025,696** | **21,178,386** | **231,215,358** |
| **Liabilities and equity:** | | | | |
| Segment liabilities | 103,613,151 | 71,163,075 | - | **174,776,226** |
| Unallocated liabilities | - | - | 56,439,132 | **56,439,132** |
| Inter-segment lending | 27,398,125 | 7,862,621 | (35,260,746) | **-** |
| **Total liabilities and equity** | **131,011,276** | **79,025,696** | **21,178,386** | **231,215,358** |
| **Other disclosures** | | | | |
| Capital expenditure | 2,086,410 | 1,258,517 | 337,275 | **3,682,202** |

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 5. SEGMENT REPORTING (continued)

**Geographical information**

The Group's operations are within the two geographical segments of Kenya and South Sudan (operations commenced in 2013). The table below contains segmental information provided to the Board of Management for the year ended 31 December 2014.

| **Profit or loss for the year ended 31 December 2014** | **Kenya KShs'000** | **South Sudan KShs'000** | **Total KShs'000** |
|---|---|---|---|
| Net interest income | 21,527,195 | 43,075 | 21,570,270 |
| Non-funded income | 10,154,125 | 361,369 | 10,515,494 |
| Operating income | 31,681,320 | 404,444 | 32,085,764 |
| Depreciation | 1,844,142 | 109,515 | 1,953,657 |
| Amortisation | 306,636 | 35,808 | 342,444 |
| Other operating expenses | 18,198,079 | 946,348 | 19,144,427 |
| Operating profit | 11,332,463 | (687,227) | 10,645,236 |
| Share of profit in associate | 270,976 | - | 270,976 |
| **Profit before tax** | **11,603,439** | **(687,227)** | **10,916,212** |
| **Statement of financial position as at 31 December 2014** | | | |
| **Segment assets** | | | |
| Non-current assets | 37,928,557 | 1,070,490 | 38,999,047 |
| Current assets | 244,313,165 | 2,083,855 | 246,397,020 |
| | 282,241,722 | 3,154,345 | 285,396,067 |
| **Segment liabilities** | 240,513,535 | 2,005,413 | 242,518,948 |
| **Equity** | 41,728,186 | 1,148,933 | 42,877,119 |
| **Profit or loss for the year ended 31 December 2013** | | | |
| Net interest income | 19,132,811 | 802 | 19,133,613 |
| Non-funded income | 8,720,051 | 36,139 | 8,756,190 |
| Operating income | 27,852,862 | 36,941 | 27,889,803 |
| Depreciation | (1,518,050) | (10,911) | (1,528,961) |
| Amortisation | (176,438) | (2,373) | (178,811) |
| Other operating expenses | (15,383,923) | (291,031) | (15,674,954) |
| Operating profit | 10,774,451 | (267,374) | 10,507,077 |
| Share of profit in associate | 365,368 | - | 365,368 |
| **Profit before tax** | **11,041,825** | **(267,374)** | **10,872,445** |
| **Statement of financial position as at 31 December 2013** | | | |
| **Segment assets** | | | |
| Non-current assets | 28,886,320 | 18,440 | **28,904,760** |
| Current assets | 202,232,009 | 78,589 | **202,310,598** |
| | 231,118,329 | 97,029 | **231,215,358** |
| **Segment liabilities** | 193,776,705 | 854,662 | **194,631,367** |
| **Equity** | 35,097,778 | 1,486,213 | **36,583,991** |

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 6. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

**Level 3** – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

| As at 31 December 2014 | Level 1 KShs'000 | Level 2 KShs'000 | Level 3 KShs'000 | Total KShs'000 |
|---|---|---|---|---|
| **Assets measured at fair value:** | | | | |
| Free hold land and building | **-** | | 1,387,097 | **1,387,097** |
| Held-for-trading investments: | | | | |
| Treasury bonds | 559 | - | - | **559** |
| Available-for-sale investment | | | | |
| Treasury bonds | 16,067,708 | - | - | **16,067,708** |
| Corporate bonds | 5,072,761 | - | - | **5,072,761** |
| Derivatives | - | 191,549 | - | **191,549** |
| Loans and advances | | | | |
| Directors and staff loans | - | 3,607,109 | - | **3,607,109** |
| **Assets for which fair values are disclosed (note 6b)** | | | | |
| Held-to-maturity | | | | |
| Treasury bonds | 19,499,748 | | | 19,499,748 |
| **Liabilities for which fair values are disclosed (note 6b)** | | | | |
| Loans and borrowings | - | 1,404,801 | - | **18,269,487** |
| **As at 31 December 2013** | | | | |
| **Assets measured at fair value:** | | | | |
| Free hold land and building | **-** | | 1,335,597 | **1,335,597** |
| Held-for-trading investments: | | | | |
| Treasury bonds | 557 | - | - | **557** |
| Available-for-sale investment | | | | |
| Treasury bonds | 19,560,640 | - | - | **19,560,640** |
| Corporate bonds | 5,746,273 | - | - | **5,746,273** |
| Derivatives | | 294,266 | | **294,266** |
| Loans and advances | | | | |
| Directors and staff loans | | 2,482,008 | | **2,482,008** |
| **Assets for which fair values are disclosed (note 6b)** | | | | |
| Held-to-maturity | | | | |
| Treasury bonds | 10,906,986 | | | **10,906,986** |
| **Liabilities for which fair values are disclosed (note 6b)** | | | | |
| Loans and borrowings | | 2,220,913 | | **2,220,913** |

There were no transfers between levels 1, 2 and 3 in the year (2013: no transfer).

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 6. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's consolidated statement of financial position at their fair value, other than those with carrying amounts that are reasonable approximation of fair values.

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| **Financial assets:** | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** |
| Held-to-maturity investments | | | | |
| Treasury bonds and bills | 19,534,037 | 19,499,748 | 10,716,107 | 10,906,986 |
| | **19,534,037** | **19,499,748** | **10,716,107** | **10,906,986** |
| **Financial liabilities:** | | | | |
| Loans and borrowings | | | | |
| Fixed-rates borrowings | 2,221,139 | 1,404,801 | 4,140,198 | 2,220,913 |
| | **2,221,139** | **1,404,801** | **4,140,198** | **2,220,913** |

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

(i) Assets for which fair value approximates carrying value

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

(ii) Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Loans and advances to customers are at variable rates.

(iii) Long term fixed rate financial instruments

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

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

**Description of valuation techniques used and key inputs to valuation on land and building:**

| | **Valuation Techique** | **Significant unobservable inputs** | **Range (Weighted Average)** |
|---|---|---|---|
| Free hold land and building | DCF | Estimated rental value per sqm per month | KShs. 30 |
| | | Rent growth p.a | 3% |
| | | Long-term vacancy rate | 5% |
| | | Discount rate | 5% |

| **Type of Financial Instrument** | **Fair value** | **Valuation technique** | **Significant inputs** |
|---|---|---|---|
| Directors and staff loans | KShs. 3,607 M | Discounted cash flows | Market interest rate |
| Loans and borrowings | KShs. 1,404 M | Discounted cash flows | Market interest rate |

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 7. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

| | Group | | Bank | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** |
| Cash on hand | 9,455,086 | 9,196,194 | 8,970,240 | 8,908,316 |
| Central Bank of Kenya: | | | | |
| Restricted balances (Cash Reserve Ratio) | 11,425,465 | 9,185,074 | 11,425,465 | 9,185,074 |
| Unrestricted balances available for use by the Group | 2,529,227 | 1,203,098 | 2,529,227 | 1,203,098 |
| Central Bank of South Sudan | 925,554 | 1,128,803 | - | - |
| | **24,335,332** | **20,713,169** | **22,924,932** | **19,296,488** |

The Cash Reserve Ratio is non-interest earning and is based on the value of deposits as adjusted by Central Bank of Kenya requirements. At 31 December 2014, the Cash Reserve Ratio requirement was 5.25% (2013 – 5.25%) on all deposits. These funds are not available for use by the Group in its day to day operations.

## 8. DEPOSITS AND BALANCES DUE FROM BANKS

| | Group | | Bank | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** |
| Local banks | 7,847,333 | 2,968,294 | 7,845,769 | 3,003,578 |
| Foreign banks | 4,963,525 | 7,072,621 | 4,969,093 | 7,053,215 |
| | **12,810,858** | **10,040,915** | **12,814,862** | **10,056,793** |

The weighted average effective interest rate on deposits and balances due from banks as at 31 December 2014 was 2.40% (2013-3.65%)

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 9. HELD-FOR-TRADING INVESTMENTS

| | Group | | Bank | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** |
| **(a) Treasury bonds** | | | | |
| Maturing within 91 days of reporting date | | - | - | - |
| Maturing after 91 days of reporting date | 559 | 557 | 501 | 501 |
| | **559** | **557** | **501** | **501** |
| **(b) Equity Investments** | | | | |
| Consolidated Bank of Kenya Ltd:- | | | | |
| 135,000 ordinary shares of KShs. 20 each | 2,700 | 2,700 | 2,700 | 2,700 |
| 580,000 4% non-cumulative preference shares of KShs. 20 each | 11,600 | 11,600 | 11,600 | 11,600 |
| Kenya National Federation of Co-operatives Ltd:- 82 shares of KShs100 each | 8 | 8 | 8 | 8 |
| Kenya National Housing Co-operative Union Ltd:- | | | | |
| 1 share of KShs. 1,000 | 1 | 1 | 1 | 1 |
| Menno Plaza Limited:- | | | | |
| 9,340 ordinary shares representing 12.39% ownership | 30,000 | 30,000 | 30,000 | 30,000 |
| | **44,309** | **44,309** | **44,309** | **44,309** |
| Less: Provision for diminution in value of investment in Consolidated Bank of Kenya Ltd | (14,300) | (14,300) | (14,300) | (14,300) |
| | **30,009** | **30,009** | **30,009** | **30,009** |
| **TOTAL HELD -FOR -TRADING INVESTMENTS** | **30,568** | **30,566** | **30,510** | **30,510** |
| **Movement in the year:** | | | | |
| **At 1 January** | **30,566** | **182,199** | **30,510** | **180,834** |
| Disposals and maturities | - | (151,281) | - | (149,972) |
| Change in fair value recognised in profit or loss | 2 | (352) | - | (352) |
| **At 31 December** | **30,568** | **30,566** | **30,510** | **30,510** |

The weighted average effective interest rate on government and other securities held-for-trading at 31 December 2014 was 11.63% (2013- 12.0%).

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

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 10. HELD-TO-MATURITY INVESTMENTS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| **Government treasury bills:** | | | | |
| Maturing within 91 days of the reporting date | 3,447,429 | 3,312,286 | 3,447,429 | 3,312,286 |
| Maturing after 91 days of the reporting date | 1,662,060 | - | 1,662,060 | - |
| **Treasury bonds:** | | | | |
| Maturing within 91 days of the reporting date | 2,000,588 | - | 2,000,588 | - |
| Maturing after 91 days of the reporting date | 17,517,605 | 10,671,107 | 17,350,115 | 10,508,196 |
| **Corporate bonds:** | | | | |
| Maturing within 91 days of the reporting date | 15,844 | - | - | - |
| Maturing after 91 days of the reporting date | - | 45,000 | - | - |
| | **24,643,526** | **14,028,393** | **24,460,192** | **13,820,482** |
| **Movement in the year:** | | | | |
| **At 1 January** | 14,028,393 | 3,373,531 | 3,820,482 | 3,213,925 |
| Additions | 16,661,079 | 13,784,364 | 13,477,745 | 13,784,364 |
| Amortization of premiums and discounts | 354,054 | 2,476,498 | 561,965 | 2,428,193 |
| Maturities | (3,400,000) | (5,606,000) | (3,400,000) | (5,606,000) |
| **At December 31** | **24,643,526** | **14,028,393** | **24,460,192** | **13,820,482** |

The weighted average effective interest rate on held-to-maturity investments as at 31 December 2014 was 11.49% (2013- 8.2%).

## 11. AVAILABLE- FOR -SALE INVESTMENTS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| **Government treasury bonds:** | | | | |
| Maturing within 91 days of the reporting date | - | - | - | - |
| Maturing after 91 days of the reporting date | 15,960,083 | 18,084,688 | 15,960,083 | 18,084,688 |
| **Treasury bills:** | | | | |
| Maturing within 91 days of the reporting date | - | 1,475,952 | - | 1,475,952 |
| **Corporate bonds:** | | | | |
| Maturing after 91 days of the reporting date | 5,072,761 | 5,746,273 | 5,072,361 | 5,746,273 |
| **Equity Investments** : | | | | |
| Nairobi Securities Exchange:- 5,250,000 shares of KShs. 20.50 each (note 17) | 107,625 | - | - | - |
| | **21,140,469** | **25,306,913** | **21,032,444** | **25,306,913** |
| **Movement in the year:** | | | | |
| **At January 1** | **25,306,913** | **29,835,056** | **25,306,913** | **29,834,423** |
| Additions | 4,973,366 | 9,140,377 | 4,853,561 | 9,140,377 |
| Disposals and maturities | (9,749,406) | (11,833,229) | (9,749,406) | (11,834,709) |
| Change in fair value recognized in other comprehensive income | 449,865 | (180,334) | 461,645 | (178,221) |
| Amortization of premiums and discounts | 159,731 | (1,654,957) | 159,731 | (1,654,957) |
| **At December 31** | **21,140,469** | **25,306,913** | **21,032,444** | **25,306,913** |

The weighted average effective interest rate on available for sale investments as at 31 December 2014 was 10.93% (2013- 10.9%).

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 12. DERIVATIVE FINANCIAL INSTRUMENT

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

| | Group and Bank | | | |
|---|---|---|---|---|
| | **2014** | | **2013** | |
| | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** |
| | **Notional value** | **Fair value of contracts: Asset /(Liability)** | **Notional value** | **Fair value of contracts: Asset/ (Liability)** |
| Forward exchange contracts | 1,656,405 | 65,871 | 1,075,210 | 30,344 |
| Swaps | 4,158,996 | 125,678 | 2,918,970 | 263,922 |
| | **5,815,401** | **191,549** | **3,994,180** | **294,266** |

## 13. LOANS AND ADVANCES TO CUSTOMERS

| | Group | | Bank | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| **(a) Net loans and advances** | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** |
| Overdrafts | 14,898,344 | 10,216,521 | 14,898,344 | 10,216,521 |
| Commercial loans | 165,240,970 | 114,731,135 | 164,691,122 | 114,695,446 |
| Government/Donor funded loan schemes | 2,209,225 | 3,958,198 | 2,209,225 | 3,958,198 |
| Credit card balances | 599,774 | 524,916 | 599,774 | 524,916 |
| Micro enterprises & SME | 4,223,312 | 16,230,778 | 4,223,312 | 16,230,777 |
| **Gross loans and advances** | **187,171,625** | **145,661,548** | **186,621,777** | **145,625,858** |
| Staff loans marked-to-market (note 16) | (3,228,529) | (4,053,334) | (3,228,529) | (4,053,334) |
| | 183,943,096 | 141,608,214 | 183,393,248 | 141,572,524 |
| Impairment losses on loans and advances (note 13 c) | (4,456,741) | (4,520,987) | (4,414,662) | (4,520,987) |
| Net loans and advances | **179,486,355** | **137,087,227** | **178,978,586** | **137,051,537** |

| | Group & Bank | |
|---|---|---|
| **(b) The weighted average effective interest rate at 31 December was:** | **2014** | **2013** |
| | **%** | **%** |
| Overdrafts | 6.1 | 6.4 |
| Commercial loans | 15.6 | 14.5 |
| Government/Donor funded loan schemes | 4.2 | 5.3 |
| Credit card balances | 18.3 | 20.4 |

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 13. LOANS AND ADVANCES TO CUSTOMERS (continued)

### (c) Impairment losses on loans and advances:

| Group | Specific impairment losses KShs'000 | Collective impairment losses KShs'000 | Total KShs'000 |
|---|---|---|---|
| **Balance at 1 January 2014** | **2,970,212** | **1,550,775** | **4,520,987** |
| Impairment losses recognised during the year through profit or loss | 703,608 | 471,990 | 1,175,598 |
| Interest on impaired loans not recognised as income | 2,209 | - | 2,209 |
| Impaired losses written off during the year | (947,640) | - | (947,640) |
| Amounts released to income – unused provision reversed | (294,413) | - | (294,413) |
| **Balance at 31 December 2014** | **2,433,976** | **2,022,765** | **4,456,741** |
| **Balance at 1 January 2013** | **3,307,634** | **1,428,171** | **4,735,805** |
| Impairment losses during the year through profit or loss | 650,687 | 122,604 | 773,291 |
| Interest on impaired loans not recognised as income | 43,668 | - | 43,668 |
| Impaired losses written off during the year | (524,074) | - | (524,074) |
| Amounts released to income | (507,703) | - | (507,703) |
| **Balance at 31 December 2013** | **2,970,212** | **1,550,775** | **4,520,987** |

| Bank | Specific impairment losses KShs'000 | Collective impairment losses KShs'000 | Total KShs'000 |
|---|---|---|---|
| **Balance at 1 January 2014** | **2,970,212** | **1,550,775** | **4,520,987** |
| Impairment losses recognised during the year through profit or loss | 661,529 | 471,990 | 1,133,519 |
| Interest on impaired loans not recognised as income | 2,209 | - | 2,209 |
| Impaired losses written off during the year | (947,640) | - | (947,640) |
| Amounts released to income – unused provision reversed | (294,413) | - | (294,413) |
| **Balance at 31 December 2014** | **2,391,897** | **2,022,765** | **4,414,662** |
| **Balance at 1 January 2013** | **3,307,634** | **1,428,171** | **4,735,805** |
| Impairment losses recognised during the year through profit or loss | 650,687 | 122,604 | 773,291 |
| Interest on impaired loans not recognised as income | 43,668 | - | 43,668 |
| Impaired losses written off during the year | (524,074) | - | (524,074) |
| Amounts released to income – unused provision reversed | (507,703) | - | (507,703) |
| **Balance at 31 December 2013** | **2,970,212** | **1,550,775** | **4,520,987** |

d) The Bank continues to carry classified impaired and delinquent accounts on its books even after making allowances for impairment in accordance with IAS 39. Interest is accrued on these accounts for contractual/ litigation purposes only and accordingly not taken to income. The carrying amount of such loans at year end was KShs. 7.9 Billion (2013 – KShs. 6.1 Billion).

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 14. INVESTMENT IN SUBSIDIARIES

The following subsidiaries are owned by the Bank:-

| Bank | Ownership | Principal activity | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|---|---|
| Co-op Consultancy & Insurance Agency Limited | 100% | Consultancy & Insurance agency | 70,000 | 70,000 |
| Co-optrust Investment Services Limited | 100% | Fund management | 20,000 | 20,000 |
| Kingdom Securities Limited | 60% | Brokerage services | 150,000 | 150,000 |
| Co-operative Bank of South Sudan | 51% | Banking | 1,566,449 | 1,508,494 |
| | | | **1,806,449** | **1,748,494** |

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

Co-op Consultancy & Insurance Agency Limited was established as Co-op Consultancy Services in 2002 to offer consultancy and advisory services. In 2011, the company began offering insurance agency services and was therefore renamed. The audited financial statements for the year ended 31 December 2014 show that the company made a profit after tax of KShs. 82,748,514 (2013- KShs. 11,016,026).

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 2014 show that the company made a profit after tax of KShs. 66,092,708(2013- KShs. 57,211,958).

Kingdom Securities Limited - KSL (previously named Bob Mathews Stockbrokers Limited) was acquired by Co-operative Bank Limited through purchase of 60% shareholding. KSL offers brokerage services and is a registered broker with the Nairobi Securities Exchange. The audited financial statements for the year ended 31 December 2014 show that the company made a profit after tax of KShs. 37,899,936 (2013 – KShs. 14,799,584). 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. The Subsidiary is based in South Sudan and commenced operation in September 2014.The audited financial statements for the year ended 31 December 2014 show that the company made a loss of KShs. 541, 903,962 (2013- KShs. 267,377,737). Refer to note 32 for financial statements summaries.

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 15. INVESTMENT IN ASSOCIATE

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

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

| | Group | | Bank | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| **At 1 January** | **1,688,888** | **1,354,935** | **755,118** | **755,118** |
| Share of profit | 270,976 | 365,368 | - | - |
| Other comprehensive income | - | 20,713 | - | - |
| Dividends received | (52,142) | (52,128) | - | - |
| **As at 31 December** | **1,907,722** | **1,688,888** | **755,118** | **755,118** |

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

| | 2014 | 2013 |
|---|---|---|
| **Share of the associate's statement of financial position:** | **KShs'000** | **KShs'000** |
| Non-current assets | 2,176,659 | 1,783,836 |
| Current assets | 6,277,208 | 4,314,349 |
| | 8,453,867 | 6,098,185 |
| Current liabilities | (5,886,060) | (3,698,690) |
| Equity | **2,567,807** | **2,399,495** |
| **Share of the associate's revenue and profit:** | | |
| Revenue | 5,185,047 | 3,885,093 |
| Profit before tax | 342,589 | 431,519 |
| Profit after tax | 270,976 | 365,368 |

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 16. OTHER ASSETS

| | Group | | Bank | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** |
| Interest receivable | 1,895,590 | 1,450,079 | 1,895,590 | 1,450,079 |
| Items in the course of collection from other banks | 557,806 | 509,030 | 557,806 | 449,770 |
| Deposits with defaulting financial Institutions | 43,052 | 43,052 | 43,052 | 43,052 |
| Prepaid expenses | 347,724 | 475,085 | 347,725 | 475,085 |
| Sundry debtors and prepayments | 2,372,240 | 2,271,425 | 2,401,037 | 2,155,291 |
| Staff loan-marked-to-market | 3,228,529 | 4,053,334 | 3,228,529 | 4,053,334 |
| | **8,444,941** | **8,802,005** | **8,473,739** | **8,626,611** |
| Impairment losses on deposits with default financial institutions | (43,052) | (43,052) | (43,052) | (43,052) |
| | **8,401,899** | **8,758,953** | **8,430,687** | **8,583,559** |

No provision has been made for the impairment of staff loans as all staff are active and recoveries are made directly through payroll.

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 17. INTANGIBLE ASSETS

| (a) Group | Computer software KShs'000 | Joint venture development KShs'000 | Other intangible assets KShs'000 | Work-in-progress KShs'000 | Total KShs'000 |
|---|---|---|---|---|---|
| **Cost at 1 January 2014** | **1,837,931** | **124,940** | **251,000** | **317,756** | **2,531,627** |
| Additions | 92,571 | - | - | 376,516 | 469,087 |
| Transfers from Work in Progress | 432,481 | - | - | (432,481) | **-** |
| Reclassification to property and equipment | - | - | - | (22,190) | **(22,190)** |
| Reversal of revaluation on NSE Seat | - | - | (226,000) | - | **226,000)** |
| **Cost at 31 December 2014** | **2,362,983** | **124,940** | **25,000** | **239,601** | **2,752,524** |
| **Accumulated amortisation at 1 January 2014** | **697,805** | **-** | **-** | **-** | **697,805** |
| Amortisation for the year | 315,410 | 26,407 | - | - | **341,817** |
| **Accumulated amortisation at 31 December 2014** | **1,013,215** | **26,407** | **-** | **-** | **1,039,622** |
| **Net carrying amount at 31 December 2014** | **1,349,768** | **98,533** | **25,000** | **239,601** | **1,712,902** |
| **Cost at 1 January 2013** | **884,243** | **-** | **251,000** | **1,528,332** | **2,663,575** |
| Additions | 89,950 | 124,940 | | 449,138 | **664,028** |
| Transfers from Work in Progress | 863,738 | - | - | (863,738) | **-** |
| Reclassification to property and equipment | - | - | - | (871,477) | **(871,477)** |
| Reclassification from property and equipment | - | - | - | 75,501 | **75,501** |
| **Cost at 31 December 2013** | **1,837,931** | **124,940** | **251,000** | **317,756** | **2,531,627** |
| **Accumulated amortisation at 1 January 2013** | **518,574** | **-** | **-** | **-** | **518,574** |
| Amortisation for the year | 179,231 | - | - | - | 179,231 |
| **Accumulated amortisation at 31 December 2013** | **697,805** | **-** | **-** | **-** | **697,805** |
| **Net carrying amount at 31 December 2013** | **1,140,127** | **124,940** | **251,000** | **317,756** | **1,833,822** |

Other intangible assets consist of the Nairobi Securities Exchange (NSE) seat held by Kingdom Securities Limited.

Following the demutualization and self-listing of NSE, the value of NSE seat, which gave rights to participate in trading, was reduced from KShs. 251 Million to KShs. 25 Million hence the reversal of revaluation reserve. In addition, 5,250,000 NSE shares with a par value of KShs. 4 each were allotted to each broker who were then participating in trading at NSE. These NSE shares are held as available-for-sale investments.

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

Work-in-progress relates to partially paid and ongoing software projects not yet commissioned for use by the group.

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 17. INTANGIBLE ASSETS (continued)

| **(a) Bank** | **Software KShs'000** | **Work –in progress KShs'000** | **Total KShs'000** |
|---|---|---|---|
| **Cost at 1 January 2014** | **1,766,974** | **217,070** | **1,984,044** |
| Additions | 36,146 | 341,226 | 377,372 |
| Transfers from Work in Progress | 432,481 | (432,481) | - |
| Reclassification to Property and equipment | - | (22,190) | (22,190) |
| **Cost at 31 December 2014** | **2,235,601** | **103,625** | **2,339,226** |
| **Accumulated amortisation at 1 January 2014** | **672,478** | **-** | **672,478** |
| Amortisation for the year | 303,538 | - | 303,538 |
| **Accumulated amortisation at 31 December 2014** | **976,016** | **-** | **976,016** |
| **Net carrying amount at 31 December 2014** | **1,259,585** | **103,625** | **1,363,210** |
| **Cost at 1 January 2013** | **860,804** | **1,528,332** | **2,389,136** |
| Additions | 42,432 | 348,452 | 390,884 |
| Transfers from Work in Progress | 863,738 | (863,738) | - |
| Reclassification to Property & Equipment | - | (871,477) | (871,477) |
| Reclassification from Property & Equipment | - | 75,501 | 75,501 |
| **Cost at 31 December 2013** | **1,766,974** | **217,070** | **1,984,044** |
| **Accumulated amortisation at 1 January 2013** | **496,895** | **-** | **496,895** |
| Amortisation for the year | 175,583 | - | 175,583 |
| **Accumulated amortisation at 31 December 2013** | **672,478** | **-** | **672,478** |
| **Net carrying amount at 31 December 2013** | **1,094,496** | **217,070** | **1,311,566** |

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. 443,364,953.55 (2013 - KShs. 311,548,592.35), 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. 88,672,990.71 (2013 - KShs. 63,309,718).

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 18. PREPAID LEASE RENTALS

| | Group and Bank | |
|---|---|---|
| | **2014** | **2013** |
| | **KShs'000** | **KShs'000** |
| **Cost at 1 January** | **54,413** | **54,568** |
| Write off | - | (155) |
| **Cost at 31 December** | **54,413** | **54,413** |
| **Amortisation:** | | |
| **At 1 January** | **16,233** | **15,705** |
| Charge for the year | 610 | 611 |
| Write off | - | (83) |
| **At 31 December** | **16,843** | **16,233** |
| **Net carrying amount at 31 December** | **37,570** | **38,180** |

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

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014



## 19. (a) PROPERTY AND EQUIPMENT-GROUP

| | Freehold land & buildings KShs'000 | Capital work-in progress KShs'000 | Fixtures KShs'000 | Office machinery, furniture & equipment KShs'000 | Motor vehicles KShs'000 | Computers KShs'000 | Total KShs'000 |
|---|---|---|---|---|---|---|---|
| **COST/VALUATION** | | | | | | | |
| **At 1 January 2014** | **1,387,097** | **2,361,217** | **7,100,726** | **1,480,340** | **188,580** | **5,255,877** | **17,773,837** |
| Additions | - | 618,429 | 15,504 | 73,699 | - | 74,980 | **782,612** |
| Disposals | - | - | (5,265) | (2,253) | (5,587) | (8,796) | **(21,901)** |
| Transfer from WIP | - | (1,374,238) | 508,865 | 502,822 | - | 362,551 | **-** |
| Reclassification from intangible assets (note 17(a)) | - | 22,190 | - | - | - | - | **22,190** |
| **At 31 December 2014** | **1,387,097** | **1,627,598** | **7,619,830** | **2,054,608** | **182,993** | **5,684,612** | **18,556,738** |
| **DEPRECIATION** | | | | | | | |
| **At 1 January 2014** | **51,500** | **-** | **2,686,264** | **908,947** | **90,348** | **2,806,399** | **6,543,458** |
| Charge for the year | 51,500 | - | 874,902 | 248,667 | 28,242 | 750,353 | **1,953,664** |
| Disposals | - | - | (2,653) | (2,211) | (5,574) | (8,644) | **(19,082)** |
| **At 31 December 2014** | **103,000** | **-** | **3,558,513** | **1,155,403** | **113,016** | **3,548,108** | **8,478,040** |
| NET CARRYING AMOUNT | | | | | | | |
| **At 31 December 2014** | **1,284,097** | **1,627,598** | **4,061,317** | **899,205** | **69,977** | **2,136,504** | **10,078,698** |

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

(ii) Land and Buildings were revalued on open market value basis by professional valuers (Manclem Valuers) as at 31 December 2012. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs. 1,321,016 (2013: KShs. 1,372,516).

(iii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs. 35,496,498 (2013- KShs. 35,496,498) 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. 3,101,893,806 (2013- KShs. 2,267,428,588), 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. 594,835,351 (2013- KShs. 428,832,128).

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

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

(ii) Land and Buildings were revalued on open market value basis by professional valuers (Manclem Valuers) as at 31 December 2012. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs. 1,424,016 (2012: KShs. 1,321,016).

(iii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs. 35,496,498 (2012- KShs. 38,926,467) against which no depreciation has been charged, as these are pieces of land.

(iv) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 2,267,428,588 (2012- KShs. 1,883,619,419), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs. 428,832,128 (2012- KShs. 343,156,027).

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014



## 19.(b) PROPERTY AND EQUIPMENT-BANK

| | Freehold land & buildings KShs'000 | Capital work-in progress KShs'000 | Fixtures KShs'000 | Office machinery, furniture & equipment KShs'000 | Motor vehicles KShs'000 | Computers KShs'000 | Total KShs'000 |
|---|---|---|---|---|---|---|---|
| **COST/VALUATION** | | | | | | | |
| **At 1 January 2014** | **1,387,097** | **1,811,759** | **7,100,089** | **1,369,501** | **148,500** | **5,123,221** | **16,940,167** |
| Additions | - | 497,613 | 15,504 | 71,476 | - | 65,627 | **650,220** |
| Disposals | - | - | (5,265) | (2,253) | (5,587) | (8,796) | **(21,901)** |
| Transfer from WIP | - | (871,416) | 508,865 | - | - | 362,551 | **-** |
| Reclassification from intangible assets (note 17(b)) | - | 22,190 | - | - | - | - | **22,190** |
| **At 31 December 2014** | **1,387,097** | **1,460,146** | **7,619,193** | **1,438,724** | **142,913** | **5,542,603** | **17,590,676** |
| **DEPRECIATION** | | | | | | | |
| **At 1 January 2014** | **51,500** | **-** | **2,685,290** | **897,204** | **88,846** | **2,792,493** | **6,515,333** |
| Charge for the year | 51,500 | - | 874,902 | 171,975 | 19,804 | 722,426 | **1,840,607** |
| Disposals | - | - | (2,653) | (2,211) | (5,588) | (8,644) | **(19,096)** |
| **At 31 December 2014** | **103,000** | **-** | **3,557,539** | **1,066,968** | **103,062** | **3,506,275** | **8,336,844** |
| **NET CARRYING AMOUNT** | | | | | | | |
| **At 31 December 2014** | **1,284,097** | **1,460,146** | **4,061,654** | **371,756** | **39,851** | **2,036,328** | **9,253,832** |

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

(ii) Land and Buildings were revalued on open market value basis by professional valuers (Manclem Valuers) as at 31 December 2012. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs. 1,321,016 (2013: KShs. 1,372,516).

(iii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs. 35,496,498 (2013- KShs. 35,496,498) 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. 3,101,893,807 (2013- KShs. 2,267,428,588), 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. 594,835,351 (2013- KShs. 428,832,128).

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

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

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

(ii) Land and Buildings were revalued on open market value basis by professional valuers (Manclem Valuers) as at 31 December 2012. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs. 1,424,016 (2012: KShs. 1,321,016).

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

(iv) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 2,267,428,588 (2012- KShs. 1,883,619,419), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs. 428,832,128 (2012- KShs. 343,156,027).

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 20. DEFERRED TAX

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

| **GROUP** | **2014 Deferred tax assets KShs'000** | **2014 Profit or loss KShs'000** | **2013 Deferred tax assets KShs'000** | **2013 Profit or loss KShs'000** |
|---|---|---|---|---|
| Collective allowance for impairment disallowed for tax purposes | (617,309) | (143,447) | (473,862) | (180,030) |
| Revaluation of assets | 92,061 | (2,721) | 94,782 | 29,780 |
| Excess of tax wear and tear allowance over depreciation | (425,495) | (327,558) | (97,937) | (230,097) |
| Unrealised exchange gains | 360,522 | (72,573) | 433,095 | 178,632 |
| Other temporary differences | (28,486) | (5,698) | (22,736) | (9,886) |
| Revaluation surplus | - | - | - | (21,413) |
| Tax loss available for future tax relief | 78 | (78) | - | 559 |
| | **(618,629)** | **(552,075)** | **(66,658)** | **(232,455)** |

| **BANK** | **2014 Deferred tax assets KShs'000** | **2014 Profit or loss KShs'000** | **2013 Deferred tax assets KShs'000** | **2013 Profit or loss KShs'000** |
|---|---|---|---|---|
| Collective allowance for impairment disallowed for tax purposes | (606,830) | (141,597) | (465,233) | 179,598 |
| Revaluation asset | 92,061 | (2,721) | 94,782 | (29,780) |
| Excess of tax wear and tear allowance over depreciation | (427,057) | (330,152) | (96,905) | 229,965 |
| Unrealised exchange gains | 360,522 | (72,573) | 433,095 | (178,632) |
| Other temporary differences | (27,852) | (6,000) | (21,852) | 9,262 |
| Revaluation surplus | - | - | - | 21,413 |
| | **(609,156)** | **(553,043)** | **(56,113)** | **231,826** |

## 21. DEPOSITS AND BALANCES DUE TO BANKS

| | **Group** | | **Bank** | |
|---|---|---|---|---|
| | **2014 KShs'000** | **2013 KShs'000** | **2014 KShs'000** | **2013 KShs'000** |
| Local banks | 3,159,444 | 5,462,337 | 3,159,444 | 5,462,337 |
| Foreign banks | - | - | 82,282 | - |
| | **3,159,444** | **5,462,337** | **3,241,726** | **5,462,337** |

The weighted average effective interest rate on deposits from other banks at 31 December 2014 was 6.37% (2013-4.58%).

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 22. CUSTOMER DEPOSITS

| | Group | | Bank | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| **(a) Deposit category** | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** |
| Call deposits | 23,594,183 | 12,709,664 | 23,594,183 | 12,709,664 |
| Fixed deposits | 51,878,767 | 40,837,722 | 51,878,767 | 40,818,828 |
| Transaction accounts | 63,768,846 | 53,303,476 | 63,768,846 | 53,303,476 |
| Savings accounts | 5,387,089 | 4,774,276 | 5,387,089 | 4,694,319 |
| Current accounts | 39,976,734 | 50,592,483 | 39,976,734 | 50,042,438 |
| Foreign currency deposits | 33,092,704 | 13,207,500 | 31,568,694 | 13,207,500 |
| | **217,698,323** | **175,425,121** | **216,174,313** | **174,776,225** |
| **(b) From government and parastatals:-** | | | | |
| Payable on demand | 14,007,213 | 12,158,294 | 14,007,213 | 12,158,294 |
| Payable within 30 days | 7,554,570 | 7,828,550 | 7,554,570 | 7,828,550 |
| Payable after 30 days but within 1 year | 17,473,196 | 14,417,666 | 17,473,196 | 14,417,666 |
| | **39,034,979** | **34,404,510** | **39,034,979** | **34,404,510** |
| **(c) From private sector and individuals:-** | | | | |
| Payable on demand | 120,392,125 | 108,304,538 | 118,868,115 | 107,655,642 |
| Payable within 30 days | 10,866,209 | 12,869,887 | 10,866,209 | 12,869,887 |
| Payable after 30 days but within 1 year | 47,405,010 | 19,846,186 | 47,405,010 | 19,846,186 |
| | **178,663,344** | **141,020,611** | **177,139,334** | **140,371,715** |
| | **217,698,323** | **175,425,121** | **216,174,313** | **174,776,225** |

Included in customers' deposits is an amount of KShs. 5,225 Million (2013- KShs. 6,345 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 3.97% (2013 – 2.53%).

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 23. LOANS AND BORROWINGS

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

| | Group & Bank | |
|---|---|---|
| | **2014** | **2013** |
| **Balances at 31 December** | **KShs'000** | **KShs'000** |
| IFAD | 30,167 | 125,729 |
| GoK (Informal Sector Enterprises) | 251,208 | 250,625 |
| DEG | 4,785,862 | - |
| International Finance Corporation (IFC) | 4,971,126 | 2,598,087 |
| European Investment Bank | 4,863,210 | 4,780,875 |
| AFD Microfinance & line of credit | 3,246,496 | 2,377,314 |
| Soros Economic Development Fund | 21,257 | 19,514 |
| Women Enterprise Fund | 100,161 | 100,250 |
| | **18,269,487** | **10,252,392** |
| **Movement in the year:** | | |
| At 1 January | 10,252,392 | 4,572,005 |
| Additional loan disbursement | 8,156,960 | 5,787,690 |
| Accrued interest | 154,130 | 104,776 |
| Loan repayment | (293,995) | (212,079) |
| **At 31 December** | **18,269,487** | **10,252,392** |

**International Fund for Agricultural Development (IFAD)**

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

**GoK (Informal Sector Enterprises)**

The loan agreement was entered into in 2011 between the Government of Kenya-Ministry of Finance and The Co-operative Bank of Kenya Limited for a loan of KShs. 250 Million for onward lending through the Bank's outlets to create an enabling business environment for the informal sector enterprises (ISEs). The loan amount shall be repaid to the government (PS-Ministry of Finance) within a period of 4 years in annual instalments from the second anniversary date of the first disbursement date. The loan attracts an interest of 4% p.a. on reducing balance and is payable annually.

**European Investment Bank**

Two loan agreements for Euros 20 Million and Euros 50 Million were entered into in April 2013 between the European Investment Bank and The Co-operative Bank of Kenya Limited; the loans are to be disbursed upon request. The final beneficiaries of the loans are Micro and small enterprises including self employed entrepreneurs and sole proprietorship in income generating activities and productive sectors such as trade, retail, agro industries, fishing, food processing, manufacturing, construction transport, tourism. The interest on the first loan of Euros 20 Million is equal to 1.56% plus a currency risk premium of 6.00% and the second loan of Euros 50 Million is equal to 2.43% plus a currency risk premium determined over a period of time. As at end of 2014, Euros 45.4 Million had been disbursed to the bank. The loans are to be repaid in duration of 10 years.

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 23. LOANS AND BORROWINGS (Continued)

**Soros Economic Development Fund**

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

**French Development Agency (AFD)**

**(a) Microfinance facility**

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

**(b) Line of credit facility**

Another loan agreement was entered into on 31 October 2011 for USD 13 Million at 6% and a line of credit to be utilised for investments in renewable energy and energy efficient projects. As at the end of year 2014, the amount disbursed to the bank was USD 27,431,752, which included USD 1,200,000 in favour of Renewable energy, with the balance going to Microfinance.

**Women Enterprise Fund**

The loan agreement was entered into on 11 December 2008 between the Government of Kenya through the Ministry of Gender and The Co-operative Bank of Kenya Limited for a sum of KShs. 92,000,000 advanced in 3 disbursements for on-lending to women. The loan is offered at a fixed interest rate of 1% p.a. payable quarterly. The loan is to be repaid in one bullet payment 3 years after the date of disbursement.

**International Finance Corporation**

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

The loan has an element of fixed and variable interest rate which is pegged to the LIBOR rate. Repayment shall be in eleven (11) equal semi-annual instalments starting December 2013. The loan has an element of fixed and variable interest rate which is pegged to the LIBOR rate. Repayment shall be in eleven (11) equal semi-annual instalments starting December 2013. The 1st disbursement of USD 30M was in March 2013, and the 2nd in March 2014. By 31st December 2014 the bank had drawn USD 60 Million from this facility.

**DEG - Deutsche Investitions- Und Entwicklungsgesellschaft Mbh**

The Co-operative Bank of Kenya Limited signed a financing agreement with DEG - Deutsche Investitions- Und Entwicklungsgesellschaft Mbh of the Federal Republic of Germany in December 2013. The loan facility of USD. 52,500,000 was disbursed in Quarter 3 of 2014. The facility is for onward lending to small and medium-sized enterprises. The loan will be repaid in 10 instalments ending in 2020. The agreement has an arrangement for interest computation on floating rate basis (pegged on LIBOR) or a fixed rate option based on mutual agreement.

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 24. TAXATION

| | Group | | Bank | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| **(a) Income Statement:-** | | | | |
| Current tax at 30% on the taxable profit for the year | 3,453,268 | 2,005,782 | 3,373,929 | 1,966,950 |
| Under /(Over) -provision in previous year | 21 | (9,068) | 8 | (8,858) |
| Deferred tax (credit) / charge | (552,075) | (232,455) | (553,043) | (231,826) |
| | **2,901,214** | **1,764,259** | **2,820,894** | **1,726,266** |
| **(b) Statement of financial position:-** | | | | |
| Balance brought forward | (97,029) | 585,429 | (99,631) | 581,349 |
| (Over)/under-provision in previous year | - | (9,062) | 8 | (8,849) |
| Charge for the year | 3,453,268 | 2,005,782 | 3,373,929 | 1,966,950 |
| Paid during the year | (3,206,418) | (2,679,178) | (3,145,135) | (2,639,081) |
| **Tax (recoverable) / payable** | **149,821** | **(97,029)** | **129,171** | **(99,631)** |
| **(c) Reconciliation of tax expense to tax based on accounting profit:-** | | | | |
| Accounting profit | 10,916,211 | 10,872,445 | 11,172,222 | 10,705,457 |
| Tax applicable rate at 30% | 3,274,863 | 2,177,444 | 3,351,666 | 2,141,091 |
| (Over)/Under-provision in previous year | 29 | (9,068) | - | (8,858) |
| Tax effect of items not eligible for tax | (373,678) | (404,117) | (530,772) | (405,967) |
| **Tax in the statement of comprehensive income** | **2,901,214** | **1,764,259** | **2,820,894** | **1,726,266** |

The corporation tax rate applicable to the Bank and subsidiaries and associates is 30 %. Items not eligible for tax relates mainly to impairment provisions on loans.

## 25. PROVISIONS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Leave liability | 93,571 | 74,866 | 92,841 | 72,841 |
| **Balance at 1 January** | **74,866** | **62,953** | **72,841** | **62,953** |
| Provisions arising during the year | 20,000 | 11,913 | 19,999 | 9,888 |
| Provisions utilised during the year | (1,296) | - | - | - |
| **Balance at 31 December** | **93,570** | **74,866** | **92,840** | **72,841** |

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.

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 26. OTHER LIABILITIES

| | Group | | Bank | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** |
| Bills payable | 476,844 | 144,445 | 476,844 | 144,445 |
| Sundry creditors and accruals | 2,135,667 | 2,717,936 | 1,953,596 | 2,514,197 |
| | **2,612,511** | **2,862,381** | **2,430,440** | **2,658,642** |

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

## 27. GOVERNMENT GRANTS

| | Group & Bank | |
|---|---|---|
| | **2014** | **2013** |
| Grant net of amortisation: | **KShs'000** | **KShs'000** |
| **At 1 January** | **554,270** | **574,717** |
| Amortisation for the year | (18,478) | (20,447) |
| **At 31 December** | **535,792** | **554,270** |

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.

## 28. SHARE CAPITAL

| | Group & Bank | |
|---|---|---|
| | **2014** | **2013** |
| | **KShs'000** | **KShs'000** |
| **Authorised :-** | | |
| 5,000,000,000 (2013: 5,000,000,000) ordinary shares of KShs. 1 each. | **5,000,000** | **5,000,000** |
| **Issued and fully paid:-** | | |
| 4,889,316,844 (2013: 4,190,843,900) ordinary shares of KShs. 1 each. | **4,889,317** | **4,190,844** |
| **Movement in the year:** | | |
| At start of the year | 4,190,844 | 4,190,844 |
| Issue of bonus shares | 698,473 | - |
| | **4,889,317** | **4,190,844** |

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 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 & Bank | |
|---|---|---|
| | **2014** | **2013** |
| | **KShs'000** | **KShs'000** |
| At 1 January | **3,588,262** | **3,588,262** |
| Issue of bonus shares | (698,473) | - |
| **At 31 December** | **2,889,789** | **3,588,262** |

During the Annual General Meeting held in 2014, the shareholders approved issue of bonus shares to existing shareholders in the proportion of 1 new ordinary share of KShs. 1 each for every 6 ordinary shares held. This resulted in creation of 698,473,000 ordinary shares by capitalisation of KShs. 698,473,000 out of share premium.

## 30. RESERVES

**(a) Revaluation reserve**

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

**(b) Retained earnings**

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

**(c) Available for sale reserve**

This comprises changes in fair value on available-for-sale investments, excluding impairment losses, until the net investment is derecognised. This reserve is not distributable as it relates to unrealised fair value changes.

**(d) Statutory reserve**

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

**(e) Foreign currency translation reserve**

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

## 31. PROPOSED DIVIDENDS AND DIVIDENDS PER SHARE

| | Group & Bank | |
|---|---|---|
| | **2014** | **2013** |
| | **KShs'000** | **KShs'000** |
| Proposed dividends | **2,444,658** | **2,095,422** |

(i) Dividend per share is arrived at by dividing the total dividends by the weighted average number of shares in issue during the year.

(ii) Proposed dividends are accounted for as a separate component of equity at year end until they are ratified at an Annual General Meeting (AGM). At the AGM to approve year 2014 financial statements, a first and final dividend in respect of year 2014 of KShs. 0.50 (2013 - KShs. 0.50) for every ordinary share of KShs. 1 is to be proposed by the directors and is subject to approval by shareholders.

(iii) Payment of dividend is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 32. NON-CONTROLLING INTERESTS

### (a) Kingdom Securities Limited

Kingdom Securities Limited - KSL (previously named Bob Mathews Stockbrokers Limited) was acquired in 2009 by Co-operative Bank of Kenya Limited through the purchase of 60% shareholding. KSL 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. The Bank holds 51% of the ordinary shares. The Subsidiary is based in South Sudan and commenced operation in September 2013.

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 for:-**

| | Kingdom Securities Ltd | | Co-operative Bank of South Sudan | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** |
| Interest and other income | 137,336 | 99,940 | 405,118 | 36,946 |
| Interest and commission expenses | (8,896) | - | (674) | (6) |
| | **128,440** | **99,940** | **404,444** | **36,940** |
| Operating expenses | (74,459) | (77,692) | (946,347) | (304,317) |
| Profit / (loss) before tax | 53,981 | 22,248 | (541,903) | (267,377) |
| Income tax expense | (16,081) | (7,448 ) | - | - |
| Profit / (loss) for the year | **37,900** | **14,800** | **(541,903)** | **(267,377)** |
| Other comprehensive income | 107,625 | - | - | - |
| Total comprehensive income | **145,525** | **14,800** | **(541,903)** | **(267,377)** |
| Attributable to non-controlling interests | 58,210 | 5,920 | (265,532) | (131,015) |
| Dividends paid to non-controlling interests | - | - | - | - |

**Summarised statement of financial position as at 31 December**

| | Kingdom Securities Ltd | | Co-operative Bank of South Sudan | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** |
| Current assets | 348,635 | 269,623 | 2,065,414 | 1,566,238 |
| Non-current Assets | 29,763 | 256,032 | 1,088,930 | 1,070,490 |
| Current liabilities | (121,053) | (187,837) | (2,005,413) | (1,034,231) |
| **Total equity** | **257,345** | **337,818** | **1,148,931** | **1,602,497** |
| Attributable to:- | | | | |
| Equity holders of the parent | 154,407 | 202,691 | 585,955 | 817,273 |
| Non-controlling interest | 102,938 | 135,127 | 562,976 | 785,224 |

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 33. INTEREST INCOME

| | Group | | Bank | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** |
| Loans and advances to customers | 24,670,659 | 19,903,863 | 24,626,910 | 20,044,538 |
| Held-to-maturity investments | 1,938,202 | 1,010,943 | 1,916,841 | 992,377 |
| Deposits and balances due from other banks | 307,394 | 362,548 | 287,899 | 358,888 |
| Interest on previously impaired loans | 294,413 | 507,703 | 294,413 | 507,703 |
| | **27,210,668** | **21,785,057** | **27,126,063** | **21,903,506** |

## 34. INTEREST EXPENSE

| | Group | | Bank | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** |
| Call deposits | 1,100,346 | 534,664 | 1,100,346 | 534,664 |
| Fixed deposits | 4,595,770 | 3,471,353 | 4,595,770 | 3,471,353 |
| Savings accounts | 572,957 | 385,211 | 572,957 | 385,211 |
| Current accounts | 665,049 | 711,826 | 664,375 | 711,826 |
| Deposits and balances due to banks | 215,306 | 146,220 | 206,410 | 146,220 |
| Loans | 926,725 | 666,535 | 926,725 | 666,535 |
| | **8,076,153** | **5,915,809** | **8,066,583** | **5,915,809** |

## 35. FEES AND COMMISSIONS

| | Group | | Bank | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** |
| **Fees and commissions income:** | | | | |
| Fees and commissions on loans and advances | 2,148,888 | 1,935,527 | 2,148,888 | 1,935,527 |
| Ledger fees & service charges | 1,060,459 | 973,480 | 1,060,459 | 973,480 |
| Other fees and commissions | 5,505,520 | 4,251,972 | 4,873,472 | 3,921,159 |
| | **8,714,867** | **7,160,979** | **8,082,819** | **6,830,166** |
| **Fees and commissions expense:** | | | | |
| Inter-bank transaction charges | 129,736 | 165,760 | 129,736 | 165,760 |
| Brokerage fees | 7,046 | 4,727 | 7,046 | 4,727 |
| | **136,782** | **170,487** | **136,782** | **170,487** |
| **Net fees and commissions income** | **8,578,085** | **6,990,492** | **7,946,037** | **6,659,679** |

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 36. NET TRADING INCOME

| | Group | | Bank | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Foreign exchange gain | 1,417,692 | 1,443,649 | 1,201,739 | 1,443,649 |
| Interest income on investment securities: | | | | |
| - Available for sale | 2,192,284 | 2,914,444 | 2,192,284 | 2,914,444 |
| - Held-for-trading | 59 | 2,070 | 59 | 2,070 |
| Changes in fair value of financial assets held-for-trading | 2 | (352) | | (352) |
| Amortisation of financial instruments | (24,663) | 29,564 | (24,661) | 26,259 |
| | **3,585,374** | **4,389,375** | **3,369,421** | **4,386,070** |

Amortisation of financial instruments relate to held-to-maturity investments.

## 37. OTHER OPERATING INCOME

| | Group | | Bank | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Gain on disposal of property and equipment | 5,689 | 10,632 | 5,689 | 10,632 |
| Dividend income | - | 1,423 | 258,101 | 53,551 |
| Rental income | 85,479 | 75,816 | 85,479 | 75,816 |
| Loan recoveries | 38,141 | 33,096 | 38,141 | 33,096 |
| Gain on sale of financial assets available-for-sale | 84,545 | 69,061 | 84,545 | 68,915 |
| Miscellaneous | 555,458 | 430,213 | 517,528 | 252,190 |
| | **769,312** | **620,241** | **989,483** | **494,200** |

## 38. EMPLOYEE COSTS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Basic salaries | 7,031,987 | 6,587,747 | 6,668,162 | 6,533,043 |
| Allowances | 432,421 | 415,986 | 429,924 | 408,664 |
| Pension scheme contribution | | | | |
| - Statutory Scheme | 39,713 | 10,329 | 39,383 | 10,206 |
| - Employee Scheme | 445,311 | 445,257 | 445,641 | 429,269 |
| Medical expenses | 161,855 | 132,142 | 159,016 | 128,310 |
| Education and training | 69,974 | 95,251 | 68,915 | 95,047 |
| Early retirement cost | 1,342,509 | 35,399 | 1,342,509 | 35,399 |
| Others | 256,897 | 291,669 | 249,055 | 185,414 |
| | **9,780,667** | **8,013,780** | **9,402,605** | **7,825,352** |

| | Group | | Bank | |
|---|---|---|---|---|
| The number of employees at the year-end was: | 2014 | 2013 | 2014 | 2013 |
| Management | 376 | 414 | 352 | 404 |
| Supervisory and unionisable | 3,656 | 3,760 | 3,542 | 3,673 |
| Others | 471 | 45 | 471 | 45 |
| | **4,503** | **4,219** | **4,365** | **4,122** |

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 39. OTHER OPERATING EXPENSES

| | Group | | Bank | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Rent and maintenance costs for branch premises | 1,305,662 | 1,123,891 | 1,100,685 | 1,062,895 |
| Motor vehicle running & other equipment maintenance | 1,055,193 | 972,580 | 1,045,228 | 946,986 |
| Stationery and printing | 1,290,638 | 531,646 | 1,290,638 | 527,061 |
| Travelling and insurance | 536,118 | 603,333 | 536,118 | 602,186 |
| Telephone, postage, electricity and water | 691,000 | 599,294 | 691,000 | 583,915 |
| Contribution to Deposit Protection Fund | 259,637 | 228,874 | 259,637 | 228,874 |
| Directors' emoluments | 161,129 | 131,734 | 116,235 | 110,274 |
| Auditors' remuneration | 13,575 | 11,485 | 9,600 | 9,135 |
| Other operating and administrative expenses | 2,875,221 | 2,680,180 | 2,480,637 | 2,482,242 |
| | **8,188,173** | **6,883,017** | **7,529,778** | **6,553,568** |

## 40. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share for the Group and the Bank is based on the year's profit attributable to 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.

| | Group | | Bank | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Profit for the year attributable to equity holder of the parent (KShs'000) | 8,265,370 | 9,233,281 | 8,351,328 | 8,979,191 |
| Weighted average number of ordinary shares for basic earnings per share (Thousands) | 4,889,318 | 4,190,844 | 4,889,318 | 4,190,844 |
| Weighted average number of ordinary shares for diluted earnings per share (Thousands) | 4,889,318 | 4,889,318 | 4,889,318 | 4,889,318 |
| Basic earnings per share (KShs) | 1.69 | 2.20 | 1.71 | 2.14 |
| Diluted earnings per share (KShs) | 1.69 | 1.89 | 1.71 | 1.84 |

## 41. COMPONENTS OF OTHER COMPREHENSIVE INCOME

| **Available for sale investments** | Group | | Bank | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Gains/(losses) arising during the year | **84,545** | 178,221 | **84,545** | 178,221 |
| Amortisation of discount to profit or loss | **159,731** | 1,654,957 | **159,731** | 1,654,957 |
| Reclassification during the year to profit or loss | **205,589** | (2,013,512) | **217,369** | (2,011,399) |
| | **449,865** | **(180,334)** | **461,645** | **(178,221)** |

The changes in fair value are not subject to income tax. The gains / (losses) have been taxed through profit or loss.

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 42. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of profit before taxation to cash generated from operations

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | | 2014 | 2013 | 2014 | 2013 |
| **OPERATING ACTIVITIES:-** | **Note** | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** |
| **Profit before tax** | | **10,916,211** | **10,872,445** | **11,172,222** | **10,705,457** |
| **Adjustments for:-** | | | | | |
| Depreciation | 19(a) | 1,953,664 | 1,528,352 | 1,840,607 | 1,514,244 |
| Amortization of prepaid lease rentals and write offs | 18 | 610 | 683 | 610 | 683 |
| Impairment on property and equipment | | - | 3,430 | - | 3,430 |
| Movement in provisions | | (64,246) | (214,818) | (106,325) | (214,818) |
| Net foreign exchange differences | | 204,260 | 79,815 | 204,260 | 79,815 |
| Amortization of intangible assets | 17(a) | 341,817 | 175,583 | 303,538 | 175,583 |
| Amortization of capital grants | 27 | (18,478) | (20,447) | (18,478) | (20,447) |
| Gain on disposal of property and equipment | | (5,689) | (10,632) | (5,689) | (10,632) |
| Changes in fair value of financial instruments held-for-trading | 9 | (2) | 352 | - | 352 |
| Share of profit in associate | 14 | (270,976) | - | | |
| Interest on loans and borrowings | 23 | 154,130 | 104,776 | 154,130 | 104,776 |
| Amortisation of financial instruments | 11 | (159,731) | 1,654,957 | (159,731) | 1,654,957 |
| **Cash flows from operating activities before working capital changes** | | **13,051,570** | **14,174,495** | **13,385,144** | **13,993,400** |
| Advances to customers | | (42,334,882) | (17,784,661) | (41,820,724) | (17,748,971) |
| Other assets | | 465,100 | (4,568,304) | 260,907 | (4,511,339) |
| Deposits from customers | | 42,273,202 | 13,341,541 | 41,398,088 | 12,508,998 |
| Deposits from banks | | (2,302,893) | 4,397,035 | (2,220,611) | 4,397,035 |
| Other liabilities | | (231,166) | 772,975 | (208,203) | 697,071 |
| Central Bank of Kenya cash reserve ratio | | (2,2240,391) | (921,977) | (2,240,391) | (921,977) |
| Held-for-trading investments | | - | 151,281 | - | 149,972 |
| Available-for-sale investments | | 4,776,040 | 2,694,965 | 102,717 | (294,266) |
| Derivative financial instruments | | 102,717 | (294,266) | 4,895,845 | 2,694,340 |
| **Cash flows generated from operating activities** | | **13,559,297** | **11,963,085** | **13,552,772** | **10,964,263** |
| **Cash and cash equivalents comprises of:-** | | | | | |
| Cash on hand | | 9,455,087 | 9,196,192 | 8,970,239 | 8,908,315 |
| Cash with Central Bank of Kenya | | 14,880,245 | 11,516,975 | 13,954,692 | 10,388,172 |
| Deposits and balances due from banking institutions | | 12,810,858 | 10,040,915 | 12,814,862 | 10,056,793 |
| Items in the course of collection from other Banks | | 557,806 | 449,770 | 557,806 | 449,770 |
| | | **37,703,996** | **31,203,852** | **36,297,599** | **29,803,050** |
| Less: CBK Cash reserve ratio | | (11,425,465) | (9,185,074) | (11,425,465) | (9,185,074) |
| **Cash and cash equivalents** | | **26,278,531** | **22,018,778** | **24,872,134** | **20,617,976** |

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 43. RELATED PARTY TRANSACTIONS

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

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

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

| | 2014<br>KShs'000 | 2013<br>KShs'000 |
|---|---|---|
| Directors | 232,807 | 156,256 |
| Employees | 6,602,831 | 6,379,086 |
| | **6,835,638** | **6,535,342** |
| Interest income earned | **456,005** | **411,235** |
| Weighted average interest rate | **5.59%** | **12.7%** |

The loans are secured by property mortgage and are repayable in a period less than 30 years. No impairment losses have been recorded against balances outstanding during the period and no specific allowance has been made for impairment losses on balances at period end (2013-Nil) as staff and directors are all active and currently in-service for the bank and recoveries are made directly through payroll.

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

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

| | 2014<br>KShs'000 | 2013<br>KShs'000 |
|---|---|---|
| Directors and Employees | 964,557 | 440,382 |
| Subsidiaries and Associate companies | 408,194 | 404,884 |
| Interest expensed | 17,236 | 12,479 |
| Weighted average interest rate | 1.79% | 2.68% |

# Notes to the Consolidated Financial Statements *cont.*

## For the year ended 31 December 2014

**(c) Inter-company balances and transactions:-**

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

| | Relationship | Bank 2014 KShs'000 | Bank 2013 KShs'000 |
|---|---|---|---|
| **Due from:-** | | | |
| Co-optrust Investment Services Limited | Subsidiary | - | 1,198 |
| Co-op Consultancy & Insurance Agency Ltd | Subsidiary | 35,838 | 3,379 |
| Co-opholdings Co-operative Society Limited | Parent | 47,997 | 40,850 |
| Co-operative Bank of South Sudan | Subsidiary | 211,657 | 101,379 |
| | | **295,492** | **146,806** |
| **Due to:-** | | | |
| Kingdom Securities Limited | Subsidiary | - | - |
| Co-op Consultancy & Insurance Agency Ltd | Subsidiary | 449 | - |
| | | **449** | **-** |
| **Insurance premium:-** | | | |
| Co-operative Insurance Company Limited | Associate | **425,536** | **313,312** |

All transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions. 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 (2013-Nil).

**(d) Compensation of key management personnel**

| | Group 2014 KShs'000 | Group 2013 KShs'000 | Bank 2014 KShs'000 | Bank 2013 KShs'000 |
|---|---|---|---|---|
| Directors' emoluments: | | | | |
| -Fees | 118,776 | 100,871 | 93,893 | 91,980 |
| -Others | 42,353 | 30,863 | 22,342 | 18,294 |
| | **161,129** | **131,734** | **116,235** | **110,274** |
| Senior Managers: | | | | |
| -Short-term employee benefits | 1,071,969 | 573,934 | 1,004,949 | 544,853 |
| -Post-employment pension | 45,007 | 41,918 | 44,966 | 39,847 |
| -Termination benefits | 516,713 | - | 516,713 | - |
| | **1,633,689** | **615,852** | **1,566,628** | **584,700** |

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

**(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 2014, KShs. 123,542,029 (2013- KShs. 92 Million) was disbursed to the Foundation. At 31 December 2014, the Foundation held deposits of KShs. Nil (2013- KShs. 2,402,865) 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. 467,797,943 (2013 - KShs. 429,380,000) as at 31 December 2013. 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:

| | 2014<br>KShs'000 | 2013<br>KShs'000 |
|---|---|---|
| Rent paid to the scheme on leased property | 4,516 | 4,516 |
| Dividends paid on the Bank's ordinary shares | 252,143 | 16,513 |

## 44. OPERATING LEASE COMMITMENTS

**As lessor:**

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

| | Group & Bank | |
|---|---|---|
| | **2014**<br>**KShs'000** | **2013**<br>**KShs'000** |
| Within One year | 69,389 | 109,002 |
| Between 2 and 5 years | 45,668 | 239,855 |
| | **115,057** | **348,857** |

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

**As lessee:**

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

| | Group & Bank | |
|---|---|---|
| | **2014**<br>**KShs'000** | **2013**<br>**KShs'000** |
| Within one year | 911,132 | 831,963 |
| Between 2 and 5 years | 1,844,796 | 2,039,989 |
| Over 5 years | 446,952 | 478,707 |
| | **3,202,880** | **3,350,659** |

Lease commitments relate to lease rentals payable by the group for its leasehold properties and are negotiated for an average term of six (6) years.

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 45. COMMITMENTS

| | Group & Bank 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| (i) Capital: Authorised and contracted for | 172,130 | 441,778 |
| (ii) Capital: Authorised and not contracted for | 2,487,593 | 3,661,564 |
| (iii) Loans committed but not disbursed at year end | 8,404,055 | 10,324,872 |

## 46. CONTINGENT LIABILITIES

| | Group & Bank 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| **(a) Not recognised in statement of financial position** | | |
| Letters of credit | 8,850,663 | 12,238,083 |
| Guarantees | 5,259,890 | 4,733,348 |
| | 14,110,553 | 16,971,431 |

These include Letters of credit, guarantees, acceptances, and other engagements entered into on behalf of customers

**Guarantees** are documents written by the Bank to support performance by a customer to third parties. The bank will only be required to meet these obligations in case of the customer's default.

**Letters of credit** commit the Bank to make payment to third parties, on production of documents, which are subsequently reimbursed by customers.

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

**(b) Pending legal suits**

(i) Raki Investments Limited

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

(ii) Kenya Continental Holdings

This is an injunction application seeking to stop the Bank from selling the company's security alleging fraud and misrepresentation on the part of the Bank with a claim for special damages for alleged loss of opportunities amounting to KShs. 404,785,225. The Bank has a counterclaim amounting to KShs. 521,318,439 against the debtor. The matter is slated for hearing on 20th July 2015 and no liability is expected to arise.

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

(iii) Boaz Mathews Ouma Awiti & three others

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

(iv) Alice Anyona Mumo & Others vs. RBA & Co-operative Bank of Kenya Limited Retirement Benefit Scheme, 2007 RBA Tribunal appeal no. 8 of 2013 (NBI)

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

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

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

(vi) Obadiah Mucheu Vs The Co-operative Bank of Kenya Limited

This is a claim where the plaintiff was advanced credit facilities totalling KShs. 1,105,000 and defaulted in the repayment of the outstanding liabilities. The plaintiff requested the Bank to allow the sale of one of the properties charged in favour of the Bank in order to settle the outstanding liabilities. The sale proceeds were insufficient to settle the outstanding liabilities and hence the Bank could not release the land title unless the outstanding liabilities were settled. The Bank subsequently listed the plaintiff with the Credit Reference Bureau. The customer aggrieved by the decision of the Bank is now claiming KShs. 215,880,000 being special damages for loss of expected income. No liability is expected to arise.

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

## 47. FIDUCIARY ACTIVITIES

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

The Group at Custodial Services department holds asset on behalf of customers with a value of KShs. 33,720 Million (2013 – KShs. 25,775 Million). The income for the period for custodial services was KShs. 36,149 Million (2013- KShs. 24,948 Million) while the expenses amounted to KShs. 31,614 Million (2013- KShs. 24,899 Million). The Group, through Co-op Trust Investment Services Limited manages securities with a value of KShs. 52,530 Million (2013- KShs. 41,824 Million) on behalf of customers. The total income for the period from fund management was KShs. 140,638 Million (2013- KShs. 122,961 Million), with total expenses amounting to KShs. 77,198 Million (2013- KShs. 66,437 Million).

# Notes to the Consolidated Financial Statements *cont.*

For the year ended 31 December 2014

## 48. ASSETS PLEDGED AS SECURITY

As at 31 December 2014, there were no assets pledged by the Group to secure liabilities.

## 49. HOLDING ENTITY

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

## 50. INCORPORATION

The Bank is incorporated in Kenya under the Companies Act.

## 51. CURRENCY

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

## 52. EVENTS AFTER REPORTING DATE

The directors are not aware of events after the reporting date that require disclosure in or adjustments to the financial statements as at the date of this report.

## ASL Partnership

Chris Chege (center), Co-operative Bank discusses the just signed MOU with ASL Director, Bharat Patel (right) and Sunil Menon (left), ASL Group Marketing Head during the signing ceremony.

The MOU enables customers to access building materials on credit provided by the Bank.

## Long and Dedicated service

The Chairman of the Co-operative Bank of Kenya Mr. Stanley C. Muchiri (Center) presents a gift to the Retiring Director, Major (Rtd) Gabriel J S Wakasyaka (second from right) who was retiring after a long and dedicated service.

## Investors Briefing

The Group Managing Director and CEO Dr. Gideon Muriuki (left) shares a presentation with Ewart Salins, Executive director of Kestrel Capital (EA) Ltd when the Bank hosted investment analysts and Fund managers on Wednesday 28th January at the Hilton Hotel for a briefing on the Transformation Project that the Bank is undertaking.

## Head Government & Public Sector Banking Mr. Silvance Nono with other senior bank officials at 1st Devolution Conference.

Co-operative Bank is an important development partner to the government both at the national and county levels. The Bank has put in place comprehensive infrastructure and services to support the financial deepening across the country. The Bank is a critical financier of various forums dedicated to improve national development.

## LAPTRUST Governors Forum

Jackson Mandago, Governor Uasin Gishu County discusses Alternative Funding options at the Governors' Forum held in Nairobi with Reuben Koech, Head Co-optrust Investment Services. Looking on is Gatimu Mugo, Government & Public Sector Banking.

## Boda Boda Challenge

Co-operative Bank has partnered with The East African Motor Sports Club to sponsor The Boda Boda Challenge held in July 2014.

Over 2000 operators were invited to register through their various Chamas. The event was held to train Boda Boda riders on basic safety rules and first aid.

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN that the seventh (7th) Annual General Meeting of the shareholders of THE CO-OPERATIVE BANK OF KENYA LIMITED will be held at the Bomas of Kenya Nairobi on Wednesday, 27th May 2015 at 11.00 a.m. for the transaction of the following business:**

## ORDINARY BUSINESS

1. To read the notice convening the meeting and determine if a quorum is present.
2. To receive and consider, and, if approved adopt the Audited Financial Statements of the Company for the financial year ended 31st December 2014 together with the Directors' and Auditors' report thereon.
3. To approve and declare a first and final dividend of KShs. 0.50 per share in respect of the year ended 31st December 2014, to be paid to the shareholders on the register as at close of business on 28th May 2015.
4. To elect Directors:
   i) Mr. Julius Sitienei being a director appointed under Article 104A of the Company's Articles under which the majority and strategic shareholder of the Company, - Co-opholdings Co-operative Society Limited nominates to the Board of the Company seven (7) directors, is retiring by rotation and being eligible offers himself for re-election in accordance with Article 100 of the Company's Articles of Association.

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

   ii) In accordance with article 100 of the Company's Articles of Association, Mrs. Rose Simani is due for retirement by rotation and being eligible offers herself for re-election.

   iii) In accordance with article 100 of the Company's Articles of Association, Mr. Donald Kibera is due for retirement by rotation and does not offer himself for re-election.

   iv) Election of two additional directors under Articles 79 and 100A.
5. To authorize the Board to fix the Directors' remuneration.
6. To re-appoint Ernst and Young, Auditors of the Company, having expressed their willingness to continue in office and to authorize the directors to fix their remuneration.

## SPECIAL BUSINESS

7. To consider and, if thought fit pass the following resolution as a Special Resolution:

   "That the Articles of Association of the Company be amended as follows:

   1. By deleting Article 83A and replacing it with the following:-

      83A. The Directors of the Company shall at all times include the Principal Secretary to the National Treasury of Kenya. The Principal Secretary may nominate an alternate from the National Treasury of Kenya, which alternate shall not at the same time be the holder of the position of director in a Company that carries on business in competition with the Company.

   2. By deleting Article 108 and replacing it with the following:-

      108. The Directors may elect from any amongst them, a Chairman and Vice-Chairman for their meetings and determine the period for which they are each to hold office, but if no such Chairman or Vice-Chairman is elected, or if at any meeting neither the Chairman nor the Vice-Chairman is present within thirty minutes after the time appointed for holding the same, the Directors present may choose one of their number to be Chairman of the meeting."

## ANY OTHER BUSINESS

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

   Dated at Nairobi this 28th day of April 2015

   By order of the Board,

   **ROSEMARY MAJALA GITHAIGA (Mrs)**

   **COMPANY SECRETARY**

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

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

CO-OPERATIVE BANK
We are you