

Integrated Reporting (IR) in Co-op Bank

About this Integrated Report

At Co-operative Bank, we are guided by the principles of Integrated reporting which have been key to our sustainable business model and have led to clarity in terms of long-term value creation for all our stakeholders.

This report shows clearly and concisely how our strategic focus integrates with our 6 types of capitals and matters that are material to the achievement of our vision to be the dominant Bank in the region. It also shows how we create and distribute value using our business model to our various stakeholders.

The report indicates the strategic performance of the Group, shows key indicators of our stakeholder engagement, key indicators of our business model and key financial performance indicators. Included in this report are our financial results for the year ended 31st December 2017.

The scope of this report

This report covers the period from 1st January 2017 to 31st December 2017. We have referred to other periods for comparison purpose.

The report covers Co-operative Bank of Kenya Ltd, Co-operative Bank of South Sudan Ltd, Co-op Consultancy and Insurance Agency Ltd, Co-op Trust Investment Services Ltd and Kingdom Securities Ltd. By extension, we have covered some areas of our associate company CIC Insurance Company Ltd.

We have included both financial and non-financial facets of our business in order to communicate how we create long-term stakeholder value through our strategic focus, our business model, employment of our six capitals, management of material matters, our stakeholder engagement, tracking of key financial indicators, enterprise risk management, and good corporate governance.

The targeted readers of this report are our shareholders who need to make informed decisions about our stock for short, medium or long-term investment. This report is

also meant for all our other stakeholders who include but are not limited to our customers, staff members, the Co-operative Movement, Strategic partners, regulators and policy makers, the Media, suppliers and the communities within which the Group operates in.

The contents of this report reflect our commitment towards benchmarking our integrated report to the International Integrated Reporting Framework and the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 and the requisite accounting bodies requirements mentioned in the financial performance section of this report.

Key concepts

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

How to navigate the report

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

- A description of who we are.
- A description of how we create value using our Business Model.
- An analysis of our Strategic Focus.
- Performance Review: Operating Environment Review, Financial Review, Business Review and Risk Management Review.
- Corporate governance at Co-op bank.
- Audited Annual Report and Financial Statements for the year ended 31st December 2017.

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

Assurance

This integrated report was prepared in accordance with the requisite regulatory requirements as prescribed by the Central Bank of Kenya, The Capital Markets Authority and Nairobi Securities Exchange: Kenyan Companies Act 2015, the Code of Corporate Governance 2015, and The Banking Act of Kenya.

An assurance relating to the annual financial statements has been provided by the independent external auditor and is incorporated in this report.

We do our own quality assurance by way of integrated risk management, internal compliance reviews and internal audit reviews.

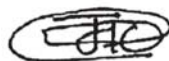
Responsibility of the Board on Integrated Report

This integrated report was approved by our Board of Directors on 14th March 2018.

Statement of the Co-operative Bank Board of Directors

The board acknowledges its responsibility to ensure professionalism, compliance and integrity of this report. The Board believes that the report fairly presents the Group's integrated performance and has been prepared according to the key regulatory requirements.

For and on behalf of the board



Mr. John Murugu, OGW
Bank Chairman



Dr. Gideon Muriuki, CBS
Group Managing Director & CEO



His Excellency President Uhuru Kenyatta, His Excellency the Deputy President, William Ruto with the Group Managing Director and CEO, Dr. Gideon Muriuki (CBS). Co-operative Bank is a major partner to both the Central and County Governments programs across the country.

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Co-operative Bank Chairman, Mr. John Murugu (OGW) (Left) presents an Exceptional Service Award to Mr. Zachary Chianda, Managing Director Co-operative Bank of South Sudan who was retiring after a long and dedicated 37 years of service to the Group.

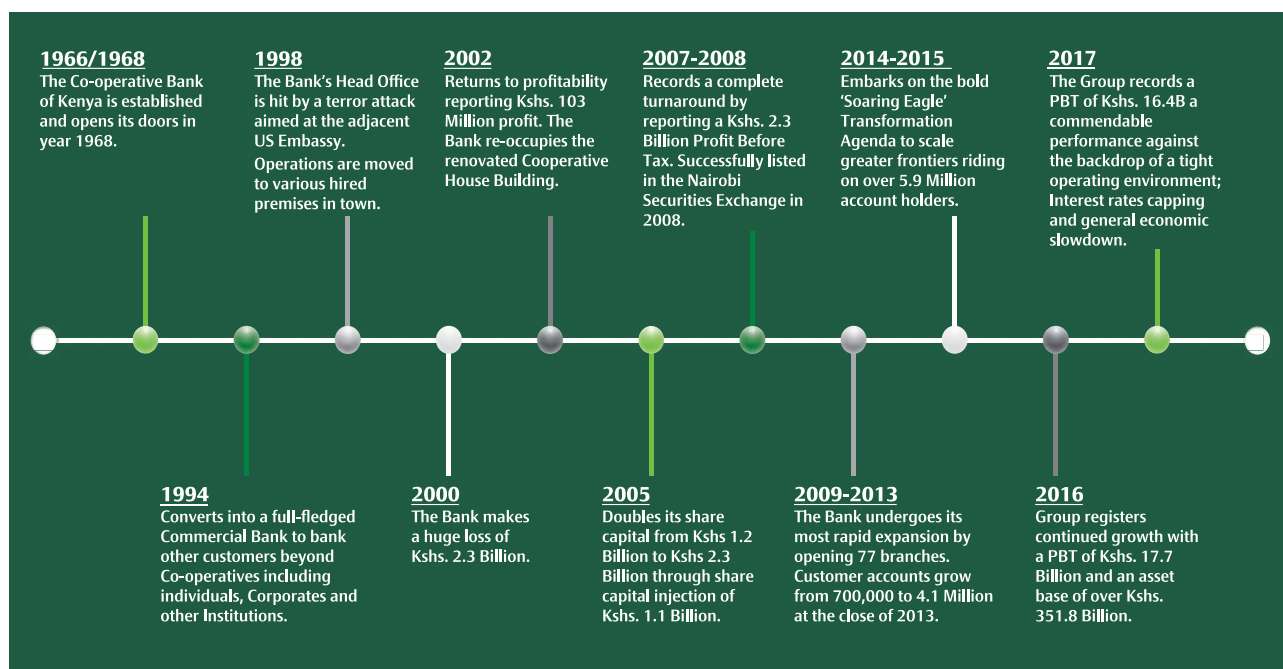
1. Overview

1.1. Who We Are

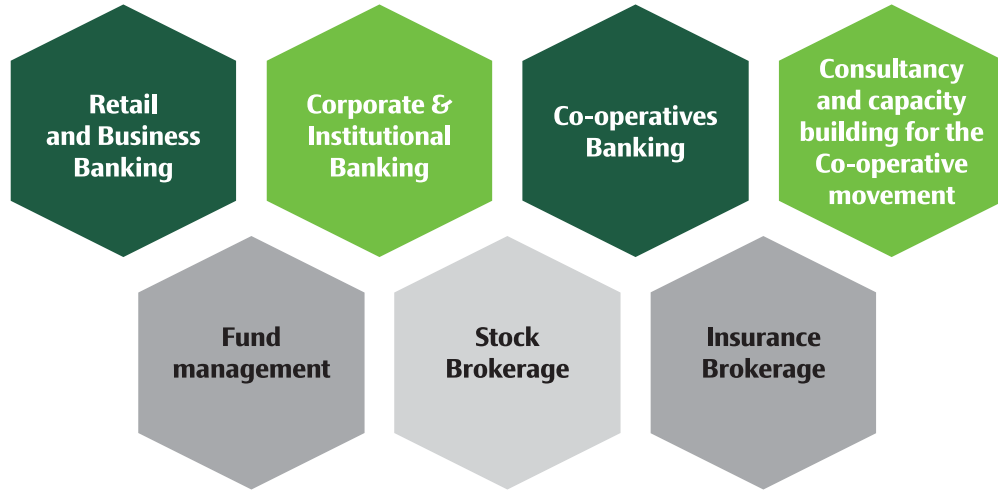
1.1.1. Vision, Mission, Values

Vision	"To be the dominant Bank in Kenya and in the Region riding on the unique Co-operative Model providing innovative financial solutions for distinctive customer experience."
Mission	"To offer a wide range of innovative financial solutions leveraging on our heavy investment in multi channels, national and regional presence and with focus on excellent customer experience by a highly motivated and talented team"
Values	<ul style="list-style-type: none"> • We are Trustworthy • We are Innovative and Agile • We Value our Customers/People • We Share and Collaborate • We have Passion for Excellence • We are Bold and courageous

1.1.2. Historical timeline

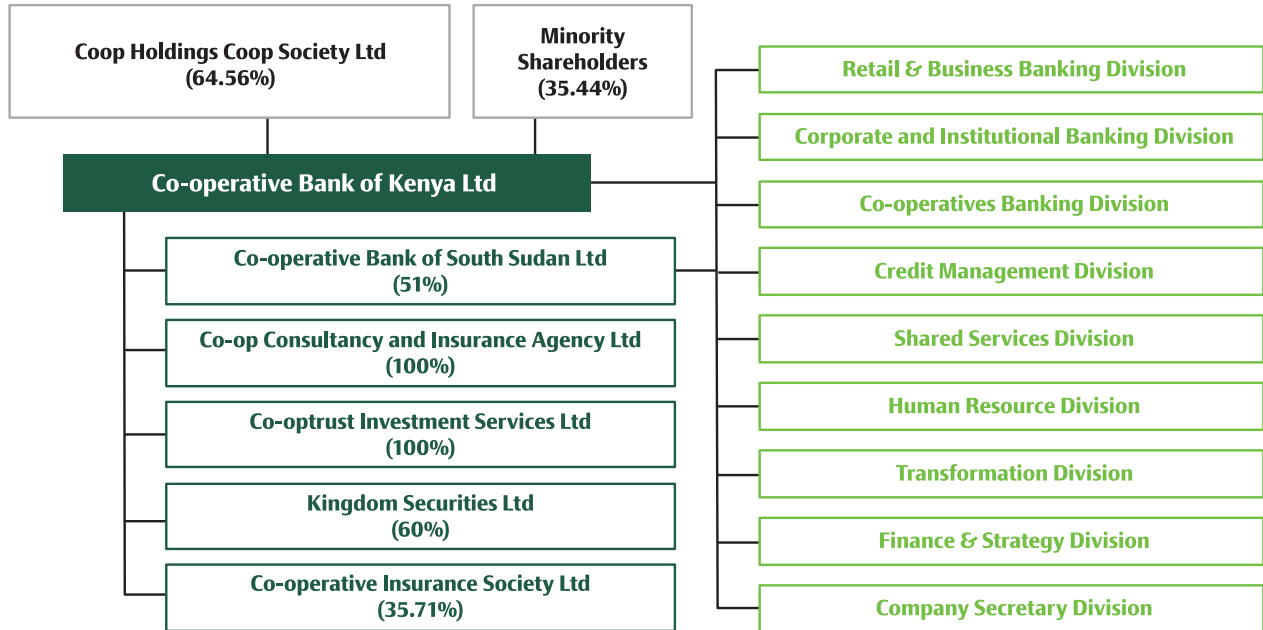


1.1.3. Our Key Business



Refer to the Key Business Review section of this report for more information.

1.1.4. Group Structure



1.1.5. Our Stakeholders



Refer to The Coop Bank Model and Our Stakeholders Engagement section of this report for more information.

1.1.6. Our Shareholders**Shareholding Structure as at 31 December 2017**

	Top 10 Shareholders as at 31 December 2017	Total Shares	% Shareholding
1.	Co-opholdings Co-operative Society Limited	3,787,715,404	64.56
2.	Dr. Gideon Maina Muriuki, CBS	110,083,700	1.88
3.	Kenya Commercial Bank Nominees Limited A/C 915B	45,420,739	0.77
4.	NIC Custodial Services A/C 077	38,404,143	0.65
5.	Stanbic Nominees Ltd A/C Nr1030682	31,865,673	0.54
6.	Messrs Aunali Fidahusseini Rajabali and Sajjad Fidahusseini Rajabali	24,000,000	0.41
7.	Amarjeet Baloobhai Patel & Baloobhai Chhotabhai Patel	19,190,619	0.33
8.	Old Mutual Life Assurance Company Ltd	19,100,391	0.33
9.	Kenya Reinsurance Corporation Limited	18,404,024	0.31
10.	Standard Chartered Nominees Resd A/C Ke11443	16,609,100	0.28
	Total	4,110,793,793	70.06
	Others (96,995 shareholders)	1,756,386,310	29.94
	Total	5,867,180,103	100.00%



The First Lady, Margaret Kenyatta with Dr. Gideon Muriuki (CBS), Group MD & CEO Co-operative Bank at First Lady Strategic Framework Launch on 8 March 2018 at State House.

Category Summary of Shareholders as at 31 December 2017			
Shareholder	No. of Shareholders	No. of Shares	% Shareholding
Foreign Companies	53	159,947,034	2.73%
Foreign Individuals	180	4,819,102	0.08%
Local Companies	3,027	4,726,360,272	80.56%
Local Individuals	93,745	976,053,695	16.64%
TOTAL	97,005	5,867,180,103	100.00%

Distribution of Shareholders as at 31 December 2017			
Shareholding	No. of Shareholders	No. of Shares	% Shareholding
1- 500	11,577	2,225,692	0.04%
501 - 5,000	37,626	76,931,629	1.31%
5,001- 10,000	31,683	255,958,408	4.36%
10,001 - 100,000	15,078	336,252,335	5.73%
100,001 - 1,000,000	787	228,736,231	3.90%
Above 1,000,000	254	4,967,075,808	84.66%
TOTALS	97,005	5,867,180,103	100.00%

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

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

As at end of December 2017, Co-opholdings had 3833, (2016-3832) individual co-operative society shareholders with a well-established Over-The-Counter (OTC) trading of shares held by them. Trading of these shares is only open to registered co-operative societies.

	Top 10 Co-opholdings Shareholders as at 31 December 2017	Total Shares	% Shareholding
1.	Harambee Cooperative Savings & Credit Society Ltd	144,857,832	3.82
2.	H & M Cooperative Savings & Credit Society Ltd	125,247,471	3.31
3.	Kenya Police Sacco Society Ltd	119,885,226	3.17
4.	Afya Cooperative Savings & Credit Society Ltd	111,395,592	2.94
5.	Masaku Teachers Coop Savings & Credit Society Ltd	110,037,033	2.91
6.	Kipsigis Teachers Coop Savings & Credit Society Ltd	101,495,520	2.68
7.	Telepost Co-Operative Savings & Credit Society Limited	90,766,284	2.40
8.	K-Unity Savings And Credit Co-Operative Society Limited	90,162,633	2.38
9.	Co-Operative Bank Coop Savings & Credit Society Ltd	75,118,512	1.98
10.	Nawiri Savings And Credit Co-Operative Society Ltd	69,453,216	1.83
	Total	1,038,419,319	27.42

Shareholder Information	2017	2016	2015	2014	2013
Total Shareholder Funds (Kshs Billion)	69.6	61.3	50.2	43.3	36.8
Return on equity (%)	17%	23%	25%	20%	27%
Earnings per share (KShs)	1.99	2.59	2.39	1.64	2.17
Price Earning Ratio	8.0	5.1	7.5	12.2	8.2
Dividend per share (KShs)	0.8	0.8	0.8	0.5	0.5
Pay out ratio (%)	41%	31%	33%	31%	23%
High	18.00	23.00	23.00	25.00	19.00
Low	11.00	9.75	15.85	17.00	12.20
Year End	16.00	13.20	18.00	20.00	17.75

1.1.7. Our Strategic Focus

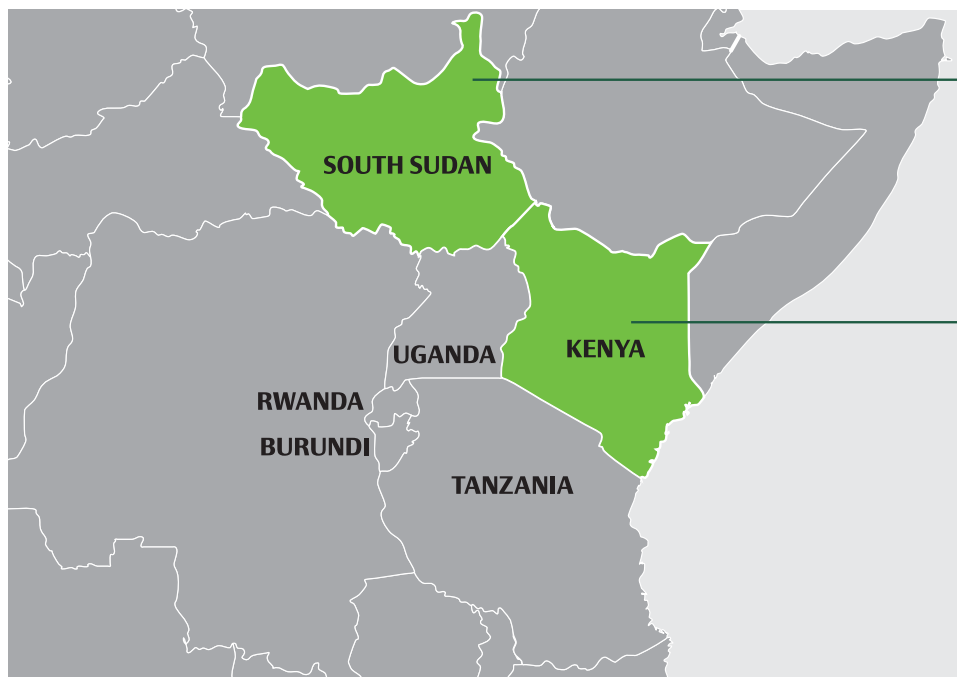
The following is a summary of our key strategic achievements for 2017. For a detailed review, refer to the Strategic Focus section of this report.

	Key Strategic Focus	Key stakeholder impacted	Key Achievement
1.	To be the dominant Bank in the Region	Our Shareholders	<ul style="list-style-type: none"> Dividend per share Kshs.0.8 Return on Assets 3.1% Return on Equity 17.4% Declared most sustainable Bank by the Kenya Bankers Association for catalytic finance that impacts Industry, Economy and Society.
2.	To enhance our overall customer experience	Our Customers	<ul style="list-style-type: none"> NPS score 59/60. Successful implementation of a customer centric model, which means that we are more focused on offering the customer a complete basket of solutions as per their needs. 950 staff trained on Distinctive Customer Experience. Digitization of customer journeys.
3.	To be the employer of choice	Our Employees	<ul style="list-style-type: none"> Robust skills, performance management and Reward mechanism. 92% staff members achieved and exceeded their targets. Staff Wellness program – scaled up in 2017 with over 250 wellness champions.
4.	To ensure that our internal capabilities enable optimum value creation for all our stakeholders	Our Enterprise	<ul style="list-style-type: none"> Operational efficiency and Proactive Risk management has led to cost management, revenue generation and optimal risk uptake, which have in turn led to higher value creation for all our stakeholders. Our cost to income ratio has fallen to 52.2% from 59% in 2014. We settled on the optimal digital strategy for the Group 'Co-op Way' that will see us compete effectively on the digital space.
5.	To ensure that the group operates as a responsible corporate citizen	Our Community	<p>We continued operating as a responsible corporate citizen;</p> <ul style="list-style-type: none"> Over 2300 consultancies carried out by our subsidiary: Co-op Consultancy and Insurance Agency Ltd. 6303 students supported since the inception of Co-op Foundation. Employee parity and wellness ensured. Green lending - Kshs. 3.6B as at 31.12.2017



Chairman Co-opholdings Co-operative Society Mr. Macloud Malonza (HSC) together with Group Managing Director and CEO Dr. Gideon Muriuki (CBS) presents the Highest Depositor Trophy, Coast Region, to Mr. Nyale Mwandonga Mule of Imarika Sacco.

1.1.8. Our Presence



- 4 Branches.
- 4 Collection Centres.

- 148 Branches.
- Branch presence in 40 out of 47 counties.
- Alternative Channel (Mobile, Internet, Agency) presence in all the 47 counties.



Cabinet Secretary Ministry of Industry, Trade and Co-operatives Mr Adan Mohamed in discussions with the Group Managing Director & CEO Dr. Gideon Muriuki (CBS) during the Ushirika Day Celebrations held in Nairobi in July 2017. The bank is a critical player in the Co-operative Movement in Kenya and across the globe.

1.1.9. Our Customers, Our Channels, Our Team Members

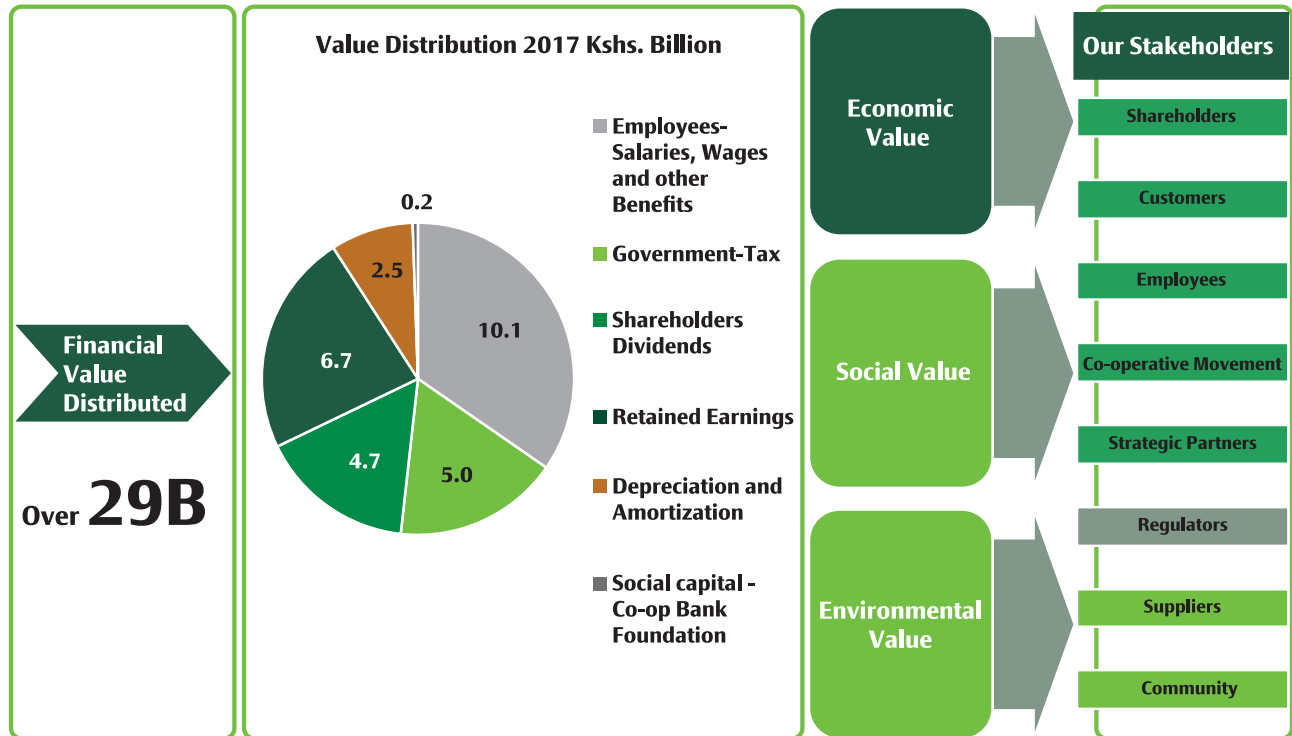
Our Customers	
7.1 Million	Account Holders
3.6 Million	Mcoop Cash Customers
79,218	CoopNet Customers
1.1 Million	SaccoLink Cards
13201	Diaspora Banking Customers
1.3 Million	Social Media Followers

Our Channels			
152	Branches	148	Self service Kiosks
580	ATM's		Dedicated Diaspora Banking Department
10,000	Co-op Kwa Jirani Agents	560	Sacco Front Offices
	Mcoop Cash Mobile Banking		Co-op Trust Investment Services Ltd.
	Co-opNet Internet Banking		Co-op Consultancy & Insurance Agency Ltd.
24 Hour	Contact Centre		Kingdom Securities Limited

Our Team Members	
4069	Co-op Bank team members

1.1.10. Wealth creation and distribution

Over 29 Billion distributed;



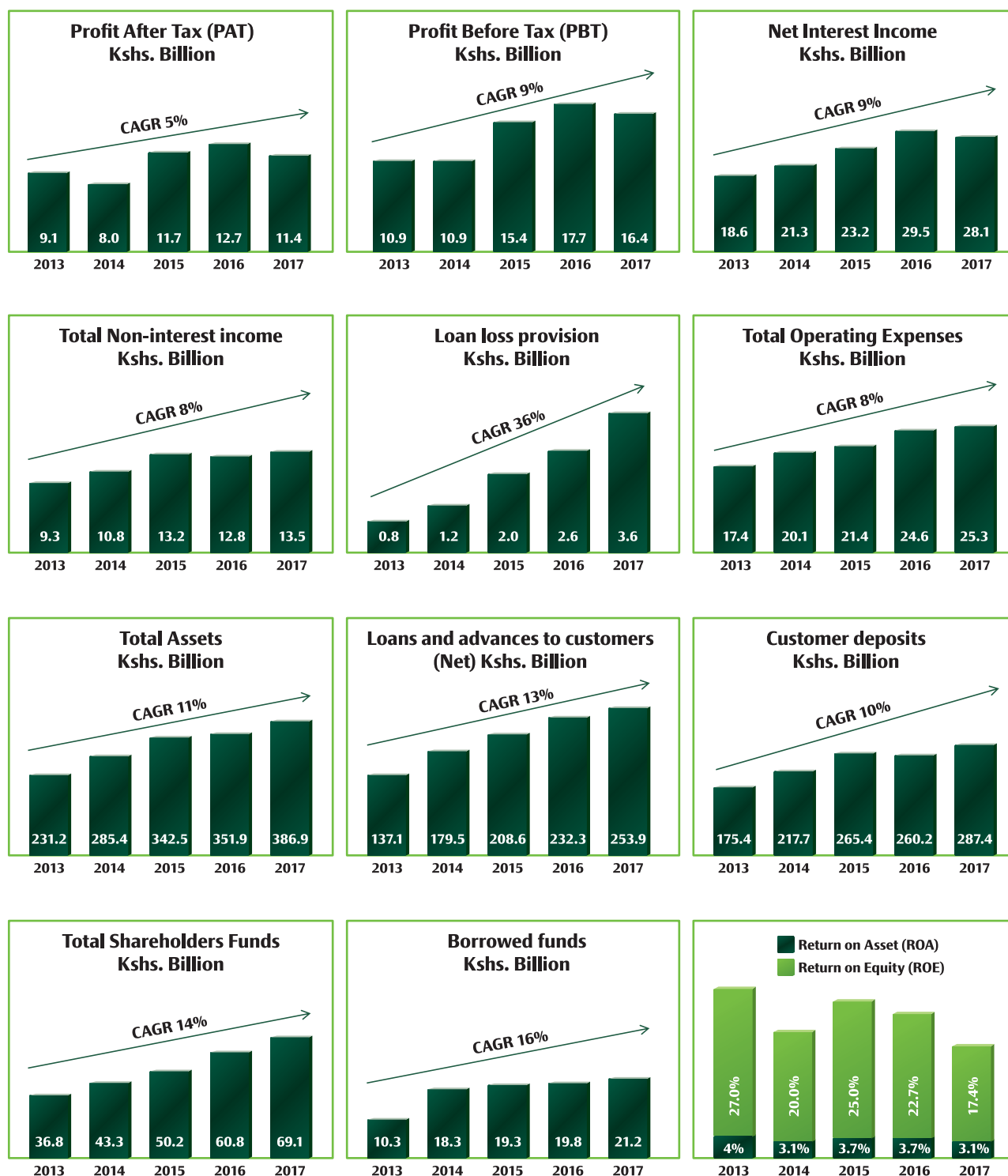
Refer to the Value distribution section of this report for more information.



Co-operative Bank was the overall winner in The Kenya Bankers Catalyst Awards 2017. The Bank was recognized for Catalytic Finance that Impacts Industry, Economy and Society.

From Left: Mr. Geoffrey Odundo; CEO Nairobi Securities Exchange Limited, Mrs. Veronica Njore; Investor Relations & Strategy, Mr. James Kaburu; Head Investor Relations & Strategy and Mr. Anthony Mburu; Director Credit Management Division

1.1.11. Five-Year Group Financial highlights.



Refer to the Financial performance review section of this report for more information.

Chairman's Statement



Dear Shareholders,

Let me begin at the outset by expressing my most sincere gratitude for the high honor of being elected Chairman of the Board of Directors of this great institution. I am both excited and humbled by the opportunity to have succeeded Mr. Stanley Muchiri (EBS) in this role. Mr. Muchiri had served with distinction, and capably led the Board in overseeing the historic progress of the bank as seen in the business and operational turnaround, local and regional expansion, successful listing on the Nairobi Securities Exchange and the transformation project. On behalf of the Board of Directors, I wish to thank him most sincerely for his long and dedicated service to the Bank.

A big appreciation to the retired Vice-Chairman, Mr. Julius Riungu for a great service to the bank

I assume the role of Chairman at a challenging moment in the banking industry, yet a most exciting one too. The operating environment and the regulatory landscape in particular has continued to be unusually challenging. On the other hand, rapid advancements in financial technology are driving innovations that are challenging established conventions on the way banking business is conducted.

”

The bank was a big winner at the 2017 Kenya Bankers Association Sustainable Finance Catalyst Awards, emerging as Overall Winner.

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

The migration to this new 'digital' space is a critical imperative for the banking industry, which we are responding to appropriately.

Overview of the Operating Environment

Kenya's economic growth decelerated in 2017 as a result of multiple headwinds experienced during the year. An extended drought from late 2016 into the first half of 2017, meant that food prices sky rocketed and cheaper hydro electricity generation reduced resulting in elevated inflationary pressures on households and businesses. A prolonged election cycle and the related uncertainty also weakened private sector activity, further constraining its growth. The interest rate capping law enacted in late 2016 through the Banking (Amendment) Act 2015 further slowed private sector credit growth. As a result, Kenya's GDP growth for 2017 dropped to 4.9%, its weakest in five years. Despite this slump, economic activity has remained resilient supported by a rebound in tourism, strong public infrastructure investments, relatively low global oil prices and a stable macroeconomic environment.

The banking sector experienced shrinking interest margins, deterioration in the quality of financial assets and uneven liquidity distribution which undermined profitability in the sector. The Kenya Shilling remained stable against major currencies while interest rates remained fairly unchanged throughout the year.

Performance Overview

Our balance sheet expanded by an impressive 10% (KShs. 35 Billion) to KShs. 386.9 Billion from KShs. 351.9 Billion. Profit before tax dropped 7.3% to KShs. 16.4 Billion compared to KShs. 17.7 Billion the previous year. This is a very commendable performance against a backdrop of one of the most challenging operating environments the business had to contend with in 2017. The good performance reflects the benefits and resilience the business continues to draw from the Transformation project that we have been implementing since 2014 with a clear focus on improving operational efficiencies, salesforce effectiveness and leveraging innovative customer delivery platforms to serve our growing customer base, now proudly at over 7 million account-holders.

In the period under review, I note with great pride and humility that the bank continued to receive accolades locally and in other parts of the world. The bank was a big winner at the 2017 Kenya Bankers Association Sustainable Finance Catalyst Awards, emerging as Overall Winner as a result of building a sustainability strategy that enables people, businesses and society to grow in a way that is most sustainable in the long-term. The bank was also named Best Bank in Kenya in the EMEA African Banking Awards 2017, beating stiff competition from the entire Africa, re-affirming our Co-operative approach as the most sustainable model for inclusive growth.

Regulatory Environment

The key highlights of the year included adoption and implementation of Internal Capital Adequacy Assessment Process (ICAAP), expansion of the Credit Information Sharing (CIS) mechanism and Risk-Based Supervisory Framework for Anti-Money Laundering and Countering Financing of Terrorism. The capping of interest rates enacted in 2016 has further caused private sector credit growth to plummet. The Bank continues to employ various strategies to grow alternative revenue streams, manage operational costs and maintain profitability. Preparation for adoption of International Financial Reporting Standard Number Nine (IFRS 9) which took effect on 1st January 2018, was also intensive. The new rule obligates banks to review their business models and policies in order to realign with the IFRS 9 requirements.

We shall continue to invest and build the capacity of our internal teams to enable them to effectively address all emerging compliance requirements which remain a most critical dimension in banking today. Through this, the Bank will nurture trust and enhance relationships with our customers and all other stakeholders, as the foundation upon which we shall sustain our successful banking business.

Board Changes and Corporate Governance

The Board is responsible for the corporate governance practices, and embraces its responsibilities to shareholders and other stakeholders to uphold the highest ethical standards and ensure that the Bank conducts its business in accordance with global best practice. The Board consists of twelve directors, with one of them, the Managing Director as executive, and eleven non-executive. The Board is composed of directors with a variety of skills, experience and competences in their relevant fields of expertise and is well placed to drive the bank's business forward. As stated earlier, during the year Mr. Stanley Muchiri (EBS) retired from the Board as Chairman and I was elected as his replacement. Similarly, Mr. Julius Riungu, Vice Chairman retired from the Board and was replaced by Mr. Macloud Malonza (HSC) as Vice-Chairman. Mr. Malonza is the Chairman of Co-op Holdings Co-operative Society Ltd, the 65% strategic investor of the bank. Again, we thank both the retiring directors for their devotion and selfless service and wish the incoming directors success and God's guidance in execution of duty in their new roles.

Dividend and the Annual General Meeting

The Bank is committed to ensuring effective communication with the shareholders and has used the Annual and Special General Meetings to fully engage shareholders on the bank's activities, strategy and performance. In this regard, the Board of Directors has recommended to the Annual General Meeting (AGM) a dividend of KShs. 0.80 per every ordinary share held, subject to the approval by the Capital Markets Authority.

The Tenth Annual General Meeting of the Co-operative Bank of Kenya Limited will be held at the Bomas of Kenya, Nairobi on Friday, 25th May 2018 to transact the Agenda as specified in the Notice of the AGM.

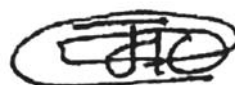
Outlook

We look into the future with great optimism. With the extended 2017 electioneering period now firmly behind us and the weather patterns normalizing, we anticipate a more vibrant economic growth and enhanced levels of investment. In the medium-term, growth in the Kenyan economy is forecast to recover above 5.5% in 2019. We are hopeful that supportive economic policies and prudent management of national economic affairs will be sustained in the days ahead. We remain eager and ready to take opportunity to grow our business as economic prospects improve for the benefit of our shareholders and communities.

Acknowledgement

I acknowledge and sincerely appreciate the immeasurable support I have received from my fellow Board Members in guiding the Bank. On my own behalf and on behalf of the Board of Directors, I most sincerely thank the Co-operative Bank team for their diligent service and dedication.

To our shareholders, I thank you for entrusting us with the responsibility of overseeing your investment and believing we can achieve greater performance together and support the communities in which we do business.



JOHN MURUGU, OGW

Chairman

Taarifa ya Mwenyekiti



Enyi Wamilikihisa,

Hebu nianze kwa kutoa shukrani zangu za dhati kwa heshima kubwa niliopewa ya kuchaguliwa kama Mwenyekiti wa Bodi ya Wakurugenzi wa taasisi hii adhimu. Nimejawa na furaha na unyenyekevu mwingi kwa kufanikiwa na fursa hii ya kuchukua nafasi ya Bwana Stanley Muchiri (EBS) katika jukumu hili. Bwana Muchiri alitekeleza kazi yake kwa sifa bora, na kwa ujuzi aliongoza Bodi katika kusimamia maendeleo ya kihistoria ya benki kama inavyodhihirika katika biashara na mabadiliko ya utendaji kazi, upanuzi wa humu nchini na wa kikanda, kufanikiwa kuorodheshwa katika Soko la Hisa la Nairobi na mradi wa kuleta mabadiliko. Kwa niaba ya Bodi ya Wakurugenzi, napenda kumshukuru kwa dhati kwa huduma yake ya muda mrefu na ya kujitolea kwa Benki hii.

Nachukua wadhifa huu wa Mwenyekiti kukiwa na hali ya changamoto katika sekta ya benki, lakini ikiwa ni kipindi cha kuisimua pia. Mazingira ya uendeshaji biashara na hasa mandhari ya udhibiti kanuni yanaendelea kuwa ya changamoto isiyo ya kawaida. Kwa upande mwingine, maendeleo ya haraka katika teknolojia ya fedha yanachochea ubunifu ambao ni changamoto kwa njia za kawaida zilizopo za uendeshaji shughuli za benki. Uhamiaji kwenda kwa mfumo huu mpya jukwaa la 'dijitali' ni muhimu mno kwa sekta hii ya benki, ambayo sisi tunashughulikia kutekeleza kwa usahihi kabisa.

”

Benki hii ilikuwa na ushindi mkubwa katika tuzo za Kenya Bankers Association Sustainable Finance Catalyst Awards za 2017, ikiibuka Mshindi Mkuu.

Mr. John K. Murugu, OGW
Mwenyekiti

Maelezo kwa Ujumla kuhusu Mazingira ya Utendaji kazi

Ukuaji kiuchumi wa Kenya ulipungua kasi katika 2017 kutokana kuwepo kwa hali mbaya iliyokithiri katika mwaka huo. Ukame uliodumu kwa mrefu kuanzia mwisho wa 2016 hadi nusu ya kwanza ya 2017, ulimaanisha kupanda juu zaidi kwa bei za chakula na kupungua kwa unafuu wa gharama za uzalishaji umeme na kusababisha kuzidi kwa shinikizo la mfumuko wa bei katika familia na biashara. Kuongezeka mno kwa kipindi cha muda wa uchaguzi na hali ya kutokuwa na uhakika wa usalama kuliofuatia pia kulisababisha kudorora kwa shughuli za sekta biashara za kibinafsi, na kuendelea kukweza zaidi ukuaji wake. Sheria za Uwekaji viwango vya riba zilizotungwa mwisho mwa 2016 kupitia Sheria ya Mabenki (Marekebisho) Sheria ya 2015 kulipunguza kasi ya ukuaji wa mikopo katika sekta ya kibinafsi hadi kukaribia kuisimamisha. Matokeo ya hali hii, Ukuaji wa Pato la Taifa wa Kenya kwa mwaka 2017 unatarajiwa kushuka kwa kima cha 4.9%, ikiwa ni dhaifu zaidi katika muda miaka mitano iliyopita. Licha ya kushuka huku, shughuli za kiuchumi zimeendelea kwa ukakamavu zikisaidiwa na kuimarika kwa sekta ya utalii, uwekezaji mkubwa wa miundombinu ya umma, bei ya chini ya mafuta duniani na mazingira mazuri ya uchumi.

Sekta ya benki ilikumbwa na kushuka kwa viwango vya riba, kupungua kwa ubora wa mali na utoaji wa ukwasi usio na usawa ambao ulipunguza faida katika sekta hii. Shilingi ya Kenya ilibakia kuwa imara dhidi ya sarafu zingine muhimu huku viwango vya riba vikidumu bila kubadilika katika mwaka huo wote.

Mtazamo wa Utendaji Kwa Ujumla

Mizani yetu ya hesabu iliongezeka kwa kima cha kuvutia cha 10% (KShs. Bilioni 35) kwa KShs. Bilioni 386.9 kutoka KShs. Bilioni 351.9. Faida kabla ya kulipa kodi ilishuka kwa 7.3% hadi KShs. Bilioni 16.4 ikilinganishwa na KShs. Bilioni 17.7 Bilioni katika mwaka uliopita. Huu ni utendaji maridhawa sana wakati kukiwa na hali ya mazingira magumu zaidi ya uendeshaji yaliyokabili biashara hii katika mwaka wa 2017. Utendaji huu mzuri unadhihirisha faida na ujasiri unaendelezwa na shirika hili ili kufaidika na Mradi wa Mabadiliko ambao tumekuwa tukitekeleza tangu mwaka wa 2014 huku kukiwa na lengo lililo wazi la kudhamiria kuboresha ufanisi katika uendeshaji, kufanikisha shughuli za timu ya mauzo na kutumia jukwaa bunifu la utoaji huduma kwa wateja ili kuhudumia kitengo cha wateja wetu msingi wanaozidi kila kukicha, hadi hivi sasa tukijivunia kuwa na wamiliki akaunti zaidi ya milioni 7.

Katika mwaka tunaoukariria, natambua kwa majivuno na unyenyekevu mkubwa kuendelea kwa benki hii kupokea tuzo za ubora humu nchi na za kimataifa. Benki hii ilikuwa na ushindi mkubwa katika tuzo za Kenya Bankers Association Sustainable Finance Catalyst Awards za 2017, ikiibuka Mshindi Mkuu kutokana na kuunda kwake mkakati endelevu wa kuwezesha ukuaji wa watu, biashara na jamii kwa jumla kwa njia ambayo ni endelevu zaidi katika kipindi cha muda mrefu. Benki hii pia ilituzwa kama Benki Bora Zaidi hapa Kenya katika tuzo za EMEA African Banking Awards 2017, dhidi ya ushindani mkali kutoka Afrika yote, na kuthibitisha tena kuwa mbinu yetu ya Ushirika kuwa ndio mtindo endelevu zaidi wa ukuaji wa pamoja.

Mazingira ya Uthibiti Kanuni

Mambo muhimu mwakani ni pamoja na kupitishwa na utekelezaji wa Mchakato wa Tathmini ya Uwezo wa Mtazamo wa Ndani (ICAAP), upanuzi wa Mfumo wa Utoaji wa Taarifa za Mikopo (CIS) na Mpangilio wa Usimamizi Unaotathmini Mashaka katika Kupambana na Usafishaji wa Fedha haramu na Kuzuia utoaji wa Fedha za kufaidisha Ugaidi. Sheria za uwekaji viwango vya riba zilizopitishwa 2016 zilikuwa na athari kubwa na zilisababisha kudorora kwa ukuaji wa mikopo katika sekta za biashara za kibinafsi. Benki hii inaendelea kutumia mikakati mbali mbali ya kukuza njia mbadala za kuleta mapato, uthibiti wa gharama na kudumisha uzalishaji faida. Maandalizi ya kupitishwa kwa Taarifa ya Fedha ya Haadhi ya Kimataifa Nambari Tisa (IFRS 9) ambayo ilianza kutekelezwa tarehe 1 Januari 2018, pia ilizingatiwa zaidi. Kanuni hizi mpya zinalazimisha mabenki kutathamini miundo ya biashara na sera zao ili kuioanisha na mahitaji ya IFRS 9.

Tutazidi kuwekeza na kujenga ufahamu wa timu zetu za humu ili wawe na uwezo wa kushughulikia kwa ubora unaostahili mahitaji ya kanuni zote zinazoitika jambo ambalo ndio mwelekeo muhimu kwa benki hivi leo. Kupitia hili, Benki itazidi kukuza uaminifu na kuimarisha mahusiano na wateja wetu pamoja na wadau wengine wote, kama jambo la msingi ambalo litasaidia kufanikisha biashara ya benki hii yetu.

Mabadiliko katika Bodi na Uwajibikaji wa Shirika

Bodi iko na jukumu la kutekeleza vigezo vya Uwajibikaji wa Benki, na kuzingatia majukumu yake kwa wanahisa na wadau wengine ya kudumisha viwango vya juu vya maadili na kuhakikisha kuwa Benki linafanya biashara yake kwa mujibu wa kanuni za kimataifa. Bodi ina wakurugenzi kumi na wawili, mmoja wao akiwa ni Mkurugenzi Mkuu mtendaji, na kumi na moja wasio watendaji. Bodi inaundwa na wakurugenzi waliyo na ujuzi, uzoefu na uwezo mbali mbali katika maeneo yao ya ustadi na iko katika nafasi nzuri kupeleka mbele biashara ya benki hii. Kama ilivyotajwa hapo awali, katika kipindi cha mwaka huo, Bwana. Stanley Muchiri (EBS) alistaafu kutoka kwa Bodi kama Mwenyekiti na mimi nikachaguliwa kuchukua nafasi yake. Vile vile, Bwana. Julius Riungu, Makamu Mwenyekiti alistaafu kutoka kwa Bodi na nafasi yake kuchukuliwa na Bwana. Macloud Malonza (HSC) kama Makamu Mwenyekiti. Bwana. Malonza ndiye mwenyekiti wa Co-opholdings Co-operative Society Ltd (wawekezaji wenye hisa 65% za benki). Tunawashukuru wakurugenzi wote wawili wanaostaafu kwa uaminifu wao na huduma yao ya kujitolea na tunawatakiya mafanikio wakurugenzi wapya wanaoingia uongozi wa Mungu katika kutekeleza nyadhifa zao mpya.

Mgao na Mkutano Mkuu wa Mwaka

Benki hii inajitolea kuhakikisha kuwepo kwa mawasiliano bora na wanahisa wetu na imekuwa ikitumia Mkutano Mkuu na Mkutano Maalum ya Mwaka kuwahusisha kikamilifu wanahisa kwenye shughuli za benki, mkakati na utendaji kazi. Kwa suala hili, Bodi ya Wakurugenzi inapendekeza, katika Mkutano Mkuu wa Mwaka (AGM) mgao wa KShs. 0.80 kwa kila hisa ya kawaida inayomilikiwa, ikisubiriwa idhini ya Mamlaka ya Masoko ya Mtaji (CMA).

Mkutano Mkuu wa Mwaka wa Benki ya Co-operative Bank of Kenya ambao ni wa Kumi, utafanyika katika Bomas of Kenya, Nairobi siku ya Ijumaa, tarehe 25 Mei, 2018 kujadili Ajenda kama ilivyoelezwa katika Notisi ya Mkutano Mkuu wa Mwaka (AGM)

Mtazamo

Tunatazama siku zijazo kwa matumaini makubwa. Muda wa wa siasa na upigaji kura uliorefuka zaidi katika 2017 sasa umekwisha na hali ya hewa inazidi kutulia, tunatarajia ustawi zaidi wa kiuchumi na viwango bora vya uwekezaji. Katika kipindi cha muhula wa kati, ukuaji wa uchumi wa Kenya, unatarajiwa kupaya afueni ya kima cha 5.5% katika 2018 na 5.9% katika 2019. Tuna matumaini kuwa sera za kiuchumi za kuunga mkono na usimamizi wa busara wa masuala ya kiuchumi wa kitaifa zitadumishwa hadi katika siku zijazo. Tunazidi kuwa na shauku huku tukiwa tayari kufuatilia fursa za kukuza biashara yetu wakati huu ambapo matarajio ya kiuchumi yako katika hali bora kwa manufaa ya wanahisa pamoja na jumuiya yetu.

Shukrani

Natambua na kufurahia kabisa usaidizi mkubwa usiokadirika niliupokea kutoka kwa Wanabodi wenzangu katika kuongoza Kundi hili. Kwa niaba yangu binafsi na kwa niaba ya Bodi ya Wakurugenzi, natoa shukrani za dhati kwa timu yote ya Benki ya Co-operative kwa ajili ya bidii ya kuhudumu na kwa kujitolea kwao. Kwa wanahisa wetu, nawashukuru kwa kutuamini na kazi ya kusimamia rasilimali yenu na kwa kuamini kuwa pamoja tunaweza kufikia mafanikio makubwa zaidi na kusaidia jumuiya ambamo tunaendesha biashara yetu.



JOHN MURUGU, OGW

Mwenyekiti

The Board of Directors

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



John Murugu (OGW), Chairman (67)

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



Macloud Malonza (HSC), Vice Chairman (49)

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



Dr. Gideon Muriuki (CBS) Group Managing Director & CEO (53)

Appointed Managing Director in 2001 and has presided over the Bank's turnaround from a massive loss position of KShs. 2.3 billion in the year 2000, to a profit before tax of KShs. 16.4 billion in 2017. He joined the Bank in 1996 as a Senior Corporate Manager then became Director, Corporate and Institutional Banking in 1999 before his appointment as Managing Director in 2001 with a clear mandate to return the Bank into profitable trading. Holds a Bachelor of Science degree in Mathematics, is a Fellow of the Kenya Institute of Bankers and was awarded an Honorary Doctorate in Business Management in year 2011. He has over 29 years experience in banking and finance and he was voted CEO of the year Africa 2014 by the International Banker. He is a Director of Kingdom Securities Limited, Vice-President Africa – International Co-operative Banking Alliance (ICBA), former Chairman, Governing Council of the Africa International University and former Chairman, African Rural and

Agricultural Credit Association (AFRACA). He was decorated in 2005 with the award of Order of the Grand Warrior (OGW), in 2011 with the award of the Moran of the Order of the Burning Spear (MBS) and in 2017 with Chief of the Order of the Burning Spear first class (CBS) in recognition of his successful turnaround of the Bank and exemplary service to the nation. He 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, 2016 Lion of Judah Award by Evangelical Alliance of Kenya and Mtumishi Bora Grand Award - 2016 by the Kenya Christian Professionals Forum for his great servant leadership as a committed christian leader in the market place.

The Board of Directors (Continued)

Patrick K. Githendu, Director (64)

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



Rose Simani (Mrs.), Director, Independent (59)

Joined the Board of Directors on 29th May 2009. She is a Human Resource Consultant in the areas of organizational and leadership development, recruitment, selection and retention, design of performance management tools and competitive reward systems, developing and delivering training programs in the area of performance management, soft skills and culture change management and is the Managing Partner, Simcorp Human Resources Solutions. She has over 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. She holds a Bachelor of Arts in Social Sciences, is a graduate of the FKE Female Future Program, a Fellow Member of the Institute of Human Resources and a CIC Nairobi Delegate, representing Co-operative Bank of Kenya. She has attended various local and international trainings. She is the Chairperson of the Board Audit Committee.



Lawrence Karissa, Director, Independent (62)

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



Julius Sitienei, Director (63)

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



Benedict W. Simiyu, Director (56)

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



The Board of Directors (Continued)



Richard L. Kimanthi, Director (61)

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



Wanyambura Mwambia, Principal Secretary - National Treasury appointee (62)

He was appointed a Director on 7th August 2013, as the alternate to the Principal Secretary - National Treasury. He is the Deputy Director Economic Affairs in charge of Tax and Administration and private Sector issues and holds a BA (Hons) in Economics and Sociology from the University of Nairobi and an MA in Development Economics from Dalhousie University Canada. He has had a successful career in the Civil service for a period of over 32 years in the Ministry of Foreign Affairs and Ministry of Finance & Planning. He has brought a wealth of experience in finance and management in the public sector Government departments under the Office of the President. He is the Chairman of the Board Risk Committee.



Wilfred Ongoro (HSC), Director (62)

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.



Godfrey K. Mburia, Director (61)

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



Samuel M. Kibugi, Company Secretary (41)

Has over 15 years experience as a lawyer and prior to joining Co-op Bank in 2008, he worked for a leading bank as a Legal Counsel. He is an Advocate of the High Court of Kenya, a member of the Institute of Certified Public Secretaries ICPS (K) and an Associate Member of the Chartered Institute of Arbitrators. As the Company Secretary of the Co-op Bank Group, he has responsibility for overall provision of legal counsel and company secretarial services, fraud prevention and investigations. He is also the Trust Secretary for the Co-operative Bank Foundation, the corporate social responsibility vehicle of the Bank.

Board of Directors of Kenya Subsidiary Companies

(Co-optrust Investment Services Limited & Co-op Consultancy & Insurance Agency Limited) The Bank Vice Chairman Mr. Macloud Malonza (HSC), and the Group Managing Director & CEO, Dr. Gideon Muriuki (CBS), serve on the boards of the subsidiary companies. The other directors are:

Dr. James M. Kahunyo, Director (63)

Joined the boards of the subsidiaries in 2005. 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 Co-opholdings Co-operative Society Limited.



David Muthigani Muriuki, Director (49)

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



James N. Njiru, Director (50)

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



Scholastica Odhiambo (Mrs.), Director (58)

Joined the boards of Co-optrust Investment Services Ltd in 2005 and Co-op Consultancy & Insurance Agency Ltd in 2008. She has served at the Ministry of Finance and continues to work with the Kenya Revenue Authority as a Revenue Officer, where she has served for over 31 years. She holds a Bachelor of Business Administration and a Diploma in Corporate Governance from the KCA University. She is a Director of Co-opholdings Co-operative Society Limited.



Mary N. Mungai (Mrs.) OGW, Director (59)

Joined the Board of Directors in 2016. Holds a Bachelor of Science degree in Agriculture from University of Nairobi and Master of Science degree in Agricultural economics from Purdue University, USA. She has over 34 years of experience in policy analysis, policy development and projects and programmes development. She has been extensively involved in implementation of projects by the ministry of Agriculture, Ministry of co-operatives and development partners including IFAD, World Bank, GTZ, SIDA, FAO and European Union. She is currently the Commissioner for Co-operatives and has served in various positions in the Ministry of Agriculture and Ministry of Co-operatives including Deputy Director Marketing and new venture and senior commissioner for co-operative development.



Board of Directors of Co-operative Bank South Sudan

The Bank Chairman, Mr. John Murugu (OGW), the Vice Chairman Mr. Macloud Malonza (HSC) and the Group Managing Director & CEO, Dr. Gideon Muriuki (CBS) serve on the Board of Directors of the Co-operative Bank of South Sudan. The other directors are:



William Mayar Wol, Chairman (55)

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



Elijah Wamalwa, Managing Director (44)

He has 19 years banking experience and is one of the pioneers of Co-operative Bank of South Sudan where he worked from 2013 as Head of Credit & Risk Management, in 2015 as Head of Retail and Operations before being appointed Managing Director in 2017.

He has served in various other capacities at the Co-operative Bank of Kenya as a Portfolio Manager, Head of Credit Administration and later as Head of Credit-Core Banking Implementation Team.

He holds a Master Of Science Degree in Governance attained at International Leadership University (Kenya) and a Bachelor of Arts Degree from Egerton University (Kenya). He has additional qualifications in accounting and project management.



Prof. Mathew Gordon Udo, Director (59)

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

Agriculture (animal production) from Gezira University of Agriculture wad Medani Sudan. He was appointed Professor of animal genetics and animal breeding - CNRES University of Juba, - a position he continues to hold.



Hon. Wani Buyu Dyori, Director (72)

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.



Rosemary M. Githaiga, (Mrs), Director (54)

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



“ With Co-op Bank Good Home Mortgage, we are now proud owners of our home. ”



50 CELEBRATING
YEARS

The Group Managing Director & CEO's Report



Dear Shareholders,

The year 2017 had a number of challenges for the Kenyan economy and the banking industry in particular. It was the first full year of operation under the interest rate capping regime which saw interest rate margins shrink and credit uptake by the private sector retreat. The severe drought in early 2017 saw agricultural output decline and inflation soared. The prolonged election cycle further depressed economic activity in the second half of the year.

It is during harsh times such as these that the real strength and resilience of a business is truly tested. As our performance shows, we came out emboldened and re-affirmed that our business model can withstand shocks and deliver sustainable value for our stakeholders now and long into the future.

”

The bank embarked on a critical Transformation program in order to remain competitive in Kenya's dynamic market environment.

Dr. Gideon Muriuki, CBS
Group Managing Director & CEO

During the year we welcomed a new Chairman of the Board, and Vice Chairman. We wish to extend our warmest welcome to both of them, and are grateful for their commitment and willingness to serve as we look forward to their stewardship.

2017 Performance Overview

The Group made a profit before tax of KShs. 16.4 Billion in 2017, a marginal drop of 7.3% from KShs. 17.7 Billion that we reported in 2016. Our balance sheet grew by 10% to KShs. 386.9 Billion from KShs. 351.9 Billion in 2016. Total deposits grew by 9% to KShs. 287.7 Billion while loans and advances book grew by 7% to KShs. 253.9 billion compared to 232.3 Billion in 2016. We closed the year with a cost-to-income ratio of 52%, similar to that recorded in 2016, reflecting a sustained control on costs.

We held our position as the third largest Bank in Kenya by asset size and our Market Capitalization at the Nairobi Securities Exchange stands at over KShs. 100 Billion. Our customer base has grown by 13% from 6.2 million accounts in 2016 to 7.1 Million accounts in 2017 and with our branch network of 152 (4 in South Sudan), we have a physical footprint in most of the counties in Kenya.

Strategic Direction: 'The Soaring Eagle' Transformation Project

Following a growth and efficiency review by global consulting firm McKinsey & Company in August 2014, the bank embarked on a critical Transformation program in order to remain competitive in Kenya's dynamic market environment. Critical areas of focus included: Enhanced Operational efficiency, Frontline productivity and sales force effectiveness, Improved Cost to income ratio and Enhanced Performance management. Since then, we have witnessed remarkable improvement both on operational aspects and the tangible metrics. Our customer experience has also been lauded as we've become more customer-centric. Queue-time has improved from 52 minutes in 2014 to under 12 Minutes currently. 87% of transactions are being done at alternative channels while our cost to income ratio has fallen to 52.2% from 59% in 2014.

We are still on the project entrenching these milestones albeit with broadened areas of focus including; **Salesforce Effectiveness 3.0** whose Focus is on deposit mobilization, Non-Funded income growth, Rapid campaigns and account planning, **MSME Transformation**, where we seek to be the foremost SME Bank in Kenya and **Shared Services & Digitization** with an aim of becoming a Digital Bank with Omni-Channel Implementation for prioritized segments. We have made investments and great strides in business intelligence and data analytics to enrich customer relationships, service experience and enhance management reporting.

Risk Management

The Group performs a detailed assessment of its risk profile and capital requirements on an annual basis. The Group is adequately capitalized for its business model and the risk appetite defined by the Board of Directors.

The Group's capital ratios at 22% for total capital and 15.8% for core capital are higher than the minimum requirements prescribed under both Basel and CBK Prudential Guidelines. Our capital position provides sufficient flexibility to take advantage of expansion both locally and regionally, acquisition opportunities, and payment of dividends. During the year under review, we put in place and adopted a dynamic Internal Capital adequacy Assessment process that ensures we recognize and take optimum level of risk. Risk management is now agile, and can be rapidly enhanced as a result of disruptions, be they technological advances, macroeconomic shocks, or banking failures.

Future Outlook

We have laid a sound foundation and readiness to soar to greater heights. We are optimistic of progressive improvement in the operating environment and a favorable policy regime for the banking industry. We will continue to leverage our growing customer base of over 7.1 million account-holders and our significant investments in infrastructure, processes and people to maintain our growth trajectory in line with our strategic objectives to deliver even better performance in the coming years.

In Conclusion

I take this opportunity to thank our entire staff team for their diligence and hard work which has delivered the commendable performance. We count on you to drive the strategy we have set in place in order to meet our promise to our shareholders in the days ahead.

I would also like to most sincerely thank all our customers and business partners for their support in 2017. We look forward to doing business with you this year and well into the future.

Lastly, let me express my sincere gratitude to the Chairman, Mr. John Murugu (OGW) and the entire Board of Directors for the unwavering support, oversight and guidance they have given the 'Kingdom Bank'. I commend their commitment to the long-term growth of the bank.

Thank you and may God richly bless you.



Dr. Gideon Muriuki, CBS
Group Managing Director and CEO

Taarifa ya Mkurugenzi Msimamizi na Afisa Mkuu Mtendaji wa Kundi



Enyi Wanahisa,

Mwaka wa 2017 ulikuwa na changamoto nyingi kwa uchumi wa Kenya na hasa zaidi katika sekta ya benki. Ulikuwa mwaka wa kwanza wa uendesaji shughuli kukiwa na sheria za uwekaji viwango vya riba ambao ulisababisha kushuka kwa viwango vya riba ya kiwango na kupungua kwa uchukuaaji wa mikopo na sekta ya kibinafsi. Ukame mkali ulipungua pato la kilimo na mfumuko wa bei uliongezeka. Kuweko kwa muda mrefu wa uchaguzi kulipunguza shughuli za kiuchumi katika nusu ya pili ya mwaka

Kunapokuwa na wakati mgumu kama huu kwamba nguvu halisi na ujasiri wa kibiashara hujaribiwa zaidi. Kama matokeo yetu yanavyoonyesha, tulitoka kati hali hiyo tukiwa na ujasiri na uhakikisho kuwa mtindo wetu wa kuendesha biashara unaweza kuhimili mshtuko wowote na kuwasilisha thamani endelevu kwa wadau wetu sasa na hata zaidi katika siku zijazo.

Mwakani tuwakaribisha Mwenyekiti

”

Benki ilianza mpango muhimu wa Mabadiliko ili kuendelea kuwa katika nafasi nzuri ya ushindani kwenye mazingira haya ya soko la Kenya.

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

Mpya wa Bodi, Makamu wa Mwenyekiti. Tunapenda hapa kuwanyooshea mkono na kuwakaribisha kabisa wote wawili, na tunawashukuru kwa kujitolea kwao na nia yao ya kuhudumu kama tunavyotarajia uongozi wao.

Mtazamo wa Utendaji kwa ujumla katika 2017

Benki hii ilipata faida ya KShs. bilioni 16.4 kabla ya kulipa kodi katika 2017, ikiwa ni upungufu mdogo wa asilimia 7.3 kutoka KShs. Bilioni 17.7 zilizoripotiwa katika mwaka wa 2016. Mizania yetu ya hesabu iliimarika kwa 10% hadi KShs. Bilioni 386.9 kutoka KShs. Bilioni 351.9 za mwaka wa 2016. Jumla ya pesa zilizowekwa kwa akaunti ilizidi kwa 9% hadi KShs. Bilioni 287.7 huku daftari la mikopo likionyesha ukuaji wa 7% hadi KShs. Bilioni 253.9 ikilinganishwa na KShs. Bilioni 232.3 katika 2016. Tulikamilisha mwaka tukiwa na uwiano gharama kwa mapato wa kima cha 52%, hii ikiwa sawa na ilivyorekodiwa katika 2016, ikionyesha udhibiti imara wa gharama.

Tulishikilia nafasi yetu kama Benki ya tatu kubwa zaidi hapa Kenya kwa ukubwa wa rasilimali na Mtaji wetu wa Soko katika Soko La Hisa la Nairobi ukifikia kiasi cha zaidi ya KShs. Bilioni 100. Idadi ya wateja wetu imeongezeka kwa 13% kutoka akaunti milioni 6.2 mwaka wa 2016 hadi kufikia milioni 7.1 katika 2017 na mtandao wetu wa matawi ukiwa 152 (4 Sudan Kusini), tumeenea na tunapatikana katika kaunti 40 hapa nchini Kenya.

Mwelekeo wa Kimkakati: Mradi wa Mabadiliko wa 'The Soaring Eagle'

Kufuatilia tathmini ya ukuaji na ufanisi iliyotekelezwa na shirika la kimataifa la ushauri McKinsey katika mwezi wa Desemba 2014, benki ilianza mpango muhimu wa Mabadiliko ili kuendelea kuwa katika nafasi nzuri ya ushindani kwenye mazingira haya ya soko la Kenya yanayobadilika mara kwa mara. Maeneo muhimu ya kuzingatwa yakiwa yanajumuisha: Uboreshaji wa Ufanisi katika Uendeshaji shughuli, Ufanisi wa Mbele na Ufanisi wa timu ya kitengo cha Mauzo, Kuboreshwa kwa Uthibiti wa Gharama kwa uwiano wa kipato na Kuimarishwa kwa Usimamizi wa Utendaji. Tangu kuanzishwa haya, tumeshuhudia kuboreka kukubwa kote kwa nyanja za uendeshaji na Ukadriaji ubora unaoonekana. Huduma zetu kwa wateja pia zimekuwa za kuheshimika kwa vile tunazingatia zaidi mahusiano na wateja. Muda wa foleni umeboreshwa kutoka dakika 52 mwaka wa 2014 hadi chini ya dakika 12 hivi sasa. 87% ya muamala unafanyika kwa njia mbadala ilihali gharama zetu kwa uwiano wa mapato zimeanguka kwa 52.2% kutoka 59% ilivyokuwa 2014.

Tunaendelea katika mradi wa kutekeleza na kuimarisha hatua kukiwa na ongezeko la maeneo ya kuzingatwa ikiwa ni pamoja na; Ufanisi wa Timu ya Mauzo 3.0 ambao Mtazamo wake ni katika uhamasishaji wa wateja kuweka fedha humu, Ukuaji wa mapato yasiyo ya Kifedha, Kampeni za haraka na mipango ya akaunti, Mabadiliko ya MSME, ambapo tunataka kuwa Benki ya kwanza tambulika inayowashughulikia wafanyibiashara wadogo (SME) na Huduma za Ushirikiano na Usajili Kidijitali kwa lengo la kuwa Benki Digitali yenye njia na vitengo vingi vya matumizi. Tumefanya uwekezaji na kupiga hatua kubwa za ufanisi katika ufahamu wa kibiashara na uchambuzi wa data ili kuimarisha mahusiano na wateja, uzoefu wa huduma na kuboresha utoaji taarifa za usimamizi.

Usimamizi wa Dhima

Kundi hufanya tathmini ya kina ya wasifu wake wa dhima na mahitaji ya mtaji kila mwaka. Kundi hili lina mtaji unaostahiki kikamilifu kwa muundo wake wa biashara na kuwepo kwa dhima kama iliyoelezewa na Bodi ya Wakurugenzi. Uwiano wa Mtaji wa Kundi hili ukiwa 22% ya jumla yote ya rasilimali na 15.8% kwa mtaji wa msingi ukiwa ni juu kuliko mahitaji ya kiwango cha chini yaliyohitajiwa chini ya Mwongozo wa Basel na Vigezo vya Benki Kuu ya Kenya. Msimamo wetu wa Mtaji unatoa unyumbufu wa kutosha kuweza kuchukua fursa za upanuzi wote wa ndani na wa kikanda, fursa za ununuzi na upanuzi, na pia malipo ya mgao. Katika mwaka unaotathminiwa, tumeweka na kutekeleza mchakato wa Tathmini ya Ufanisi wa Mitaji ya ndani inayohakikisha kwamba tunatambua na kuchukua kiwango cha dhima. Usimamizi wa dhima sasa ni mnyumbufu, na unaweza kuimarishwa kwa haraka kutokana na masitisho, yawe ni maendeleo ya kiteknolojia, matukio yasiyotarajiwa ya kiuchumi, au kasoro katika benki.

Mtazamo katika Siku Zijazo

Tumeweka msingi sahihi na tuko tayari kupaa juu hadi kilele cha ufanisi. Tuna matumaini ya kuwepo katika mazingira bora ya maendeleo ya uendeshaji shughuli na sera za usimamizi wa sekta ya benki. Tutazidi kutumia kama nyenzo ongezeko kubwa la wateja wetu la zaidi za wamiliki akaunti milioni 7.1 pamoja na uwekezaji wetu mkubwa katika muundo-msingi, mchakato na watu wetu kudumisha ukuaji wetu kaumbatana na malengo ya mkakati wetu ili kuwasilisha matokeo bora zaidi katika miaka inayokuja.

Kutamatisha

Nachukua fursa hii kutoa shukrani zangu kwa makundi ya wafanyikazi wetu wote kwa juhudi na bidii yao kazini ambayo ndiyo imetuwzesha kuwasilisha matokeo haya bora yanayostahili sifa. Tunawategemea nyinyi katika kutekeleza mkakati huu ambao tumeweka wa kutuwzesha kutimiza ahadi zetu kwa wanahisa wetu katika siku zinazokuja

Napenda pia kutoa shukrani zangu za dhati kwa wateja wetu wote na washirika wa kibiashara kwa kutuunga mkono katika 2017. Tunatarajia kuwa tutazidi kufanya biashara na nyinyi mwaka huu na pia katika siku zijazo

Mwisho, napenda kwa moyo mkunjufu kabisa kutoa shukrani zangu kwa Mwenyekiti, Bwana John Murugu (OGW) na Bodi yote ya Wakurugenzi kwa msaada wao usio na kifani, uangalizi na uongozi ambao wametoea kwa 'Kingdom Bank'. Natambua na kushukuru kujitolea kwao katika ukuaji wa kudumu wa benki hii.

Asanteni na Mungu awabariki zaidi.



Dr. Gideon Muriuki, CBS

Mkurugenzi Msimamizi na Afisa Mkuu Mtendaji wa Kundi

Top Management Team



Dr. Gideon Muriuki, CBS, Group Managing Director & CEO (53)

Appointed Managing Director in 2001. Joined the bank in 1996 as a Senior Corporate Manager then Director, Corporate and Institutional Banking in 1999. He holds a Bachelor of Science degree in Mathematics, is a Fellow of the Kenya Institute of Bankers and was awarded an Honorary Doctorate in Business Management. He has over 29 years experience in banking and finance. He is a Director of Kingdom Securities Limited, Vice-President Africa – International Co-operative Banking Alliance (ICBA), former Chairman, Governing Council of the Africa International University and former Chairman, African Rural and Agricultural Credit Association (AFRACA). He was decorated in 2005 with the award of Order of the Grand Warrior (OGW), in 2011 with the award of the Moran of the Order of the Burning Spear (MBS) and in 2017 with Chief of the Order of the Burning Spear first class (CBS) in recognition of his successful turnaround of the Bank and exemplary service to the nation. He was voted the CEO of the year Africa 2014 by the International Banker, 2016 Lion of Judah Award by Evangelical Alliance of Kenya and Mtumishi Bora Award - 2016 by the Kenya Christian Professionals Forum.



Samuel M. Kibugi, Company Secretary (41)

Has over 15 years experience as a lawyer and prior to joining Co-op Bank in 2008, worked for a leading bank as a Legal Counsel. He is an Advocate of the High Court of Kenya, a member of the Institute of Certified Public Secretaries ICPS (K) and an Associate Member of the Chartered Institute of Arbitrators. As the Company Secretary of the Co-op Bank Group, he has responsibility for overall provision of legal counsel and company secretarial services, fraud prevention and investigations. He is also the Trust Secretary for the Co-operative Bank Foundation, the corporate social responsibility vehicle of the Bank.



Samuel Birech, Chief Operating Officer (54)

He joined the bank in 2002. Sam was appointed Chief Operating Officer in December 2014 and is a career banker with over 22 years 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.



Anthony Mburu, Director, Credit Management (52)

A leading credit specialist in the banking industry with over 24 years of banking experience both in Kenya and the region. Most of these years were spent in the line of Credit and Risk Management and previously with Standard Chartered Bank. He holds a Bachelor's degree in Commerce and has attended various proprietary and international Credit courses.



Patrick Nyaga, Director, Finance & Strategy Division (50)

Joined the Bank in 2004 and has over 24 years experience mainly in banking and auditing. Previously worked 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 15 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.

Top Management Team (Continued)

Lydia Rono, Director, Corporate & Institutional Banking Division (52)

She has held many senior positions at the Bank in over 31 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 a Bachelor's Degree in Commerce and an MBA from University of Nairobi and has attended various courses.



Arthur Muchangi, Ag. Director Retail & Business Banking Division (48)

He joined the Bank in 2003. He is responsible for the Retail and Business Banking Division, focusing specifically on growing consumer banking, SME business as well as optimal delivery of the expansive branch network and other bank channels. He has over 23 years banking experience, spanning extensively across both corporate and retail banking. He holds a Bachelor of Arts Degree in Economics and has attended a number of courses both locally and internationally.



William Ndumia, Director, Transformation (44)

He 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 bank's growth and efficiency strategies. He has been in the bank for over 12 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 Degree 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, Director, Human Resources Division (46)

She drives the bank's Human Resources 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 21 years experience in HR with 7 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 Master 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, Director, Co-operatives Banking Division (38)

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



Patrick Ndonge, Managing Director, Kingdom Securities Ltd (39)

(A Subsidiary of the Co-operative Bank of Kenya Ltd)

Patrick joined Kingdom Securities as the Managing Director in June 2015. Prior to Joining Kingdom Securities, he was the General Manager, UAP Financial Services Ltd (Uganda). He has over 12 years experience in the Financial Services Industry in Stock Brokerage, Fund Management and Advisory Services. Patrick holds a Master of Business Administration degree from the United States International University and a Bachelor's Degree in Commerce (Finance) from The Catholic University of Eastern Africa. He is a Certified Public Accountant of Kenya (CPA (K)). Patrick has attended a number of courses in leadership and strategic management.



Top Management Team (Continued)



Robert Morris Aloo, Treasurer (39)

He joined the bank in 2013. He has over 12 years experience in Treasury management. He is responsible for the banks Treasury management and growth objectives. Prior to joining Co-operative Bank of Kenya, he worked as Head of Treasury in KCB Bank Uganda Ltd. He holds an MBA in Finance from USIU Africa and a Bachelors of Arts Degree in Land Economics from the University of Nairobi. He is a Certified Public Accountant (K) and a member of ICPAK. He is also a member of the Financial Markets Association of Kenya (ACI Kenya).



Charles Washika, Chief Information Officer (41)

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



Edgar Mwandawiro, Chief Risk Officer (44)

He joined the Bank in January 2016. He has over 19 years banking experience mainly in risk management and banking operations. He previously worked for Commercial Bank of Africa for 10 years. Prior to joining Co-op Bank, he worked at Gulf African Bank for seven years as the Head of Risk. He is a holder of Master's Degree in International Banking and Finance from Birmingham University, England and Bachelor of Commerce degree from University of Nairobi. He has attended various risk management trainings both locally and internationally.



Nicholas Kamonye, Head, Co-op Consultancy and Insurance Agency (38)

Joined the Bank in 2005. At Co-op Consultancy and Insurance Agency he gives leadership to the various capacity building initiatives targeting cooperative societies across the country. He has consulted for cooperatives on microfinance, financial modelling, strategic and business planning, business process improvements and human resource development. He holds a Bachelor of Commerce Degree in Finance, Diploma in Project Management, is a Certified Public Accountant (K) and a member of ICPAK.



Nicholas Ithondeka, Managing Director, Co-op Trust Investments Services Ltd (35)

Nicholas joined Co-op Trust Investments Ltd (CISL) as the Managing Director in April 2016. Prior to joining CISL he served as a Vice President at Pinebridge Investments (EA) Ltd and before that as a Portfolio Manager at Old Mutual Asset Managers (OMAM). He has over 11 years experience in Investment advisory and Fund Management Services. Nicholas holds a Bachelor's of Science Degree in Actuarial Science from the University of Nairobi. He is a member of the Institute & Faculty of Actuaries (UK). He is also a Certified Public Accountant of Kenya (CPA (K)). He serves as a Board Member in the FMA (Fund Managers Association) and BMA (Bond Markets Association) of Kenya. Nicholas has attended a number of courses in Investments and Strategy as well as received several awards both locally and internationally in the investments industry.



Joseph Gatuni, Chief Internal Auditor (46)

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

2. The Co-op Bank Model

2.1. Our Business Model

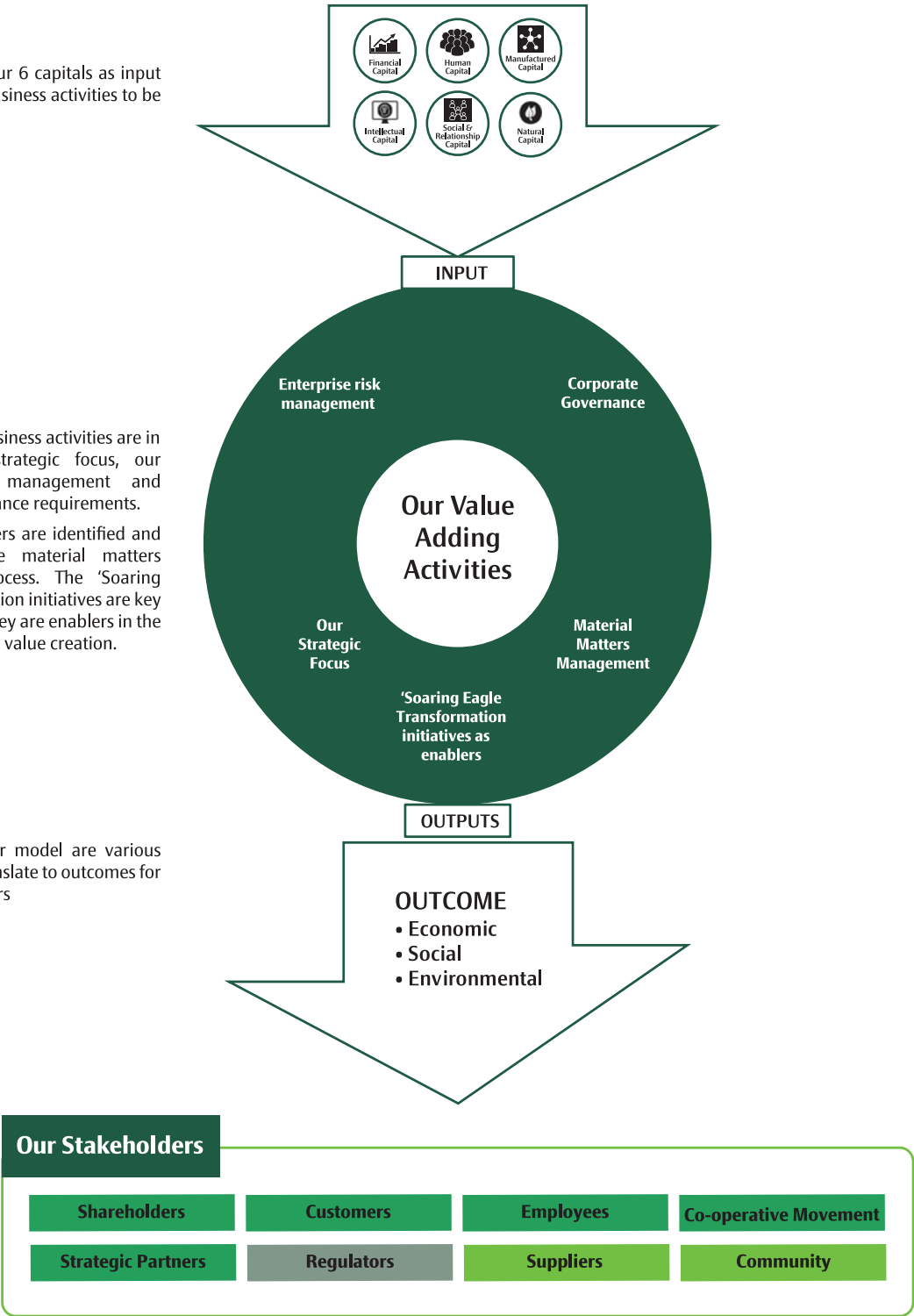
Our unique model is geared towards value creation for all our stakeholders

We incorporate our 6 capitals as input and enable our business activities to be done optimally

We ensure our business activities are in line with our strategic focus, our enterprise risk management and corporate governance requirements.

All material matters are identified and managed in the material matters management process. The 'Soaring eagle' transformation initiatives are key to our model as they are enablers in the process of optimal value creation.

The results of our model are various outputs which translate to outcomes for all our stakeholders



A detailed Business Model is shown in the next page.

2.2. How we create value using the model



THE OUTPUT OF OUR VALUE ADDING ACTIVITIES

KEY OUTCOMES: HOW OUR OUTPUT IMPACTED OUR KEY STAKEHOLDERS

Our Stocks of Capital at the end of 2017

Financial Capital

- Total Capital-Kshs.79 Billion : Dynamic, up to date ICAAP
- Liquidity-Over 30% throughout 2017
- Over Kshs. 55 Billion in retained earnings
- External Rating-B2 (stable outlook)

Human Capital

- 4,069 empowered staff members
- High Performance Management and Reward culture
- High-impact leadership culture
- Strong Employee Value Proposition

Manufactured Capital

- Branches 152
- Digital Channels-Mcoop Cash, CoopNet, Coop kwa Jirani (Agency)
- Shared Services-support departments (Over 7.5Billion in Property and equipment)
- Efficient ICT infrastructure (Core Banking, OPICS, ERP, CRM etc.)

Intellectual Capital

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

Social & Relationship Capital

- Our engagement with all our stakeholders has been active and optimal
- Strategic partnerships has seen us grow our Long term funding to Kshs. 21.1 Billion
- Socio-economic - Environmental Sustainability Initiatives as described in the sustainability section of this report

Natural Capital

- Electricity consumption-8% less than 2016
- Water consumption-25% less than 2016
- Paper Usage-the ongoing Business Process Management
- System has resulted in digitization hence less paper
- Eco-social and eco-environmental lending. Kshs3.6 Billion in special environmental credit lines

Shareholders

Dividend of Kshs 0.8 per share held, Strong balance sheet Kshs. 387 Million, Quarterly investor briefing on performance and strategy

Customers

Deposit taken-Over Kshs 287 Billion, Loans extended-Over Kshs 253.9 Billion, Increased Channel transactions-Over 119 Million, Digitalized and ethical processes and products

Employees

Salary and Bonus paid-Over Kshs. 10.1Billion, Jobs created-Total Staff 4069, Training spend-Over Kshs. 87 Million.

Co-operative Movement

Dedicated co-operative banking division, Specialized Co-operatives products, 13 dedicated consultants, Over 2300 consultancies since inception.

Strategic Partners

Over Kshs. 21Billion in Long term funding from our Partners: IFAD, EIB, AFD, IFC, D.E.G- (K.F.W). This funding has gone into MSME, Food Security, Renewable energy, Mortgages, Agribusiness, Corporate Banking.

Regulators

Compliance to all laws, IFRS 9 compliance on course, Tax compliance, AML/KYC compliance, Interest capping compliance.

Suppliers

Overs Kshs.16.8 Billion paid to suppliers. 67% are local suppliers. ERP system implemented for faster payments processing Vendor Propositions improved through Vendor relations office and Sourcing Department

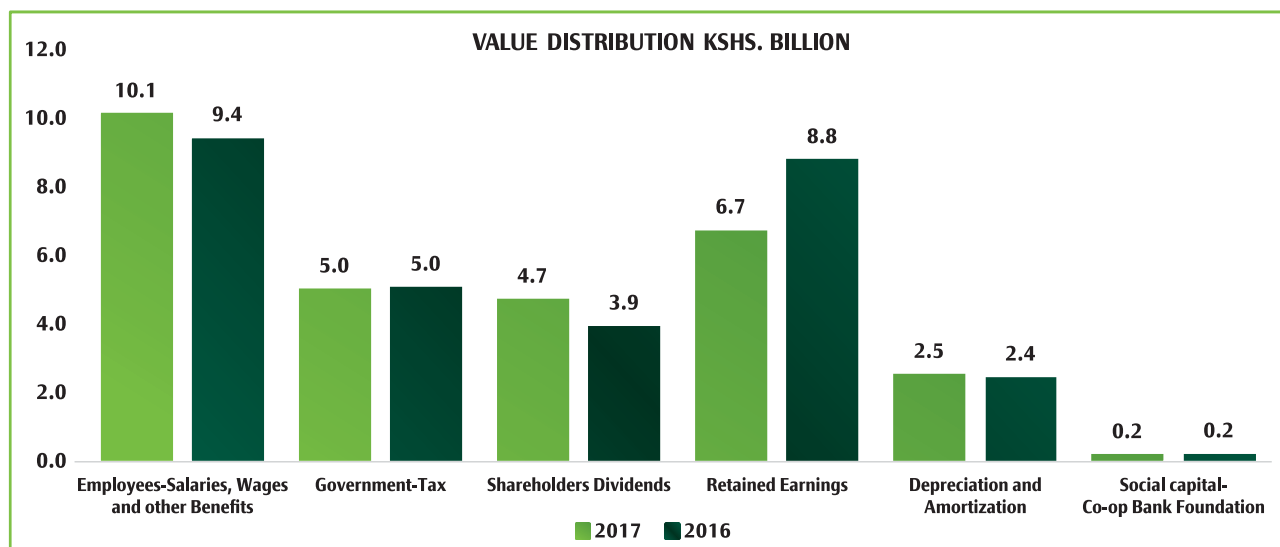
Community

Over 2300 Co-op consultancies done, 6303 Students supported by co-op foundation, Over Kshs.5 Billion in taxes to improve community, promoting economic social and environmental sustainability.

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

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

2.3. Value distribution



2.4. Value Added Statement

Co-op Bank & Subsidiaries		
Value Added Statement 2017		
	2017	2016
Value Added:	KShs'000	KShs'000
Interest Income, Fees, Commission and Other Revenues	53,865,228	55,039,231
Net impairment losses on loans and advances	(3,601,252)	(2,599,671)
Interest Paid to Depositors and Cost of Other Services	(19,821,200)	(21,812,410)
Interest paid on borrowings	(1,413,211)	(991,905)
Share of profit in associate	129,904	97,546
Wealth Created	29,159,469	29,732,791
Distribution of Wealth:		
Employees-Salaries, Wages and other Benefits	10,100,351	9,403,441
Government-Tax	4,993,573	5,047,322
Shareholders Dividends	4,693,744	3,911,453
Retention to support future Business Growth:		
Retained Earnings	6,711,321	8,764,758
Depreciation and Amortization	2,500,954	2,422,816
Social capital - Co-op Bank Foundation	159,526	183,001
Wealth Distributed	29,159,469	29,732,791

2.5. Key components of our model

2.5.1. Our Capitals



Financial Capital

This Capital enables us to deliver sustainable funding of our business activities and our loan book.

The bank has mobilized a sufficient and diverse mix of financial resources to run its core activities. Our balance sheet has recorded a steady growth over the years to KShs. 386.9 Billion as at end of year 2017. The group has pursued a balanced funding strategy with an attractive dividend payout ratio (Averaging 33% over the last 5 years) that enables it to reward shareholders while at the same time reserving sufficient funds to fuel its growth strategy. This has seen shareholders' funds grow steadily to KShs. 69.6 Billion.

Apart from the retained earnings most of the banks funding comes from customer deposits, which make up approx. 93% of our funding liabilities. Borrowed funds comprise 7% of our funding liabilities mainly from our development partners.

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

On our transformation project, the bank has pursued various strategies aimed at cost optimization. This has seen our cost to income ratio drop to 52.2% in 2017 from 59% in 2014 when our Transformation Project started.



The selection, management and development of our teams.

Human Capital Stock

We have made tremendous progress in ensuring that our human capital is able to cater for our present and future needs. The Creating sustainable value section of this report covers the following Human Capital focus in detail.

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



This comprises of our tangible and intangible infrastructure that is used in the activities that lead to value creation. The group has up to Kshs. 7.5 Billion in property, plant and equipment to ensure all our customers and other stakeholders are adequately catered for.

Our Channels

Mco-opcash:

MCo-op Cash is our all-Telco, all products mobile banking service which enables customers to enjoy access to a variety of banking services, money transfer and payment services. It is a virtual account with a simple menu where the customer's cell phone number acts as the account number and can be opened and operated end to end from the phone without having to visit the branch. Mco-op cash has continued to reach many customers who would have remained unbanked. Mcoop cash has over 3.6 Million customers who did over 21 Million transactions in 2017.

Agency Banking & Point of Sale (POS) Terminus

The Bank is at the forefront in implementation of agency banking model, currently working with over 10,000 agents countrywide. Our agents who include co-operative societies, supermarkets, ordinary shops, petrol stations among other outlets enable customers to access banking services including making withdrawals and deposits beyond official banking hours. Due to the greater geographical area covered by agents, customers also enjoy better convenience as services come closer to their most accessible location. Over 34 Million transactions were carried out through our agents in 2017.

Sacco-Link & FOSA Partnerships

The bank in partnership with various Saccos offers retail banking and related products through front-office service points (FOSAs) located at Sacco's premises and to date 180 licensed Saccos have over 560 FOSA branches in operation. The bank has also invested in the SaccoLink Switch which has integrated the bank's and Saccos' systems, thereby enabling Sacco members access to ATMs, mobile banking, point of sale (POS) channels and internet banking. In this partnership, we offer wholesale banking services to co-operative societies who then provide to their members retail services complete with full technological capabilities. To date, over 164 SACCOs are enlisted in this partnership and over **1,064,145** ATM cards have been issued to co-operative members.

Internet Banking: CoopNet

This is the bank's internet-banking solution. With its high internet speeds and enhanced security features, it has contributed to growth in our customer base especially for Kenyans in the Diaspora and already serves over **79,218** clients. CoopNet enables customers to do full end-to-end banking through a web-based channel. Services accessible via co-opNet include;

1. Real-Time account balance enquiry
2. Monthly accounts statements - View, Download or Print
3. Funds Transfers both
 - Co-op Bank to Co-op Bank - Effected immediately
 - Co-op Bank to other Banks in Kenya - EFT & RTGS
4. Utilities Payment
 - KPLC Post-paid only.
 - Nairobi Water Company
5. Secure E-Mail - Send instructions to the Bank securely

A 152-Branch Network and 580 ATMs:

This is our footprint across the region consisting 152 branches. In our branches our customers can access much more than banking services to include those offered by our subsidiaries. In Kenya we have 148 branches spread in 40 counties while 4 are in South Sudan. We also have 580 ATMS supporting our channels and distributed all over the country. Services accessed by customers in our ATMs includes cash withdraws and deposits, Balance inquiry, utility bill payment and Mco-opcash registration and withdrawal.

ICT infrastructure:

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

1. **Core banking Systems** (BFUB, BankMaster - South Sudan, Loan Track and Credit Desk)
2. **Customer Relationship Management**
3. **Treasury systems**
4. **Channels:**
 - a. Mco-op cash
 - b. Point of Sale
 - c. Internet banking

- d. Queue Management System
- e. Teller Portal
- f. Avaya Call center
- g. Branchpower

5. **Enterprise Resource Planning (ERP)**
6. **Debt management system**
7. **Business Process Management & Workflows**
8. **Data integration, quality and visualization**
9. **Risk Management system**
10. **Shared Services Service Desk Request System**
11. **Enterprise Service Bus- Service Oriented Architecture**
12. **Wealth Management System**

ICT Infrastructure enhancements in 2017

"Over the last year, the bank has invested heavily in modernizing the infrastructure and the systems to ensure a guaranteed customer experience. Several customer-facing systems have been upgraded in line with the banks strategy of meeting the customer needs and enhancing efficiencies.

The Mobile banking system - MCoopcash has undergone a major upgrade that has improved stability and brought in additional functionalities to the customers. The customers can now enjoy carrying out transactions and paying using MVISA (by simply scanning the Visa QR Code). The system is now able to handle continuously increasing customer transaction volumes even with additional functionalities.

The Co-op Kwa Jirani agency banking system has also been improved with additional functionalities and optimized and this has resulted in increased efficiencies, improved customer experiences and increased transaction volumes. The number of agents have also continued to increase giving the customers increased convenience in carrying out banking services.

The bank continues to engage various institutions and corporates for connectivity that will give their customers better and seamless banking experience through system integrations. These integrations have been successfully done for most of the universities both public and private, parastatals and major counties like Nairobi and Kiambu.

Our Core banking system has been optimized and this has continued to guarantee a good uptime for our customers to get service at various channels and touch points."



The knowledge of our staff, our brand positioning, our reputation, our enterprise risk management policy and intellectual property.

We have dynamic IT capabilities that are able to support us in this period of transformation and to support value creation into the long term.

The Co-op Bank brand has become a household name hence it has become easier for us to market our products to existing and potential customers hence create more value. The brand is supported by marketing effort, investor relations, and our well-trained teams and most importantly by our customers' word of mouth.

We are geared to ensuring that we create positive customer experiences on every touch point. To this end we have invested in a 24hour contact Centre which is currently handling over 600,000 customers, trained our teams on positive customer experience delivery (Distinctive Customer Experience) and other customer centric systems such as the Customer Relationship Management (CRM).

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

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

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

The Banks overall investment management guidelines are provided by the Board of Directors under the Banks Investment Policy.

The broad guidelines within the policy allow the management to invest in investments that are geared towards optimization of the investments the bank chooses to invest in with a view of having overall liquidity and marketability of assets in case of changes in market dynamics and continued focus on a balanced mix of assets.

We have clear Sourcing and ICT policies as detailed below;

Sourcing Policy

The objective of the Sourcing & Facilities Management department is to enhance the group's sourcing strategy and ensure cost efficiency, value creation and a transparent environment in the sourcing process. The Bank's Sourcing and Facilities Management department will own and drive the sourcing and acquisition of all non-human resources for the Bank.

In execution of its key mandate, Sourcing & Facilities management department encompassing management of space and contracts, facilities management, projects, all forms of non-human resource procurement, inventory management, transport and insurance; shall employ the following objectives to form the basis for implementation of the aforementioned Sourcing strategies.

- Develop guidelines to include approval levels for purchase of new equipment and replacement of existing/obsolete equipment.
- Develop guidelines to review approval limits on recurrent expenditures items to ensure that the Bank's authority levels are appropriate.

- The Bank shall have centralized Sourcing so as to enjoy economies of scale from consolidated procurement.
- As the Bank expands to the region, Sourcing and Facilities management will be decentralized into different countries.
- A procure-to-pay system to ensure more effective and efficient ways of managing procurement, inventory, leases, contracts, land rates & rents and licensing.

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

ICT Policy

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

The ICT strategy has been shaped in reference to the Cooperative Bank Business Strategic plan and is envisioned to model the ICT department into the vehicle on which the business shall drive its initiatives towards actualizing the bank's mission and vision.

ICT governance principles and practices have been identified that have guided the formulation of ICT strategic objectives and subsequent action items that are to be implemented, managed and monitored to deliver the ICT vision.

The Bank has identified dimensions of management of ICT through which it shall apply best practices and develop strategic activities, namely:

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

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



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

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



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

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

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

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

- A 600kW solar power project at Strathmore University.
- Two rivers Mall generating their own solar power.
- Gura Hydro Power project - A 6MW project that will supply power to 5 KTDA tea factories and to the national grid.
- Regen Terem Hydro Project - A 5.2Mw project that has provided live hoods to the rural community, which provided human labor to the project and expected to supply the power to the national grid.
- All ongoing projects have solar power as an alternative source of power.

2.5.2. Material Matters.

Material matters management process

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

Identification

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

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

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

Prioritization

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



Integration




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

The integration is embedded into our KPI performance Management System

Monitoring

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

	Material Matter	Risks	Opportunities	Our Response
Strategic Focus: To be the dominant Bank in the Region  Key stakeholder - Shareholder	<ul style="list-style-type: none"> • Interest rate capping • Growth and sustainability of shareholder returns. • Partnership with the Co-operative movement • Hyperinflationary Operating environment in South Sudan 	<ul style="list-style-type: none"> • Suppressed interest margins may result in reduced profitability (10% PAT drop in 2017) • Hyperinflation environment and currency depreciation in south Sudan may leading to monetary loss (Kshs. 603 Million in 2017) 	<ul style="list-style-type: none"> • Growth in volume business due to high uptake of loans resulting from the reduced interest rates. Loan book growth of 7% in 2017) • Increased non-funded income from the increased volume of business. (6% growth in non-funded income in 2017) 	<p>We have strategically responded to these risks and opportunities by;</p> <ul style="list-style-type: none"> • Ensuring our business model is in line with this strategic objective. • Employing growth initiatives within our transformation project to ensure efficiency. • We have a dedicated Co-operatives division • Proactive risk management is in place in South Sudan
Strategic Focus: To enhance our overall customer experience  Key stakeholder - Customer	<ul style="list-style-type: none"> • High expectations on service • Demand for Innovative, convenient and affordable digital solutions • Confidentiality and safety • Cyber security 	<ul style="list-style-type: none"> • Customers may switch to competition due to poor experiences or lack of innovative products and services. • Increased penetration of digital banking comes with its own challenges of information security. 	<ul style="list-style-type: none"> • Opportunity to offer a wider array of innovative products and services leading to higher customer satisfaction. • Ensuring data integrity and safety and high levels of customer experience, and satisfaction is an opportunity to attract and retain customers 	<ul style="list-style-type: none"> • NPS score of 59 against a target of 60% • We have invested in customer experience infrastructure such as CRM, 24 hour contact centre, a customer centric business model and secure systems (SIEM application). • Optimum systems availability (over 98%) • 152 branches and a range of alternative digital channels • Proactive resolution of service exceptions. • We have a dedicated ICT Risk Unit.

	Material Matter	Risks	Opportunities	Our Response
Strategic Focus: To be the dominant Bank in the Region  Key stakeholder - Staff	<ul style="list-style-type: none"> • Demand for specialized skill set in some areas • Staff retention • Staff training • Staff productivity 	<ul style="list-style-type: none"> • Competition for specialized skill in ICT and Data Analytics. 	Increased staff productivity due to; <ul style="list-style-type: none"> • Training and retention strategies in place • KPI based performance management and reward system • Competitive Employee Value Proposition 	<ul style="list-style-type: none"> • Performance Rigor & Rhythms • High Performing Teams (HPT) Culture & Manager enablement • Performance-linked Rewards & Recognition • Talent Acquisition – deepening capabilities • Workforce stabilization
Strategic Focus: To enhance our overall customer experience  Key stakeholder - Enterprise	<ul style="list-style-type: none"> • Interest rate capping • Growth of income • Efficiency • Enhanced regulatory & compliance environment • Digital disruption • Fintech competition 	<ul style="list-style-type: none"> • Interest rate capping may affect the margins • More provisions required under IFRS9 • Rapid technological changes are costly • Increased competition by Fintechs, Telcos reducing market share 	<ul style="list-style-type: none"> • IFRS9 compliance will lead to even better and proactive credit management. • More innovative products • Lower costs due to better efficiency • Better regulatory compliance and • Improved stakeholder engagement 	Continued Proactive Credit management Transformation project led initiatives around; <ul style="list-style-type: none"> • Improved Customer experiences • Branch Transformation & Channel migration • Enhanced Sales Force Effectiveness (SFE) • Shared Services & Digitization • Staff productivity • Enhanced Credit management framework • Reporting & Analytics • Micro, Small and Medium Enterprises (MSME) Transformation • Digital Bank initiatives
Strategic Focus: To ensure that the group operates as a responsible corporate citizen  Key stakeholder - Community	Economical, social and environmental concerns; <ul style="list-style-type: none"> • Economic value adding solutions • Socially responsible citizenry • Positive environmental impact 	<ul style="list-style-type: none"> • Tough economic environment may lead to reduced margins 	<ul style="list-style-type: none"> • Partnerships gained in the process will lead to long term value creation 	<ul style="list-style-type: none"> • Capacity building of the Co-operatives • Co-op foundation support to bright and needy students (6,303 since inception) • Products and services available to all • Recycle, reuse, reduce model for resource efficiency • Green lending over Kshs. 3.6Billion in 2017 • We pay taxes over 5 Billion in 2017 • Our transformation project is geared towards efficiency and growth enabling us to create value into the long term.

2.5.3. Our stakeholders engagement

1. Shareholders
2. Customers
3. Employees
4. Co-operative movement
5. Strategic partners
6. Regulators
7. Suppliers
8. Community

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

Customers

How we engage our customers

Co-op Bank has over 7.1 million customers ranging from Individuals to Micro, Small and medium enterprises, Corporates, Institutions and Government.

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

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

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

Key Expectations

The key expectations of our customers are as follows;

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

How we respond to the key expectations

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

Our channels	Our customers
152 Branches	Over 7.1 Million growing direct account holders
Mcoop cash mobile banking (All telco, all products)	Over 3.6 Million Mcoop Cash Customers
Co-op Kwa Jirani – Over 10,000 agents	Over 79,218 Internet Banking Customers
Over 580 ATMs, leading debit card issuer	Over 1,064,145 Saccolink Customers
CoopNet – Internet Banking (Corporate & Retail)	Over 13,201 Diaspora Banking Customers
24 Hour Contact Centre	Over 1.1 Million Facebook followers
Self service Kiosks in all our branches	Over 185,000 Twitter followers
Dedicates Diaspora Banking Department	Instagram followers, You Tube subscribers
560 FOSAs	Telegram self service customers
Subsidiaries offering advisory and investment services	
Social Media Banking	

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

	Retail and Business Banking	Corporate and Institutional Banking	Co-operatives Banking	Co-op Consultancy and Insurance Agency Ltd	Co-op Trust Investment Services Ltd	Kingdom Securities Ltd
	In Kenya and South Sudan					
Deposit/ Instant Access accounts						
Savings Accounts						
Current accounts						
Fixed/Call deposit accounts						
Forex						
Payment solutions						
M-Wallet loans						
Trade Finance						
MSME Loans						
Personal/Consumer Loans						
Working Capital Loans						
Asset Finance						
Insurance Premium Financing						
Mortgage Finance						
Banc Assurance						
Consultancy and capacity building						
Investment services						
Stock Brokerage						

3. We are currently implementing branch transformation 2.0 with key focus on Sales Force Effectiveness that will see our customers get more value added products through product bundling.
4. We are focusing on freeing up time of staff to engage in frontline activities and hence engage our customers more. The role Sales and Service Advisor(SSA) has 665 staff members who engage in Branch service and operations support, Business growth and development.
5. We are also engaging in Processes improvement for increased efficiency and hence enhanced customer experience.
6. Proactive and fair dispute resolution.
7. Proactive cyber security management to ensure customer information security. To this end, we have the SIEM (Security information and event management) system. We also have a dedicated ICT information security department with specialized skills to ensure optimal safeguard of our customers.

The following are the key milestones achieved in the branch transformation pillar of our transformation that directly address the expectations of our customers;

- We have physically re-organized our branches to have spacious sitting areas.
- We have implemented queue Management systems to ensure enhanced customer experience.
- We successfully introduced the 'Dropbox', a self-service initiative that ensures instant cash and cheque deposit.
- We have ATM kiosks in all our branches.
- We have made toll free lines to contact center available to our customers to engage with our staff on any queries they may have without having to queue at our service desks.
- We have Internet Banking at the branch to allow our customers to engage in internet banking.
- 87% of transactions are on alternative channels.
- Freed up time for Tellers and Service champions to do more sales.

- Queue time reduced to under 12 minutes.
- Contact center transformation: support over 600k customers remotely through calls, emails, SMS and social media platforms.
- Increased usage of automated systems: Instant card, E-collect, Business to Business (B2B) and mobile loans for the customer's convenience.
- Mcoop cash registered customers grew by 14%.
- Internet Banking customer grew by 13%.
- 11% increase in the number of customers who access agency services from 8.1M to 9M.
- The average number of customers who visit our agents everyday are 95,000.

Shareholders

How we engage our shareholders

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

Key Expectations

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

How we respond to the key expectations

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

1. Annual general meetings.
2. 3 international conferences and roadshows where we met various existing and potential shareholders.
3. 4 local conferences with our investment professionals.
4. Quarterly investor briefings.
5. Over 380 local and foreign investors engaged.
6. Over 240 one on one meetings with the investment professionals.
7. Information on our website that regards to our performance and strategy.
8. Press briefings released every quarter.
9. Analyst Research notes published on our website.

Our Staff

How we engage our Staff

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

We engage our staff in the following ways;

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

Key Expectations

Our staff have the following expectations;

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

How we respond to the key expectations

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

1. Drive enhanced staff productivity across the whole bank for sustained profitability of the bank.
2. Embed high performance culture.
3. Build high impact leadership and organizational culture to impact business.
4. Achieve optimal resourcing and mobility to ensure seamless execution of strategy.
5. Staff engagement Survey was rolled out with 85% participation and Employee Engagement index of 75% achieved.
6. Implement customer centric organizational structures that support strategy execution hence increased staff productivity.
7. Achieve coaching and learning excellence to build strategic capabilities.
8. Deploy talent management strategies and implement appropriate career development interventions.
9. Strengthen the Coop Bank Employer Brand by ensuring we drive a compelling employer value proposition internally and externally.
10. Inspiring employee experience journeys and employee engagement.
11. Reward differentiated performance and recognition.
12. Diversity, inclusivity and corporate wellness.
13. An innovative, positive and inspiring work environment.
14. Proactive regulatory compliance on staff matters.
15. Maintain cordial relations with the staff union. We continue to foster partnership to ensure that staff interests are addressed timeously.
16. We have a proactive policy framework on HR issues as detailed in the sustainability section of this report.

Co-operative Movement

How we engage the Co-operative movement

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

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

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

1. Face to face discussions with our dedicated Co-operatives relationship managers.
2. Face to face discussions with our Business Bankers in all our 152 Branches.
3. Visits to their offices.
4. Discussions and engagement through our consultants in the Co-op Consultancy & Insurance Agency subsidiary.
5. Telephone discussions.
6. Participation in their meetings and events.

7. E-mail correspondence.
8. Through our 24 hour contact center.
9. Service feedback questionnaire.

Key Expectations

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

How we respond to the key expectations

We have shifted our approach from product centric to be customer centric in order to effectively and wholesomely serve our Co-operatives.

This has involved gauging their needs appropriately in order to tailor appropriate products and solutions. We continue to be the preferred and trusted partner of the co-operative movement in all the markets that we operate in.

We also ensure that we;

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

Strategic Partners

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

DEVELOPMENT PARTNER	FY2017 Kshs. Million	FY2016 Kshs. Million	PURPOSE
IFAD	30	39	To finance the Eastern Province Horticultural and Traditional Food crops project
EUROPEAN INVESTMENT BANK	1,113	2,280	To fund SMEs
AFD (AGENCE FRANCAISE DE DEVELOPMENT)	3,562	4,041	To fund energy efficient and renewable energy projects
INTERNATIONAL FINANCE CORPORATION (IFC)	13,120	9,055	To fund SME's and agribusiness, construction and mortgage segments
D.E.G - (K.F.W)	3,339	4,399	To finance SME and Corporate customers
TOTAL	21,164	19,814	

NB: The bank has secured a US\$150 Million 7-year senior loan from the International Finance Corporation (IFC). The funds are aimed to help strengthen the bank's long-term funding position and enable it to expand its lending operations especially to micro small and medium enterprises.

How we engage our Strategic Partners

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

Key Expectations:

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

How we respond to the key expectations:

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

Regulators and Policy makers**How we engage our regulators and policy makers**

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

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

Key Expectations

Our regulators and policy makers expect the following from us;

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

How we respond to the key expectations

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

Suppliers

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

We have 2078 Local suppliers and 100 foreign suppliers. In 2017, we paid over Kshs 16.8 Billion to our suppliers. Of this amount, 67% was paid to local suppliers.

Sourcing and Facilities management is anchored on the following;

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

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

How we engage our suppliers

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

Supplier relationship engagement takes the following two forms;

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

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

Key Expectations

Our suppliers expect;

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

How we respond to the key expectations

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

The Community

How we engage the community

We are determined to do the right thing by our communities and the planet: that is how we have become one of the leading financial institution in Kenya and the Region.

We engage the community through various ways to ensure that our business plays a role in betterment of the communities in which we operate through;

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

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

Key Expectations

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

How we respond to the key expectations

1. Accessible and affordable product offering through numerous channels and the co-operative movement.
2. Over 2300 consultancies done at concessionary rates.
3. Over 6300 bright and needy students supported through our fully funded co-op foundation.
4. Financing green initiatives. Renewable energy lending Kshs. 3.6 Billion.
5. Efficiently Managing company resources both financial and non-financial.
6. Protecting Kenya's forest cover through tree planting initiatives.
7. Supporting employee CSR activities that positively impact the environment.
8. Credit is the fuel of economic engine; over the last 5 years our net loans and advances to customers has grown to over 250 Billion.
9. We contribute to the creation of prosperity and to the stability of our country through paying taxes. In 2016 the Group paid 5 Billion Kenya Shillings in corporate taxes.

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

2.6. Creating sustainable value

Sustainable Banking Model

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

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

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

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

Our sustainability approach aims to balance social, economic and environmental risks and opportunities through the deliberate use of our products and services, collaboration and partnership, and by managing our own impact. The Operating environment section of this report highlights the broad trends impacting our sustainability priorities and how we respond to them.

Our Environmental and social management policy is a formal board approved Social & Environmental policy document, which was reviewed in 2015 to integrate the Kenya Bankers Association Sustainable Finance Guiding Principles. It governs and guides the Bank on Social, Economic and Environmental issues. The Policy is applied in conjunction with all Bank Policies and Risk Management Framework.

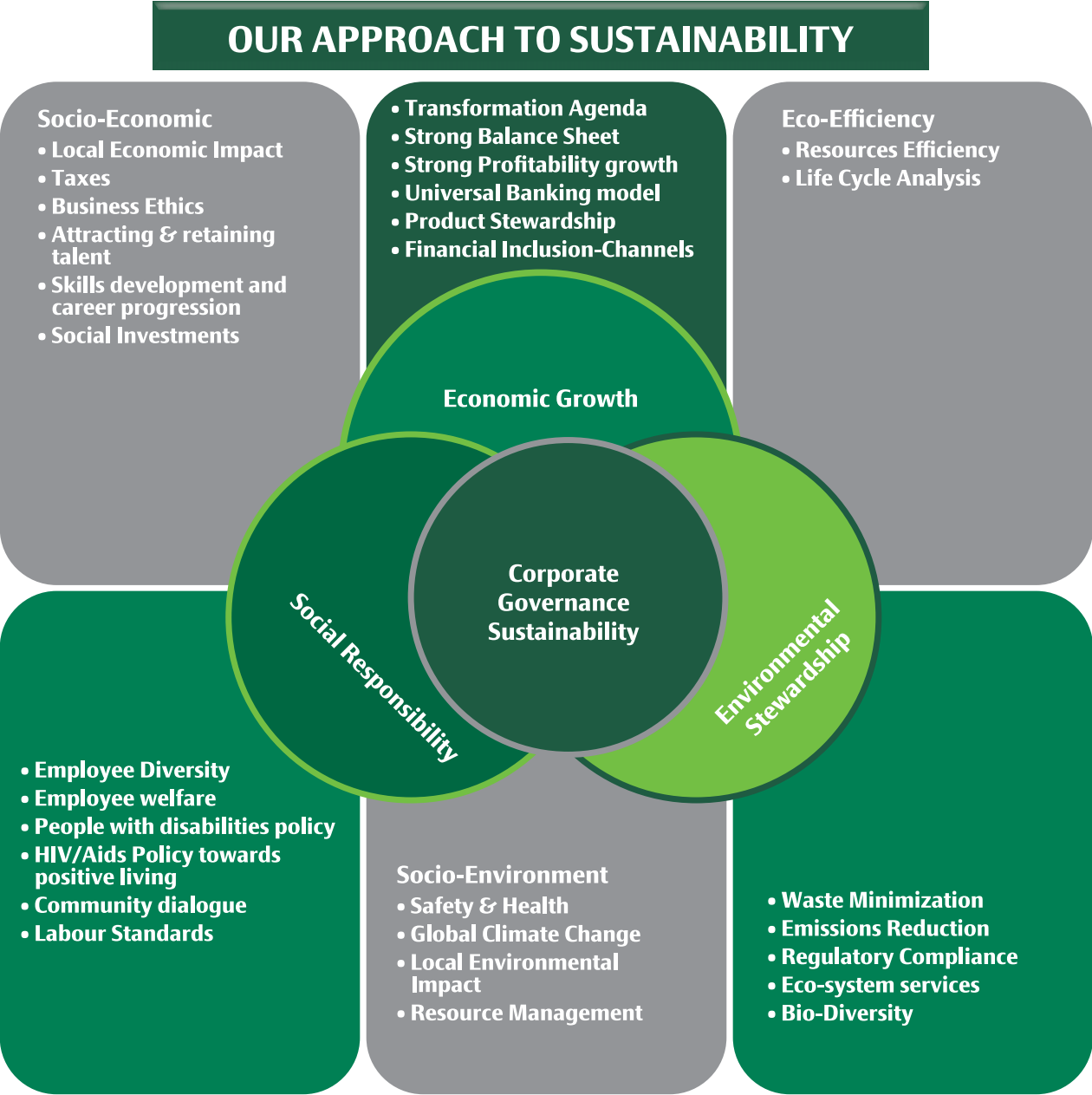
Sustainability through Policy and Governance in Co-op Bank is deep rooted in our commitment to contribute sustainably to the achievement of the following;

1. Kenya Bankers Association Sustainable Finance Initiatives guidelines
2. IFC Sustainable Development Goals
3. Kenya's Vision 2030
4. Our Corporate Strategic Plan 2015-2019

The policy incorporates best practice by ensuring:

1. We have an Environment and Social Management System that is integrated in our day to day activities.
2. We have a formal E&S Policy that guides us in our day to day functions.
3. We apply the E&S policy in conjunction with other policies within our enterprise risk management framework hence assuring of a wholistic approach to risk.
4. The E&S Policy and ESMS are governed and owned right from the Board of Directors level hence in line with our strategic objectives, mission and vision.
5. We have referred to the guidelines provided by IFC in developing our policy, which we have customized based on our views of our portfolio, structure and responsibilities.
6. We have adopted the Kenya Bankers Association Sustainable Finance guiding principles and minimum standards in totality.
7. We invest directly on E&S by partnering with development partners up to Kshs. 21.1 Billion to provide special credit lines that promote E&S sustainability.
8. We ensure continuous training for all our staff to ensure best practice.
9. We have leveraged on technology to ensure that all the covenants reached in the projects we lend to are tracked electronically hence making sure they are all achieved.
10. We conduct our own activities with regard to the environment and the communities within which we operate.

The following are our sustainability priority areas:



In Summary:

1. ECONOMIC

1.1. SOCIO-ECONOMIC

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

1.2. ECO-EFFICIENCY

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

2. SOCIAL SUSTAINABILITY INITIATIVES

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

3. SOCIO-ENVIRONMENTAL

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

4. ENVIRONMENTAL

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

In detail:**1. ECONOMIC**

As significant players in a wide economic ecosystem, we know our actions impact the wider economy. We run our business in a way that ensures that our growth is sustainable in the long run and leaves minimal impact on natural resources and the environment for the future generations. We have distributed over Kshs. 29 Billion in economic value as detailed in the Value distribution section of this integrated report.

1.1. SOCIO-ECONOMIC

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

- **Local Economic Impact**

- We recognize that for there to be economic growth we have to offer sustainable financial intermediation in the economy by connecting the surplus (Deposits) and the deficit (Loans). We are an agent of economic growth.
- Credit is the fuel of economic engine; over the last 5 years our net loans and advances to customers has grown at an impressive average rate of 16.6%; as at December 2017, KShs. 253.9 Billion was outstanding as net loans and advances to public and private enterprises.
- The Government also borrows from us in order to realize the achievement of sustainable development projects.
- We have spurred economic growth through our strong balance sheet growth over the years as detailed in the Financial performance review section of this report.
- As one of Kenya's Top corporations, we contribute to the country's economic growth through provision of responsible, innovative banking products and services through our various channels.
- The Kenya Bankers association, in its 2017 Catalyst Awards recognizing catalytic finance that impacts industry, economy and society declared us the most sustainable Bank and awarded us;
 - Overall Winner
 - 1ST- Client Case Study – Financing Commercial Clients
 - 1ST- Bank Case Study – Bank Operations & Policy
 - 2ND -Best Practice in Sustainable Finance
 - 3RD - Sustainability Through Policy & Governance
 - 3RD- Client Case Study – Financing Micro, Small & Medium-Sized Companies
- EMEA Finance African banking Awards 2017 declared us the Best bank in Kenya.
- We have 2078 Local suppliers and 100 foreign suppliers. In 2017, we paid over Kshs 16.8 Billion to our suppliers. Of this amount, 67% was paid to local suppliers. Sourcing and Facilities management is anchored on the following; Sourcing and Facilities management Manual, Sourcing and Facilities Management Policy, ICT Sourcing Policy.
- Co-operative Bank today represents the number one point of financial intermediation contact for Kenya's over 14 million member strong Co-operative movement with mobilized savings of over Kshs 250 Billion; equivalent to 30% of national savings.
- Through Partnerships: Development finance is required for long-term investment and economic growth. We had long term borrowing of up to Kshs 21.1 Billion.
- Case Study: Two Rivers Shopping Mall. The Bank has financed the Two Rivers Shopping Mall project to a tune of USD. 80Million resulting in impressive economic, social and environmental development. Key contributions include Shs.889M taxable income, Use of solar energy, economic growth in the surrounding areas, and over 1000 jobs created most of which are women and the youth.

- **Taxes**

- We contribute to the creation of prosperity and to the stability of our country through paying taxes. Taxes provide essential public revenues for governments to meet economic and social objectives. We view taxation as a mainstream part of our corporate social responsibilities. In 2017, the bank paid over 4.9 Billion Kenya Shillings in corporate taxes.
- The bank is also KRA's appointed agent to assist the taxman in collection of various taxes across the country.

- **Business Ethics**

At Co-op Bank we strongly believe that ethics are the heart of any strong organization. In being Ethical we have managed to foster employee morale, boost brand reputation, encourage loyalty in all our stakeholders, and improve our bottom line. For instance our decision to lower lending rates right away after CBK announced the drop in CBR instead of waiting for the 30 day legally allowed period has been lauded as a responsible and market leadership action.

We are determined to do the right thing for our customers, our communities and the planet: that is how we have become one of the leading financial institution in Kenya and the Region.

- **Through employment**

Co-operative Bank has employed over 4000 staff members, a young and energetic team with over 90% being under 40 years. This has provided a livelihood and positive contribution to our economy. The staff contributed over Kshs.2.3 Billion in taxes in 2017.

- **Social Investments**

The bank makes immense social investments directly through Co-op bank foundation and Co-op Consultancy & Insurance Agency Ltd (CCIA). Our staff teams also carry this mandate.

- 1.1.1 Co-op Bank foundation**

In 2007, in recognition of the need to enhance the existing Corporate Social Investment (CSI) initiatives by the bank, the Co-operative bank foundation was established to complement public effort's to increase access to education for the young people both at secondary school and university level. The bank also offers mentorship and internship programmes to the beneficiaries to provide them with the necessary exposure to work environment. The secondary scholarship program has grown from an initial sponsorship of 30 students per region, to 60 students per region and another 5 students per county, currently. Since inception, the foundation has spent Ksh.835 Million to support 6303 students; 5871 in Secondary school education, 196 at university level, 32 to Co-operative University College and 204 in vocational attachment. In 2017 alone, the Foundation invested KShs. 159.5 Million. Currently there are 2926 students undertaking their education under the programme support.

- 1.1.2 Co-op Consultancy & Insurance Agency Ltd**

CCIA was formed in 2002 as a specialist subsidiary of the Bank to provide capacity building (Consultancy and financial advisory) services mostly to the Co-operative movement and other selected sectors of the economy at very concessionary terms. Its key objective is to enhance efficiency and profitability of the Co-operative movement through the provision of affordable solutions.

Since inception, CCIA has successfully conducted over 2300 business advisory mandates. We have also moved to impact the wider Eastern Africa Region at Kilimanjaro Co-operative Bank in Tanzania as well as partnership with the Government of South Sudan towards setting up of a farmers' co-operative union at Aweil Rice Irrigation Scheme.

- 1.1.3 Co-op Bank Staff welfare Teams**

Some of the Corporate Social Responsibility initiatives by our staff welfare teams;

Department/ Branch	CSR Activity
Central Registry	Did their CSR activity at Missionary of Christ for Disabled on 11/03/17
Chuka Branch Welfare	Did a CSR activity at Kamarandi secondary on 17/02/17
Marsabit Branch Welfare	Participated with Kanacho foundation on 11/02/17 in purchasing and distributing of food stuffs and water in North Horr area (Drought stricken area)
Kikuyu Br Welfare	Did a donation to Kingeero primary school on 07/04/17 in aid of purchase of awards to be used during their prize-giving day. This motivated pupils for better performance.
Mailings & Statements	Made donation to Songa Mbele na Masomo Children Centre on 08/04/17
Parliament Road Br Welfare	Participated in medical fundraising on 19/05/17 to a patient who required urgent medical attention.
Ngong Rd Br Welfare	Did CSR donation to Olkeri Primary school children on 27/07/17 who were involved in a road accident.
Donholm Br Welfare	Participated in Cerebral Palsy society of Kenya fundraising for 2017-2018 that was held on 14/10/17
Engineer Br Welfare	Participated in CSR activity at Magomano High school via purchase of snacks and drinks for form four students and motivate them as they were preparing for their KCSE Exams on 04/11/17
COU Dept Welfare	Made donation in aid of medical support on 17/11/17
Maua Br Welfare	Donated to Kangeta prison on 06/12/17 in regards to their request to participate in their Christmas comfort.
University Way Br Welfare	Made donations in form of food stuff, sanitary towels, soap to street families at Uhuru park on 26/11/17
MIB Dept Welfare	Did a donation to Kingeero primary school for upgrade of the special needs class on 11/12/17
Kibera Br Welfare	Visited Children Homes on 16/12/17
Card Business Welfare	Visited Missionary of Charity Children Home langata on 02/12/17

1.2. ECO-EFFICIENCY

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

• Resource Efficiency

We have a four-way approach towards resource efficiency:

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

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

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

In 2016, we conducted energy audits in our major establishments to gauge our resource efficiency, identify gaps and areas of improvement.

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

- Use of standby and power saving modes on computers and monitors and switching off these machines at the end of the day and at other times when they are not in use.
- Selection of appropriate print quality for example low quality to be used for all internal documents, color printing to be used only in specified circumstances.
- Printing in batches wherever possible.
- Optimizing photocopying and printing to reduce wastage.

For all the new premises, we are adopting green technologies including LED bulbs for lighting while for older premises we are replacing LFL lighting fixtures with LEDs as they burn out.

Transformation Project resource efficiency gains;

Less Paper

- Customer Relationship Management (CRM) System for bankers- CRM system with automated diaries for sales Appointments and follow-ups has eliminated the need for hard copy diaries.
- E-Loans- Digitization of credit processing via MCoop Cash E-Flexi and Flexi plus loans eliminating paper use. The e-loan book has grown from 59,000 loans in Q12015 to 694,000 loans in FY2017.
- Proactive Stationery and equipment management- Overproduction waste: Branch printers' settings standardized to hold and back to back enforced to reduce unnecessary printing and usage of excess paper. Identification and repatriation of all unused /excess stationery and equipment in branch stores for redeployment.
- Service champions driving customer migration to alternative channels- Through experiential marketing; guiding customers to carry out transactions through convenience channels namely MCoop cash, Agency and Internet banking. 87% of transactions are now handled outside the branch, reducing paper previously used for these transactions.
- Email statements and Internet banking has saved on statement printing paper.
- Cash and check drop boxes- Self-service cash and cheque deposit channel uses SMS notification cutting deposit receipts by 50%.
- Customer service phones- Installation of customer service phones with a direct line to the call center- Customers can use phones for balance enquiry, ATM blocking, PIN resets and regeneration etc. reducing stationary used to print statements and requisition forms.
- Q-Matic machines for in-branch marketing-The Q-matic kiosk with TV screens running ads have reduced use of paper marketing fliers.
- Automated Real- time service floor reports have eliminated the need for performance and customer questionnaire survey on paper.
- Business intelligence (BI) reports- Branch daily reports previously printed have now been automated through BI reports cutting paper and printing costs.
- Sales call reports automated for Relationship Managers hence no need to maintain paper documentation.
- Instant Issuing- Inventory waste: Instant card issuing has saved the cost of wasted unclaimed cards which have to be destroyed after 6 months.

Less Electricity

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

Less Fuel

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

Life-cycle analysis

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

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

We are guided by the Environmental and social management policy to ensure ethical products and services.

2. SOCIAL SUSTAINABILITY INITIATIVES

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

We closed 2017 with a staff compliment of 4069 that encompasses the breadth and depth of our diversity as shown here:

Performance Indicator	2017	2016
Total permanent staff	3405	3437
Total contract staff (Includes Sales Staff)	664	690
Totals	4069	4127
% Female staff members,	44%	43%
% male staff members.	56%	57%
% of our staff who are younger than 40yrs	90%	89%
% of our staff who have a tenure of more than 10 years	17%	14%
% of our staff who have a tenure of more than 5 years	53%	50%
% of our staff who have disabilities	0.47%	0.27%

100% of the staff in Co-operative bank of Kenya are local. In Co-operative Bank of South Sudan 18.7% of the staff are Kenyans on secondment while the rest are all South Sudan Nationals.

2.2. Employee Welfare

We are determined to make the bank a great place to work, to encourage people to bring out the best of themselves in work and in helping each other realize their full potential. We view each other as part of one big family, and each member's welfare as our collective responsibility.

Our Staff welfare club participates and contributes to the welfare of the members in both times of need and celebrations; such as newborns, marriages, Hospitalization and bereavement.

We invest in out-of-office staff activities such as sports events, team-building and CSR activities in reflection of our deep commitment to staff wellbeing. The bank-sponsored league teams have continually promoted the banks image through excellent performance. The basketball league is still ongoing with the Basketball teams already qualified for the semifinals. The volleyball team had impressive run during the season and has been ranked position 4 nationally.

One of the team members was recognized by the federation as the best Male spiker in the country. The bank was ranked position 4 overall out of 29 in the 33rd annual KIB inter-banks games for Nairobi region. In the Kisumu and Eldoret Interbank games, we finished in overall second position. During the Inter-Bank Quiz forum, our team managed to scoop the 1st Runners up Award.

2.3. HR Policy Framework

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

<ul style="list-style-type: none"> • Disciplinary, Grievance Policy and Procedures • Sexual Harassment Policy • HIV/Aids Policy • People with Disabilities Policy • Occupational Health & Safety Policy • Code of Conduct & Ethics • Dress Code Policy For Bank Employees • Guidelines On The Use Of Motor Vehicles • Policy Guide On Employee Benefits And Allowances • Loan Facilities • Transfer Of Staff • Whistle blowing policy • Collective Bargaining Agreement 	<ul style="list-style-type: none"> • Retirement Benefits Scheme • Bank's Medical Scheme Rules for Staff • Leave policy • Policy On Overtime • Promotion policy • Recruitment policy • Recruitment and employment documentation policy • Vocational employment • Performance Management policy • Performance Improvement Policy • Dress Code Policy • On job training procedure and work rotation policy
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Average work hours policy.

This is clearly spelt out in the Bank's Human Resource Manual/Guidelines as well as the Collective bargaining Agreement, which is binding for our unionizable employees. This aims at striking a healthy work-life integration. The normal work hours are 164 per month. We have a policy on overtime that states all unionizable employees are entitled to special compensation for overtime work, work on rest days and public holidays according to the provisions of the Collective Bargaining Agreement.

There is a policy guide on employee benefits and allowances This policy guide is applied together with the Collective Bargaining Agreement that guides on unionizable employees.

Whistle-blowing policy

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

This policy aims to:

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

The policy provides that staff may report an issue if it is unlawful; fraudulent; contrary to the bank's policies and procedure; falls below established standards of practice; amounts to improper conduct and breach the Bank's code of Conduct

The bank has put in place systems to encourage staff to raise concerns in a structured and protected way. The bank respects the confidentiality of staff raising concerns and sets out arrangements which include the opportunity to raise concerns outside the management structure.

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

People with Disabilities Policy

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

2.4. Attracting and Retaining Talent

- The Bank has a recruitment policy that guides all the recruitment efforts in terms of the guiding principles, processes and procedures. The policy is reviewed as and when there are any changes effected on the recruitment process. Internally though, all policies are to be evaluated and reviewed every two years. Where the policy is changing, it is taken through an approval process, which involves key stakeholders including Board of Management.
- At Co-op Bank, we have made it a priority to improve on our lead position as an employer of choice. We do this by primarily attracting and retaining the best talent in the market through appropriate investment in human capital development, inculcating high performance culture, rewarding outstanding performance, competitive remuneration packages and encouraging and appreciating innovations.
- To achieve this, we have implemented Flight Risks assessments for critical roles as part of talent management interventions.
- We have succession planning in place for various talent benches for critical and flight-risk roles with at least 3 ready-now candidates per talent bench.
- Of our staff, a high degree of professionalism and integrity is demanded. We are an equal opportunity employer with an inclusive and conducive environment for work-life integration.
- In 2017 our Retention rate was 93%, attrition for our top contributors as per our KPIs appraisal model was less than 4%. Group-wide voluntary attrition was only 4.92% and 3.78% involuntary.
- We aim to maintain employee satisfaction rate of 92% and above and offer acceptance rate of 95%.

2.5. Skills Development and Career Progression

- We believe that human capital is the most valuable asset of a great company, hence our commitment to the development and success of our staff through first-class continuous training, leadership-building and skills enrichment.
- There is a clear effort in managing the careers of our employees through coaching and mentoring processes, role specific trainings as well as stretch assignments as part of growing our employees.
- The Bank has a clear and robust Training Policy, which spells out the guidelines around up-skilling of our employees. In addition, there is a Talent Management and Development framework.
- In managing or ending careers, there is a Talent Management and Development framework in place. There is a clear effort in managing the careers of our employees through coaching and mentoring processes, role specific trainings as well as stretch assignments as part of growing our employees. There are also proactive retention initiatives as part of the talent management agenda.
- Our Leadership and Management Centre (LMC) is tasked with up skilling, re-skilling and developing our people. In 2017, 10,622 people underwent training in LMC over a cumulative 671 days.
- We have Premium training and exposure for retention of key critical skills areas and capabilities e.g. Productivity & Engagement Coach programs, Data Analytics exposure visits and training, Digital capabilities exposure & premium training (design thinking and agile methodology)
- Since 2015 we've had in place a robust Key Performance Indicators (KPI) focused performance management process with clear linkages to rewards and better accountability mechanisms. The introduction of fewer KPIs focused on core deliverables, performance dialogues and daily huddles keep staff focused on their performance at all times, ensure that they focus on core deliverables and provide better ways to measure and ultimately reward great performance. The Bank has a detailed performance management policy in place, which guides our performance management process for all employees as well as guidelines on rewards.
- As a result, in 2017 Staff productivity as measured by staff cost to gross income improved to 19% from 21% in 2014 mainly due to transformative initiatives in Sales Force Effectiveness (SFE), operational efficiencies, proactive retention, re-skilling, up skilling, coaching and clarity of performance expectations. This allows career progression, acceleration and growth opportunities for the young and energetic team with 90% being under 40years. This has further enhanced internal mobility of talent.

2.6. Community Dialogue

As part of the wider community in which we operate, the bank collaborates with various stakeholders involved in poverty eradication, advancement of education, inadequate access to health services and financial services and various other activities addressing local challenges.

In an effort to improve the use of modern agricultural technology in the Coconut Sector, we collaborated with Amiran Kenya. To extend the quality of health services offered to citizenry, the bank partnered with the Kenya Diabetes Management and Information Centre as well as the Kenya Psychological Association.

2.7. Labor standards

We practice the virtuous value of mindfulness in appreciating the need for work-life balance for our staff and we have created an inclusive and conducive environment to cater for their different requirements. We support staff in child-rearing responsibilities by providing time off work for male and female staff in line with existing labour laws and best practice for enhanced productivity and employee engagement. In 2017, a total of 593 staff took time off to attend to their new-borns, of which 347 were men and 246 women.

Our bank maintains cordial relations with the staff union and we continue to foster partnership to ensure that staff interests are addressed timeously. There is a Collective Bargaining Agreement that provides guidelines on the management and policies around the unionizable employees. This is a negotiated agreement between the Banks and the Bankers Union. The Staff Manual also applies to unionizable employees where the CBA provisions are silent.

On a continuous basis, we create an inspiring experience for our people by improving the employee engagement incrementally as a key success factor to great business results as well as staff productivity.

2.8. Responsible competition

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

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

2.9. Responsible supply chain and supplier relations

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

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

2.10. Responsible marketing and advertisement

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

The bank adheres to these principles both in letter and spirit and we actively seek to confirm rather than seek to ingeniously go round code. As a principle all our marketing communication conforms to the Marketing Operations Manual approved by the bank and which ensures communication doesn't violate any of our national laws. Specifically, the bank communication is deliberately structured to communicate honestly and truthfully. As

a result, communication involving words like Free and New are only used where, in truth and fact, the offer is absolutely free of cost or there is something never offered before. All images used in the banks' advertising are legally obtained and models are compensated appropriately. The bank therefore does not for example compel staff of other associates to offer free services. In the use for promotions where prizes are to be won, Betting Control and Licensing Board authority and supervision is invited to oversee the process of drawing winners and awarding them to ensure that all the time, every time the promotions remain ethical and forthright. In circumstances where prizes are not claimed for whatever reason, such prizes are handed over to the Betting Control and Licensing Board for onward transmission to charitable institutions.

The banks does not run advertising communication seeking to influence children or minors in any way. As a principle, the bank does not run comparative advertising where it directly compares prices or other product features with any of our competitor financial institutions. Whereas this may not be unethical, the bank is careful not to depict other institutions negatively.

2.11. Product Stewardship

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

1. SOCIO-ENVIRONMENTAL

1.1. Health, Safety & Wellness Programme

We are guided by a comprehensive Occupational Safety & Health Policy which provides for Health, Safety & Welfare of staff in line with the OSH Act. We value and protect the health and safety of our employees and people who directly or indirectly may be affected by our business activities. A safe and secure working environment is a key priority and our work-spaces are specifically designed with this in mind. Adequate dressing and equipment arrangements are in place for employees whose work necessitates this, thus facilitating high staff productivity. Our processes and procedures prevent incidents of safety hazards, ill health and occupational diseases. Being proactive on health and safety continues to reduce costs associated with absenteeism and contributes to a high performance culture. As part of our broader wellness programme, we facilitate staff access to professional advisors and counsellors on matters relating to work, health, relationships and general social wellbeing. Further, in 2016 the bank launched a Wellness program for all staff aimed at basic health and wellness checkup, body composition analysis and dental and optical screening. We believe this enhances staff productivity and has a direct impact on business performance. In 2017, we scaled up our staff wellness program with over 250 wellness champions.

In regards to work related injuries there have been none reported in 2017.

1.2. Global Climate Change

At Co-op Bank, we are real about climate change because climate change is real. We impact the Climate directly as an organization and indirectly through the activities of our customers. To this end we are careful to follow the Board approved Environmental and Social management policy to ensure positive impact.

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

1.3. Local environment Impact

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

2. ENVIRONMENTAL

Environmental degradation is characterized by habitat loss and degradation due to human activity, climate change, and pollution, among other things. Climate change and pollution continue to be some of the biggest challenges facing the world today as global threats that may affect all aspects of our civilization. The climate change related risks for the banking industry in Kenya vary from the indirect rise in operating costs to largely non-existent legal guidelines. We appreciate that banks that successfully handle and manage these risks from the onset, will not only be in a position to manage these costs

but will also benefit from various opportunities such as being able to address changing customer profile expectations and meeting the financing needs of “green” investments. For this reason, we at co-op bank believe that climate change is a strategic issue that requires full integration with all business processes and decision-making mechanisms. Our Transformation Project, which is owned right from the Board level, has contributed positively to resource efficiency as detailed in this Sustainability section.

2.1. Waste Minimization/ resource management

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

Eco-efficiency section mentioned above points to us having used less paper, electricity and diesel since we began our Transformation project.

	Annual Cost reduction from 2015 to 2017
Motor vehicle running	45%
Electricity expenses	19%
Heating/gas expenses	29%
Printing expenses	78%
Postage	8%
Stationery expenses	43%
Telephone expenses	33%
Car hire	71%
Water expenses	24%
Industrial gas	84%
Generator fuel expenses	36%
Taxi services & travelling	3%
Air travel	51%
Hotel accommodation	11%

2.2. Emissions Reduction

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

- Energy efficiency using lean briquettes.
- Gura Hydro Power project - A 6MW project that will supply power. to KTDA tea factories and to the national grid.
- Purchase of efficient UHT milk processing line and boilers.
- A 600kW project at Strathmore University.
- Purchase of more energy efficient boilers and conversion.
- Regen Regem SHPP limited - A 5.2Mw project.

2.3. Regulatory Compliance

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

2.4. Ecosystem Services

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

2.5. Biodiversity

Biodiversity underpins life on Earth. Biodiversity ensures the sustainable productivity of soils and provides the genetic resources for all crops, livestock, and marine species harvested for food. We recognize the global threat posed by environmental issues such as climate change and loss of biodiversity.

We ensure preservation of biodiversity by requiring our customers to provide requisite approvals from authorities tasked with environmental protection such as National Environmental Management Authority (NEMA) before we give them financing.

As an organization, we promote biodiversity in areas where we operate.

The Co-operative movement, which is one of our key strategic stakeholder, supports biodiversity in promoting best practice especially the agricultural, Fisheries, and Livestock Co-operative Unions.

3. Strategic Focus

3.1. The Eagle Soars On! : Our Transformation Journey.

Co-operative Bank has grown tremendously since its formation and this can be attributed to our clear strategic focus which is spearheaded by our Board of Directors. Our journey of growth went a notch higher in 2014 when the Board of Directors approved a growth and efficiency review by McKinsey and Co. giving rise to the transformation journey dubbed 'the soaring eagle'. It is against this backdrop that we formulated the current 5 year Corporate Strategic Plan 2015-2019 that would enable us to sustain stakeholder value creation into the long term.

1. Customer Experience and Branch Transformation. The focus of Branch Transformation 1.0 was to Re-orient our branches to focus on customers and not products, Migration of customers to our alternative/Self-service channels, Automation of branch customer service systems, increase cross selling opportunities, increase sales at the branch level, enhance efficiency through reengineered processes and increase optimum-priced and stable deposits. We have successfully finished Branch Transformation 1.0 and embarked on Branch Transformation 2.0 which seeks to establish our branches as Centers of excellence offering sales and advisory services.
2. Enhanced Sales Force Effectiveness (SFE). The focus of SFE 1.0 was to enhance adoption of a collaborative product ownership by empowering our sales teams to be more customer focused as opposed to product focused thereby promote cross selling, we also focused on training on the use of sales force tools and efficiency in sales. We have successfully finished SFE 2.0 and embarked on SFE 3.0.
3. Shared Services & Digitization. We implemented a shared services model and grouped all support services under the office of the Chief Operations Officer (COO). We have since then focused on digitization and automation of our processes, optimization of our systems uptime and enhancements of systems to optimize processing capacity.
4. Staff productivity. This involved effective performance management. To this end, we successfully introduced the Key Performance Indicator (KPI) based performance management system that has been key in effective performance measurement in our quarterly appraisals. We have also focused on having a HR model that is dedicated towards customer centricity, we are also ensuring a dynamic human capital that is empowered through training, motivation, and performance linked rewards.
5. Enhanced Credit management framework. The focus has been to maintain a robust credit management system that has involved enhanced frontline support, collaboration and establishment of regular touch-points and provision of advisory services, enhancing systems processes and tooling to support credit management, proactive collections and curing and aggressive remedial action and follow-up.
6. Reporting & Analytics. The focus has been to enhance frontline accountability, enhance proactive credit management, proactive lead generation, enhance data management and drive data architecture for analytics in order to optimize the opportunities that are within our 'big data'.
7. Micro, Small and Medium Enterprises (MSME) Transformation. MSME transformation project started in November 2016 with the support of International Finance Corporation (IFC) – Consultancy arm. This project is designed to leverage and unlock the huge and lucrative potential of the MSME segment.
8. Digital Bank. This initiative is geared towards optimizing agility to market dynamics, innovation and digitization for value creation.

In 2018 and beyond; The following 'Soaring Eagle' Transformation initiatives are aimed at achieving the Bank's growth and profitability objectives for year 2018 and beyond for the benefit of all our stakeholders into the long term.

1. Customer Experience, Branch Transformation and Channel migration
2. Micro, Small and Medium Enterprises (MSME) Transformation
3. SFE Corporate and Co-operatives Divisions
4. NPL management and credit processes
5. Digital bank Transformation
6. Reporting and Data analytics

Seamless co-ordination and implementation of all Transformation Initiatives.

As part of our 2015-2019 Growth and Efficiency Strategy Soaring Eagle transformation program was launched in August 2014.

Transformation Phases

1. Foundational Steps – 2015
2. Modernization Steps – 2016-2017
3. Future growth – 2018

Transformational programs

1	2	3	4	5
Customer Experience and Branch transformation	Corporate sales effectiveness –CIBD/COOP	NPL recovery and collections	Shared Services and Digitization	MSME Transformation

• 12+ month cross-functional, large scale projects that fundamentally shift business as usual

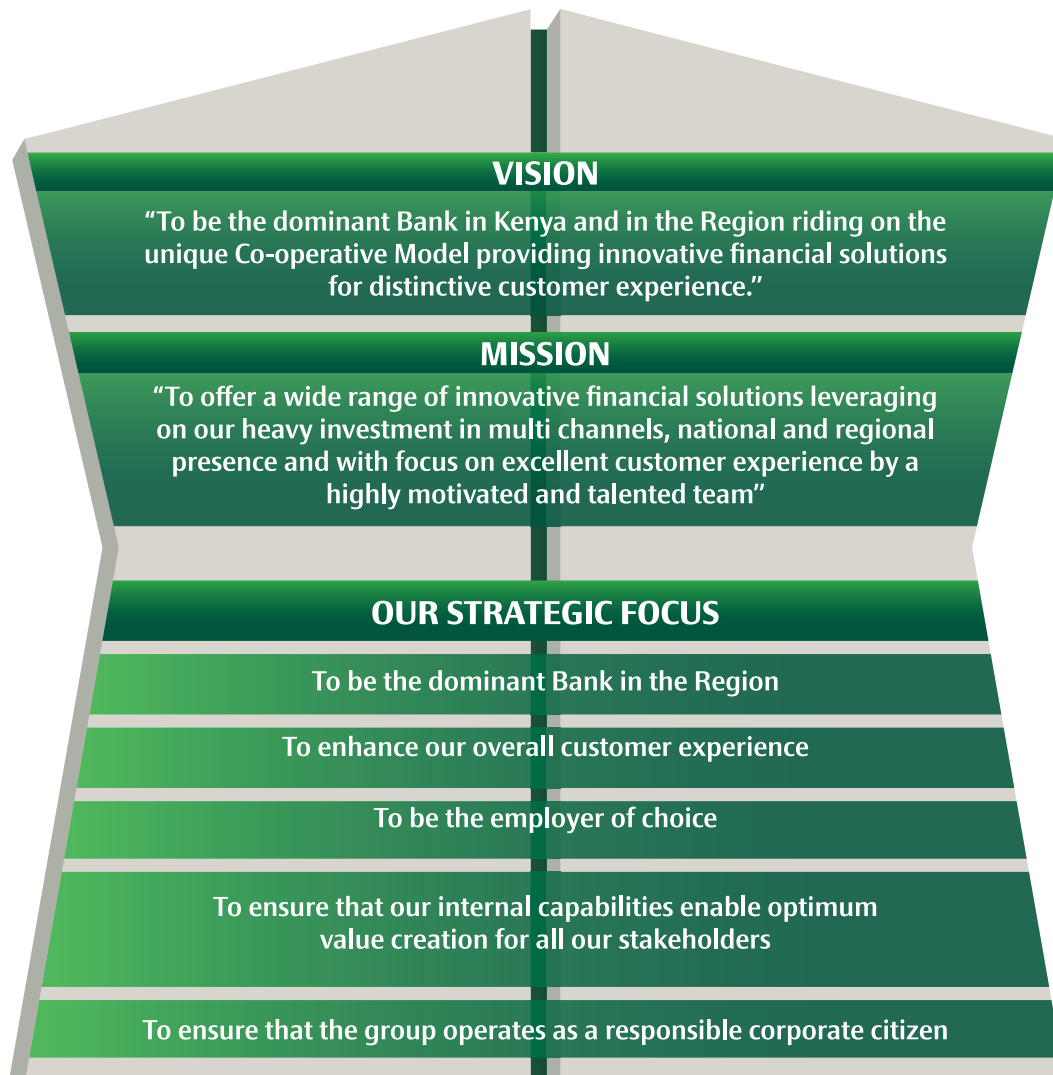
Functional improvements

6	7	8
Channel enhancements	Credit process improvements	Sourcing

• 6-12 month business as usual improvements.

Enablers -Provide enabling structure, processes and systems for transformational programmes

- 9 Data and Analytics
- 10 Performance rhythms Continuous Tracking & Co-ordination

3.2. Our Strategic Focus

3.3. Integration: Strategic focus, Capitals and Material matters

Our strategic focus is key to our short, medium and long term ability to create value for all our stakeholders. The key enablers are the 'soaring eagle' transformation initiatives that enable us to stay on a growth trajectory.

In all our strategic decisions, enterprise risk management takes an important position to ensure that we are taking on optimum risk as we pursue all the opportunities available to us. Matters that are material to us are identified, prioritized and managed

Within the enterprise risk management framework and incorporated into strategic decision making.



3.4. Strategic Performance Summary.

Our key focus is to create value for all our stakeholders and position ourselves for sustainability into the long term.

To be the dominant Bank in the Region

Key Output in 2017

- Total Assets +10%
- Net Loan Book +7%
- Total Deposit Book +9%
- Profitability -7%
- Return on Assets 3.1%
- Return on Equity 17.4%
- The Largest Co-operative Bank in Africa possessing tacit knowledge in Co-operatives Banking.
- 3rd largest Bank by Asset Size (Kshs. 387B) and by Market Capitalization (Kshs.94B) at the Nairobi Securities Exchange.
- Declared most sustainable Bank by the Kenya bankers Association for catalytic finance that impacts Industry, Economy and Society.
- Best bank in Kenya Award- EMEA Finance (African Banking Awards)

Key Outcome

- Dividends Kshs. 0.8 per share to our shareholders.
- Competitive Return on Equity (17.4%)
- Our shareholders are optimally engaged on matters of our performance and strategy as detailed in the our stakeholders engagement section.
- We have a dedicated division serving the co-operative movement. See the Key Business Review section of this report. One of our key pillars in Transformation is Sales Force Effectiveness in the Co-operatives Business that seeks to offer the optimal Co-operatives Value Proposition.
- We carried out Consultancy to the co-operative movement for their better performance. See Creating sustainable value section.
- We continue to offer financial inclusion to our customers in South Sudan despite the hyperinflationary environment. We have proactive strategies and risk appetite for the Market.

The Outlook

- Sustainable profitability and financial position growth in 2018 and beyond.
- Ongoing transformation will continue to unlock more potential to maintain the growth trajectory.
- We will continue to collaborate with the Co-operative movement with the unique model to be applied in our new frontiers i.e. Rwanda, Uganda, Ethiopia, DRC & Tanzania.

To enhance our overall customer experience

Key Output

- Successful implementation of a customer centric model, which means that we are more focused on offering the customer a complete basket of solutions as per their needs.
- Gains achieved through migration and automation freed up time for Tellers and Service champions. The role of Teller and Service Champion was merged into one role called Sales and Service Advisor. This role achieves Branch service/operations support and Business growth & development. This has turned our Branches into Centers of Excellence in Sales, Service and Advisory and has highly benefited our customers.
- Customer Experience (CX) Forum was instituted with Monthly and Weekly focus. A Cross Functional team was set up to optimally resolve all customer issues as captured by the Customer relationship Management (CRM) system.
- We boosted Capacity, Training and Resourcing at our Contact Centre. Co-op bank brand was recognized and successfully nominated by an organization called Social Bakers as one of the most responsive / Socially Devoted on social media in the industry. The recognition was for Contact Centre Team.
- We increased (Customer Relationship Management) CRM Utilization and improved Complaints Monitoring and Management. This Increased visibility of issues raised by our customers.
- We carried out themed Service Campaigns: Recognizing and appreciating customers to deepen relationships and boost Loyalty. This included Service Focus Days and October Service Month.
- Distinctive Customer Experience (DCE) Training bank-wide in partnership with HRD Department. 950 staff were trained.
- Successful completion of branch transformation 1.0 that focused on; Physical re-organization of the branch; Spacious sitting areas now completed, Queue Management systems, Increase of frontline staff through the (Sales and Service Advisor)SSA roles in all our branches, Dropbox banking, ATM kiosks, Toll free lines to contact center and Internet Banking at the branch.
- Merging Branch Transformation (2.0) and MSME transformation to optimize the gains to our customers with optimal Customer Value Propositions.
- Improved queue time from 52 Minutes in 2014 to under 12 Minutes.
- Successful self-service channel enhancements for optimal performance. 87% of our transactions are carried out in these channels.
- NPS score of 59/60- Customer Satisfaction Survey Report 2017 by IPSOS. The survey focused on Overall Customer Satisfaction, Net Promoter Score-NPS, Products evaluation, Channels evaluation and Complaints handling.
- Contact center transformation: We support over 600k customers remotely through calls, emails, SMS and social media platforms.
- Increased usage of alternative channels; Mcoop cash registered customers grew by 14%, Internet Banking customer grew by 13%, 11% increase in the number of customers who access agency services from 8.1M to 9M, The average number of customers who visit our agents everyday are 95,000.

Social media

- Social Media Rapid Response Team: Set up at Contact Center monitoring the Social Media space 24/7 and promptly flagging or escalating any issues to manage reputational risk.
- Continuous training and upskilling of the Contact Centre Team on Social Media handling.
- Sensitization and awareness on the ground to drive right behavior on Customer Experience and avert negative social media.
- Daily and Weekly analysis of Social Media and Customer feedback to address root cause.

Key Outcome

- Innovative and Ethical Products and services that meet our customer needs.
- Access to banking services from anywhere, any device, and at any time.
- Excellent Customer experiences that have been created across all our channels.

The Outlook

- We will continue to create great customer experiences across all our channels in the short, medium and long term.
- Streamlining and Re-engineering Customer Feedback and Complaints Management process through enhanced CRM
- Enhancing Customer Onboarding process – piloted in Q3 2017 with MSME to be revamped with official roll out of proposition in 2018.
- Action / Implementation of solutions to resolve identified Top Customer Pain Points to improve Customer Experience across all service touch points.
- Accountability on customer experience: KPIs for both frontline and back office teams on Customer Experience.
- Enhancing and aligning Customer Feedback /Complaints Handling effectiveness.
- Continue embedding strong service culture across the bank through various initiatives including Service standards, Service Campaigns and Rhythms across the bank.
- Continuous CX Training and empowering of staff across the bank.
- Customer Journey mapping and process improvement.
- More staff to be trained in 2018 as part of Distinctive Customer Experience (DCE) Training in partnership with HRD Department.

To be the employer of choice for our teams: Attract and retain the best

Key Output

'Achieving the Best with our People'

Key drivers:

- High Performance Management culture
- Optimal resourcing & mobility
- High-impact leadership culture
- Achieve coaching & learning excellence
- Talent Management strategies
- Proactive Retention of our best people
- Strong Employer Branding & EVP
- Inspired Employee Experience journeys
- Differentiated rewards management
- Proactive cost rationalization
- Digital HR & data driven HR decisions
- Co-op Culture Re-alignment , Employee Engagement & Rewards

Key achievements;

- 92% staff members achieved and exceeded their targets
- Sales and Service advisor role- 665 staff
- Skills for future initiatives rolled out
- Smart re-deployment of optimized resources
- Talent Development(TD) implemented
- Mentorship programs for Bankers, Branch Managers and Service Managers ongoing
- Premium training and exposure for retention of key critical skills
- Coaching & Feedback Framework developed
- Launch of Divisional Academies in Q22017
- Coop Leadership Way – developed and launched
- Staff Wellness program – scaled up in 2017 with over 250 wellness champions

	2017	2016	2014
Staff numbers	4069	4127	4450
Staff productivity (staff cost to gross income)	19%	17%	21%
PBT per staff	4,094	4,295	2,453
PAT per staff	2,853	3,072	1,801

Key Outcome

The Creating sustainable value section of this report covers many outcomes of our commitment to become the employer of choice.

- Effective Performance management tool that encourages high performance and motivates staff.
- Wellness program that encourages a balanced life for our employees.
- Proactive Staff engagement.
- Our Learning and management center that ensures upskilling for our employees.
- E-learning platform that ensures upskilling for our employees.
- Better experiences for our customers and other stakeholders who are engaged by empowered employees.

The Outlook

2018 and Beyond: 'Deeper & Meaningful partnerships to unlock productivity and potential'

- Optimal Resourcing & Org. design initiatives.
- High Performing Teams initiatives.
- Build High Impact learning & Strategic capabilities.
- Talent Agenda & Proactive retention initiatives.
- Employee Engagement & Wellbeing Initiatives.
- Digital Bank Transformation & Culture alignment.
- Transformation Agenda partnering initiatives.

To ensure that our internal capabilities enable optimum value creation for all our stakeholders**Key Output****Sales Force Effectiveness**

Salesforce Effectiveness (3.0.) 'Corporate and Co-operatives Banking' has been going on well with a Focus on Deposit growth, Transactional Banking to grow NFI, Automated deal pipeline tracking and follow-up, Utilization of all channels by clients, Data analytics driven sales and New client acquisition. Our Financial performance review and Key Business Review sections of this report shows the gains from Sales Force Effectiveness initiatives.

MSME Transformation project

This is an ambitious growth and transformation project supported by International Finance Corporation. We seek to be the foremost SME Bank in Kenya. The Key initiatives being; Credit Scoring, SCF- Supply Chain Financing, CVP- Customer Value Proposition Model, Segmentation, Credit Process Review, Product Offering Review and Non-Financial Service (NFS) offering. So far, we have achieved the following;

- Clearly defined segments in Micro, Small and Medium enterprises enabling our bankers to serve them optimally.
- Handover initiatives allowing movement of relationships per segment.
- Same day Micro loans through Business Process Management System (BPMS).
- Supply chain financing, a key product, has experienced great traction (under pilot) with over 90 suppliers on board.
- Positive response from our customers. Increased referrals.

Shared Service Centre and Digitization

- Successful implementation of a shared service Centre/hub optimizing all possible opportunities on digitization maximizing on efficiency and systems uptime.
- We settled on the optimal digital strategy for the Group 'Co-op Way' that will see us compete effectively on the digital space.
- We prioritized the customer journeys that are to be digitized for the best customer experience.
- We delivered several modules on Business Process Management System (BPMS).
- Data and analytic initiatives - 13 of 26 prioritized use cases have been developed and in use.
- Successful MSME Credit Scoring delivered.
- Successful Instant card issuance.
- 40 channel enhancements were delivered in 2017.
- Collaboration with Fintechs for revenue collection is on course.
- Successful activation of M Coop Cash dormant customers.
- B2B Institutional Onboarding-Integrated collections solution. The total integrated institutions are 37.

Cost Efficiency

- Focus on electronic delivery channels thus reducing brick and mortar costs. We are only opening strategic branches.
- Continuous review of our cost lines for adoption of better and cheaper methods.
- Automation of the various key processes for costs optimization. Business Process Management System (BPMS) is enabling digitization of customer Journeys for cost efficiency.
- Enhanced Evaluation Committee (EC) and Expenditure Management Committee (EMC).
- Reviewed sourcing processes and procedures, including frequent retenders with significant savings.
- Market price comparison every 3 to 6 months.
- Prequalification of suppliers every 6 months.
- Renegotiated contracts with vendors especially systems.
- Enterprise Resource Planning (ERP) solution for better visibility and decision making;
 - Efficiency- reduced paper work, Improved Service level Agreements (SLAs).
 - Better management and control of Bank Resources.
 - Enhanced accountability- quality of services delivered to branches.
 - Linking of budget and expenditure for each cost center to enhance effective cost management.
 - Enhanced visibility of Bank commitment and expenditure.

Entrenchment of a robust Enterprise Risk Management (ERM).

We have a proactive ERM framework as detailed in the Integrated Risk Management Review section of this Integrated Report. Key achievements are:

1. Proactive NPL management

NPL management and Credit Processes (NPL 3.0). Ensured proactive credit management and proactive review of credit processes in order to support business as well as maintain a quality book.

Key achievements;

- On track in the implementation of IFRS9 requirements.
 - Automated Covenant Tracker: The system allows departments to track covenants linked to various credit facility approvals.
 - Generation of early warning report for pre-delinquency management.
 - Automation of e-collection via Avaya system increasing average calls per collector from 68 in Q32017 to 84 in November 2017.
 - Scoring of all MSME customers and limit allocation.
 - Micro Enterprises Loans Process Automation –The BPMS system has been rolled out to 105 branches across the network. The benefits includes same day end-to-end loan processing.
 - Approval and issuance of unsecured bid bond from 2 million to 5 million at Branch level.
 - The turnaround time for cash covered instruments has been reviewed from 3 days to 1 day.
 - Review of trade instruments issuance process flow. Achieved Turn Around Time (TAT) of 1-2 days for cash covered and existing limits.
2. We revised our Risk Appetite Statement.
 3. Defined Risk assessments were carried out as per the Risk Management Department Annual Plan.
 4. Quarterly ERM reports generated and submitted to the Board of Management (BOM) and Board Risk Committee (BRC) as per CBK regulations.
 5. Quarterly stress testing reports were generated and submitted to the various stakeholders.
 6. We successfully documented 2017 Risk Registers and Key Risk Indicators (KRIs) for all units in the Group.
 7. We Documented and submitted Risk and Control Self Assessments (RCSAs) in R-Universe Risk System by 31st December, 2017.
 8. Annual Group Internal Capital Adequacy Assessment Process (ICAAP) report was approved by BOM, BRC and Board is submitted to the CBK by 30th April, 2017 as per regulations.
 9. Security information and event management (SIEM) solution was implemented by 30th June, 2017.
 10. ISO 27001 (Information security) status was maintained after the onsite inspection slated for Q3, 2017.
 11. We carried out all our Business with professionalism and compliance to all the laws, rules and regulations.

Key Outcome

Operational efficiency and Risk management has led to cost management, revenue generation and optimal risk uptake, which have in turn led to higher value creation for all our stakeholders;

- Shareholders, Co-operative Movement and strategic partners- More value for their investment in Coop Bank.
- Customers- Better, faster, ethical products and services.
- Employees- Better rewards, Wellness, better work-life integration, performance management and digitized working environment.
- Regulators- A robust ERM framework has led to more proactive regulatory response.
- Suppliers- Faster TAT, better relationship within the Shared Services Centre setup.
- Community- as we become more efficient we are able to distribute more value to the communities around us.

The Outlook

The ongoing Transformation at Co-op is expected to continue delivering more efficiencies and hence increased value to our stakeholders. Our focus is on;

Shared Services Hub/ Digitization

- Digital Bank Transformation- under implementation.
- Optimal Innovation management.
- Continued Optimum Systems Availability & Uptime.
- Optimizing Customer Experience on E-Channels.
- Business-to-Business (B2B) Integration.
- Continued Brand Equity Management.
- Omni Channel Implementation for prioritized Segments.
- Transactional Banking Support for optimal non-funded income growth.

- Continued Compliance & Fraud Management.
- Data Analytics -Firm wide rollout and training on data analytics.
- Reduction of Procurement Costs.
- Cyber Security - Cybersecurity program.
- Foundational Systems Optimization;
 - Implementation of Trade Finance, Trade Portal and Supply chain Finance Implementation.
 - Implementation of OPICS upgrade.
 - CRM -enhanced customer experience.
 - API (Application Programme Interface) Management.
 - Enterprise Service Bus (SOA) Optimization.
 - Core banking Enablement.

Optimal Credit Management

- Customer journey digitization in Lending.
- Proactive Credit Management.
- Enhancements on credit issuance through digital channels.
- Continued best practice inculcation into credit processes.

MSME outlook

- Roll out MSME to all branches.
- Roll out MSME to more Co-op agents.
- Bundle MSME packages with other products and services.
- Roll out credit scoring and Limit reviews on Business Process management System.
- Build a Supply Chain Financing Platform.
- Implement identified Non-Financial Services.

SFE outlook

- B2B integration / Aggregators for corporate clients.
- Proactive - Analytics driven Sales campaigns.
- Review of Sectors and the opportunities therein.
- Transaction Banking as a key Deposits and non-funded income (NFI) driver.
- Greater focus on Supply chain partnership.
- B2B integration / Aggregators for Saccos.
- New MSME model on small saccos.
- Innovative solutions in the transport sector.
- Review of Sectors and the opportunities; Agri value chains.
- Proactive - Analytics driven Sales campaigns.

We will continue to entrench Enterprise Risk management in all our services, products and processes in the entire Group.

To ensure that the group operates as a responsible corporate citizen

The key output and outcome has been discussed in great detail in the Creating sustainable value section of this Integrated report.

Key Output

Social

Co-op Foundation- supporting education of needy, bright students.
Co-op Consultancy and Insurance Agency-Capacity building of the Co-operative Movement.
Employer of choice- Reward, Gender Parity, skilling, resourcing.
Effective performance and consequence management platform.
Corporate Social responsibility initiatives.
Social responsibility initiatives by individual staff teams.

Economic

Sustained good Financial Performance.
Economic benefit through lending to MSMEs and Commercial Clientele leading to employment and development in line with Vision 2030.
Responsible Business practices and compliance to set rules and regulations.

Environmental

Green lending.
Recycle, Reuse and Reduce.
Direct involvement in environmental management.

Key Outcome

Over 2300 consultancies carried out by our subsidiary; Co-op Consultancy and insurance agency.
6303 students supported since the inception of Co-op Foundation.
Employee parity ensured.
Successful implementation of KPI performance management tool.
Corporate social responsibility initiatives.
Sustainable financial performance.
Lending to MSMEs.
Compliance to all the set laws, rules and regulations.
Green lending - Kshs. 3.6B
We recycle, re-use and reduce in order to limit negative impact to the environment.

The Outlook

We will continue to operate as a responsible Corporate citizen socially, Economically and Environmentally in the short, medium and long term.

Our Key Sustainability priorities for 2018 and beyond are;

- To continue operating efficiently to preserve economic value.
- Through the Bank, Co-op Consultancy and Co-op Foundation, we will continue to contribute positively to the society.
- We will continue to operate in a manner that will preserve the environment and contribute positively to climate change issues

4. Performance Review

4.1. Operating environment

Economic growth and Macro-Economic stability

Kenya's GDP growth posted the lowest growth in five years estimated at 4.9% due to a variety of headwinds including; a long drought in the first half of the year, slowdown in private sector credit growth and a prolonged election cycle weakened overall aggregate demand. Overall inflation was elevated averaging 8.04% in 2017 compared to 6.3% in 2016. The KES exchange rate against most major currencies remained generally stable. Interest rates also remained fairly unchanged mainly because the lending and deposits interest rates are pegged to the Central Bank Rate which remained unchanged at 10% throughout the year.

The interest rate capping law that was enacted in 2016 has partly been responsible for the continued fall in private sector credit growth. Banks have had to employ various strategies to grow alternative revenue streams, manage operational cost and maintain profitability.

The macroeconomic outlook for 2018 is positive. The political environment has now stabilised. Normal weather conditions are expected to support agriculture while inflation is expected to remain largely within target. However interest rates are trending downwards which might reduce our interest revenue.

Our Response

Our strategy is to contain our interest expense by focusing on cheap and stable retail deposits and also grow our interest income by growing loan volumes. We are leveraging our multichannel distribution network and product portfolio to enhance our non-funded income, our long term strategy to make up for interest income which is expected to come under increased pressure in the long run. We are also focusing on deposits growth from our collaboration with Fintechs and Aggregators (other key players in the digital financial eco-system).

Regulatory and Compliance Environment

Banking industry has been under enhanced supervision by the Central Bank of Kenya. Regulation review and enhanced supervision is a continuous exercise in the industry and is expected to increasingly be enhanced as a result of disruptions whether technological, macroeconomic, or industry's conduct. These regulatory changes have been necessitated by increased need for consumer protection, economic growth and stability. As a result, there

has been need for extra resources both financial and human.

The main highlights in 2017 included adoption and implementation of Internal Capital Adequacy Assessment Process (ICAAP), expansion of the Credit Information Sharing (CIS) mechanism, Risk Based Supervisory Framework for Anti-Money Laundering and Countering Financing of Terrorism.

Preparation for adoption of IFRS9 which will take effect on 1st January 2018, was also intensive. Banks are expected to review their business models and policies in order to realign with the IFRS 9 requirements.

Our Response

Regulation is necessary for proper functioning of a stable market-based financial system. We have embraced a proactive and continuous training and sensitization of our staff on key and emerging areas of concern. Our training manuals and policy documents are continuously updated and placed on online portals and eLearning platform for easy access, reading and reference by all our staff. We have a dedicated compliance department tasked with tracking emerging trends and ensuring training and compliance internally.

We are proactively preparing for the implementation of IFRS 9 with a consultant already on board to ensure best practice.

Embracing Digital banking for Enhanced competitiveness

Fintech and digitization is contributing to the immense transformation we are witnessing in the banking space. Digital banking, especially mobile banking and Internet Banking serves the banking needs of the customers quickly and in the comfort of their homes, or wherever they are at reduced cost. Other innovations like the Quick Reader enables smart phone users to scan quick reader codes from their phones and shop, send money or make payments directly from their bank account. These innovations means that the number of people with access to a bank account and other financial services is growing, therefore creating greater financial inclusion. It also creates huge opportunity for economic inclusion development. We have strategically placed ourselves to adapt quickly to fast evolving technological capabilities without compromising on security, usability and stability.

Our Response

We have embarked on a conscious Digital journey to re-invent and catalyze our performance through:

- Enhanced automation of processes to improve efficiency.
- Leveraging on data & analytics in decision making.
- Continuous innovations to meet our customers' needs and changing expectations.
- Enhanced systems connectivity and interoperability to create unrivalled user experience.
- We have acquired systems, knowledge and skills to defend our systems, networks and data from cyber-attacks.
- We are continuously exploring opportunities for collaboration with Fintechs and System developers with a view of deploying the best of breed in terms of technology platforms.

People and Skills

Digitization and Technological changes have brought about scarcity for core skills in the related fields. Automation and evolving technologies have created disconnect between current and future skill sets of the workforce. This is attributable to the fact that these occupations are newly created and few people have been trained and qualified in them. Inclusion and diversity of our human resource remains an important issue. Employees are also increasingly seeking flexible and dynamic working conditions and specially tailored value proposition.

Our Response

We are a well-known and easily recognizable brand and as such are well placed to attract the best talent in the labour market. We have been able to attract and retain a wide mix of skills and expertise and any occurring vacancies have been filled without undue delays. Maintaining our position as an employer of choice and ensuring we have an effective performance and reward system are key areas in our strategic focus to maintain our preferable status.

4.2. Financial performance review

2017 was one of the most challenging year that the Banking Industry had to contend with, characterized by Interest rates capping, general economic slowdown and a prolonged General Election. The performance below shows a full year under the interest rate capping regime.

The Group made Profit before Tax of Kshs.16.4 Billion compared to Kshs.17.7 Billion recorded in 2016, a marginal drop of 7.3%. Profit after tax was Kshs 11.4 Billion compared to Kshs 12.7 Billion in the previous year. The Compounded Annual Growth Rate (CAGR) for PBT and PAT is 9% and 5% respectively.

The performance above was boosted by a drop in interest expense of 4% Year on Year (YoY) resulting from our strategy to retain optimally priced deposits that were more 'sticky' (held with us for a longer period). Non-Funded income increased by 6% YoY countering the effects of interest capping to some extent. The Group experienced a 4% drop in Interest Income (CAGR +10%) and a 5% drop in Net Interest Income (CAGR +9%) which resulted to a 5% drop in our Net Interest margin owing to the Macro Economic factors mentioned above. Notably the CAGR of our Net Interest Margin is 9% hence once the Macro Economic environment improves we will be back on a growth trajectory. Other Operating expenses increased marginally by 3% owing to the efficiencies being gained from our Transformation Project detailed in the Strategic Focus section of this report.

Below is a Five Year Review;

	CAGR	Year On Year 2017-2016	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
Profit After Tax	5%	-10%	11.4	12.7	11.7	8.0	9.1
Profit Before Tax	9%	-7%	16.4	17.7	15.4	10.9	10.9
Total interest income	10%	-4%	40.4	42.3	36.8	29.4	24.5
Total interest expenses	16%	-4%	12.3	12.8	13.6	8.1	5.9
Net interest income/(loss)	9%	-5%	28.1	29.5	23.2	21.3	18.6
Net Interest Margin	9%	-5%	9%	11%	10%	12%	12%
Total Non-interest income	8%	6%	13.5	12.8	13.2	10.8	9.3
Total operating income	8%	-2%	41.6	42.3	36.4	32.1	27.9
Total other operating expenses	8%	3%	25.3	24.6	21.4	20.1	17.4

The Total Assets of the Group increased by 10% (CAGR +11%) boosted mainly by a 7% growth in the Net Loan Book (CAGR +13%) and a 20% growth in Assets under Government Securities (CAGR +16%).

Shareholders' funds increased by 13% (CAGR +14%).

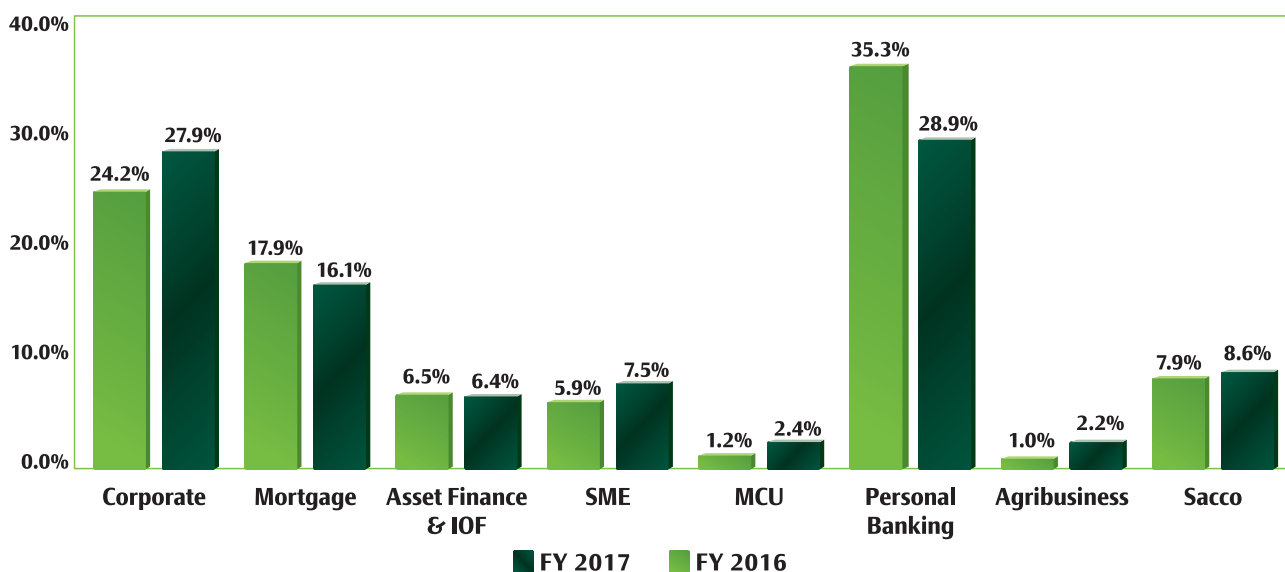
The Return on Average Assets declined by 15% Year on Year (CAGR-6%) and the Return on Average Equity declined by 23% YoY (CAGR-9%). We have put in place strategies to grow the bottom line hence we expect this to improve in 2018 and beyond.

Below is a Five Year Review;

	CAGR	Year On Year 2017-2016	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
Total Assets	11%	10%	386.9	351.9	342.5	285.4	231.2
Return On Average Asset (ROAA)	-6%	-15%	3.1%	3.7%	3.7%	3.1%	4.2%
Total Shareholders' Funds	14%	13%	69.1	60.8	50.2	43.3	36.8
Return On Average Equity (ROAE)	-9%	-23%	17.4%	22.7%	25.0%	20.0%	27%

Loans and Advances (Kshs. Billion)

The Net Loan Book grew by 7% YoY (CAGR 13%) boosted mainly by increase in personal (Consumer) loans and Mortgage as shown below;



A detailed review of the Loan Book is as shown below

		CAGR	Year On Year 2017-2016	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
The Book	Loans and advances to customers (net)	13%	7%	253.9	232.3	208.6	179.5	137.1
The return	Interest income - Loans and advances	10%	-4%	31.9	33.4	30.0	24.7	20.0
	Average Return on Loans	-4%	-13%	13.0%	15.0%	15.5%	15.6%	15.6%
	Return on Risk Weighted Assets	-8%	-18%	3.4%	4.1%	4.2%	3.5%	5.2%
The Impairment	Total Non-performing loans and advances	27%	76%	17.8	10.1	7.1	7.7	5.4
	Loan loss provisions	21%	58%	6.1	3.9	3.6	2.1	2.4
	Annual Loan loss Expense	36%	39%	3.6	2.6	2.0	1.2	0.8
	Non-Performing Loans in Total Loans	12%	64%	7.0%	4.3%	3.4%	4.3%	4.0%
	Cost of Risk	19%	26%	1.47%	1.17%	1.04%	0.7%	0.6%
The Coverage	Coverage- IFRS	-7%	-10%	34.3%	38.1%	50.2%	30.0%	50%

Assets under Government Securities

The Assets under Government Securities grew by 20% (CAGR 16%) though the income dropped by 3% YoY owing to the macro economic environment.

	CAGR	Year On Year 2017-2016	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
Assets under Government Securities	16%	20%	69.2	57.8	60.1	40.7	33.6
Interest income - Government securities	15%	-3%	8.2	8.5	6.1	4.3	4.1

Deposits and Borrowed Funds

Our Total Deposit Book increased by 9% (CAGR 10%) whilst Borrowed Funds increased by 7% (CAGR 16%). We were able to reduce our cost of funding by 7% as we focused on optimally priced deposits.

	CAGR	Year On Year 2017-2016	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
Customer Deposits	10%	10%	287.4	260.2	265.4	217.7	175.4
Total Deposits	10%	9%	287.7	263.6	268.8	220.9	180.9
Borrowed Funds	16%	7%	25.2	19.8	19.3	18.3	10.3
Cost of Funds	5%	-7%	4.14%	4.47%	5.15%	3.75%	3.30%
Interest Expense-Customer Deposits	16%	-7%	10.8	11.7	12.2	6.0	5.1
Interest Expense-Deposits and Placements from Banking Institutions	9%	92%	0.2	0.1	0.2	0.2	0.1
Interest Expense-Other Interest Expenses	12%	21%	1.2	1.0	1.2	1.9	0.7

Funded Income

As expected, the Interest income dropped by 4% Year on year but grew by 10% on a CAGR basis despite our loan book growing by 7%. This is partly because of the interest rate capping. We are expecting this to improve in 2018 and beyond.

	CAGR	Year On Year 2017-2016	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
Interest Income							
Loans And Advances	10%	-4%	31.9	33.4	30.0	24.7	20.0
Government Securities	15%	-3%	8.2	8.5	6.1	4.3	4.1
Deposits And Placements With Banking Institutions	-10%	-44%	0.2	0.4	0.7	0.3	0.4
Total Interest Income	10%	-4%	40.4	42.3	36.8	29.4	24.5

Non-Funded Income

The Group gained 12% growth on Fees and commissions on loans and advances despite the Interest rates capping and 24% growth on forex income. Other fees and commissions experienced a drop of 3% (CAGR +7%) but we expect this to improve in 2018 and beyond due to the strategies we have put in place.

	CAGR	Year On Year 2017-2016	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
NON- INTEREST INCOME							
Fees and commissions on loans and advances	6%	12%	2.60	2.33	2.34	2.15	1.94
Other Fees and commissions	7%	-3%	7.22	7.46	7.16	6.57	5.23
Foreign exchange trading income	9%	24%	2.23	1.80	3.19	1.42	1.47
Dividend income	6%	0%	0.07	0.07	0.07	0.26	0.05
Other income	19%	24%	1.37	1.11	0.42	0.42	0.58
Total Non-interest income	8%	6%	13.49	12.77	13.19	10.81	9.26
FX/Non Funded	1%	17%	16.5%	14.1%	24.2%	13.1%	16%
Non - Funded to Total Operating Income	0%	7%	32.4%	30.2%	36.2%	33.7%	33%

Other operating expenses

The group continues to reap the rewards of the growth and efficiency transformation project. Key indicator is the Cost to income ratio that has improved from a high of 59.5% (2013) to 52.2% (2017). This is commendable given the growth of the Group as it shows that our operations are more efficient.

OTHER OPERATING EXPENSES	CAGR	Year On Year 2017-2016	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
Staff costs	5%	7%	10.10	9.40	8.93	8.44	8.01
Directors' emoluments	7%	10%	0.18	0.16	0.15	0.16	0.13
Rentals charges	6%	4%	1.52	1.46	1.40	1.30	1.12
Depreciation charge on property and equipment	5%	1%	1.95	1.94	1.92	1.95	1.53
Amortisation charges	25%	13%	0.55	0.49	0.43	0.34	0.18
Other operating expenses	6%	-14%	7.43	8.59	6.54	6.72	5.63
Total other operating expenses	8%	3%	25.33	24.64	21.39	20.10	17.38
Cost Income Ratio (With provision)	0%	4%	60.9%	58.3%	58.8%	62.6%	62.3%
Cost Income Ratio (Without provision)	-3%	0%	52.2%	52.1%	53.2%	59.0%	59.5%

Capital and Liquidity

The Group continues to be adequately capitalized and maintains optimal liquidity as shown by the indicators below;

Capital strength	CAGR	Year On Year 2017-2016	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
Core capital	12%	11%	56.87	51.38	46.98	39.90	32.12
Minimum Statutory Capital	0%	0%	1.00	1.00	1.00	1.00	1.00
Excess/(deficiency)	12%	11%	55.87	50.38	45.98	38.90	31.12
Supplementary capital	15%	6%	22.19	20.88	19.93	19.10	11.07
Total capital (a+d)	13%	9%	79.06	72.26	66.92	59.00	43.19
Total risk weighted assets	12%	13%	359.98	318.53	299.18	258.13	205.15
Core capital/total deposit liabilities	2%	2%	20.0%	19.7%	17.5%	18%	18.2%
Minimum Statutory Ratio	0%	0%	10.5%	10.5%	10.5%	11%	10.5%
Excess/(deficiency)	4%	3%	9.5%	9.2%	7.0%	8%	7.7%
Core capital/total risk weighted assets	0%	-2%	15.8%	16.1%	15.7%	16%	15.7%
Minimum Statutory Ratio	0%	0%	10.5%	10.5%	10.5%	11%	10.5%
Excess/(deficiency)(j-k)	1%	-5%	5.3%	5.6%	5.2%	5%	5.2%
Total capital/total risk weighted assets	1%	-3%	22.0%	22.7%	22.4%	23%	21.1%
Minimum Statutory Ratio	0%	0%	14.5%	14.5%	14.5%	15%	14.5%
Excess/(deficiency)(m-n)	3%	-9%	7.5%	8.2%	7.9%	8%	6.6%
Capital Adequacy Ratios							
Core capital (Tier 1) to Total Deposits	2%	2%	20.0%	19.7%	17.5%	15.7%	18.2%
Core capital(Tier 1) to Total risk weighted assets	0%	-2%	15.8%	16.1%	15.7%	13.5%	15.7%
Total capital ((Tier 1 + 2)) to Total risk weighted assets	1%	-3%	22.0%	22.7%	22.4%	20.5%	21.1%
SHEQ Capital / Average Assets	2%	7%	18.8%	17.7%	16.0%	16.8%	17.0%
Debt to Equity Ratio (Total Debt / SHEQ)	2%	-6%	30.4%	32.3%	38.4%	42.2%	27.9%
Liquidity							
Liquidity Ratio	1%	0%	33.8%	33.7%	37.1%	35%	32.6%
Minimum Statutory Ratio	0%	0%	20.0%	20.0%	20.0%	20%	20.0%
Excess/(deficiency)(a-b)	2%	1%	13.8%	13.7%	17.1%	15%	12.6%
Total Loans to Total Deposits			88.2%	89.9%	77.6%	81.3%	75.9%
Loans /(Deposits+Borrowed Funds)			82%	84%	72%	75%	72%

Shareholders

Kshs. 0.8 dividend per share has been recommended to the Annual General meeting and subject to Capital Markets Authority approval. Earnings per share dropped by 25% owing to dilution due to the Bonus Share Issue of one ordinary share for every five ordinary shares held. Shareholders' funds grew by 13%.

	CAGR	Year On Year 2017-2016	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
Proposed dividends	18%	20%	4.69	3.91	3.91	2.44	2.10
Total shareholders' funds	14%	13%	69.56	61.31	50.21	43.33	36.77
Earnings per share	-2%	-25%	1.9	2.6	2.4	1.6	2.2
Dividend per share	10%	0%	0.8	0.8	0.8	0.5	0.5

Outlook

Co-operative Bank will continue to show resilience in the Balance sheet and profitability growth.

The political environment has stabilized and is expected to have a positive impact on the economic environment. The Bank is well positioned to take the opportunities that will arise as the Government continues to carry out Vision 2030 projects in infrastructure, ICT, Energy Generation etc.

We will leverage on our strong balance sheet, a cost effective operating structure anchored on the ongoing 'Soaring Eagle' Transformation project and a highly motivated team.

4.3. Key Business Review

Retail and Business Banking

Our Retail Customers are categorized as follows: Micro, Small and Medium Enterprises, Personal/Consumer Banking, Executive and High Net worth, Diaspora Banking, Banking the youth (YEA & Jumbo Junior).

Loans and advances

16% growth Year on Year, mainly driven by;

- Personal Loans +20%
- Mortgage Loans +48%
- Asset Finance Loans +28%
- Flexi cash salary advance + 51%
- Mobile Loans (Mcoop Cash) +12%

MSME loan Book declined by over 9% because of the difficult operating environment as we engaged in more optimal lending.

Deposits

15% growth Year on Year, mainly driven by 18% growth in Transactional Accounts deposit;

Income and Expense drivers

Net Interest Income -6%

Non- funded income +4%

Operating Expenses -4%

Products and any other strategic changes.

1. Customer experience and Branch Transformation
2. MSME transformation

The above are discussed in detail in Strategic Focus section of this report.

2018 and beyond

- Distinctive customer experience.
- Improvement of products and processes to improve service delivery.
- Enhanced staff empowerment.

Corporate, Institutional and Government Banking

Our Corporate customers are categorized as Corporate Banking, Government Banking, Institutional Banking, Structured, Trade & Commodity Finance, Non-Governmental Organizations and Treasury.

Loans and advances

2% growth Year on Year. Key drivers were;
Working capital +9%
Mortgage +4%
Asset Finance +19%
Insurance Premium +56%

Deposits

2% growth Year on Year, mainly driven by;
2% drop in current account deposit
59% growth in transaction account deposit
5% growth in fixed/call deposit

Income and Expense drivers

Net Interest Income -11%
Non- funded income +18%
Operating Expenses +17%

2018 and beyond

Strategic pursue of SFE 3.0 detailed in the Strategic Focus section of this report.

Co-operatives Banking

Our Co-operatives customers are categorized as; Large Saccos, Housing Saccos, Agri Business, Public Service Vehicles/Transport Saccos and Investment Saccos.

Loans and advances

10% growth. Key Drivers;
Working Capital +12%
Overdrafts +7%
Mortgage +18%

Deposits

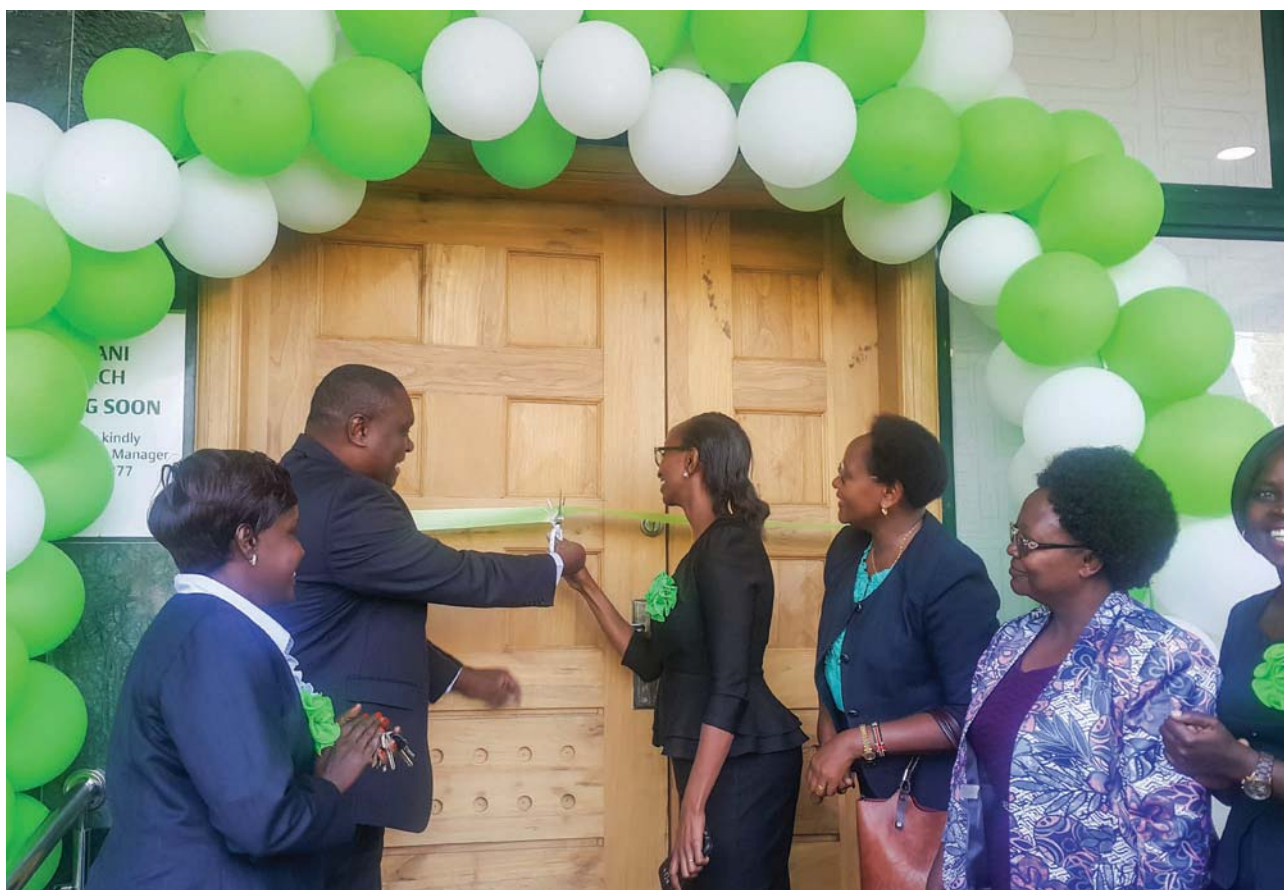
19% growth. Key Drivers;
7% growth in savings account deposit
3% growth in transaction account deposit
45% growth in fixed/call deposit

Income and Expense drivers

Net Interest Income -19%
Non- funded income -10%
Operating Expenses +14%

2018 and beyond

Strategic pursue of SFE 3.0 detailed in the Strategic Focus section of this report.



Acting Director Retail and Business Banking Mr. Arthur Muchangi leads other senior staffs in the opening of a new branch. Recently the bank has opened new branches in Emali, Makongeni Thika, Litein, Kilimani and Kangema.

Consultancy and capacity Building

We conduct consultancy and capacity building through our fully owned subsidiary Co-op Consultancy and insurance Agency (CCIA)

- Consultancy fee income (-8%)
- Investment Income (+43%)
- 142 new consultancy mandates
- 39 new clients
- Over 2300 mandates since inception.

Outlook

Co-op Consultancy and Insurance Agency (CCIA) remains our number one Social investment Vehicle and hence we will continue to capacity build the co-operative movement in 2018 and beyond.

Revenue is projected to grow through increased workshops and trainings and increase in number of mandates signed for assignments.

Interest income on investments is projected to grow attributable to growth in revenue which will subsequently increase the amount invested in fixed and call deposits resulting to increased interest income.

Fund Management

We conduct fund management through our subsidiary Co-op Trust Investment Services Ltd.

- Over KShs. 33.4 Billion in funds under management.
- Management fees 5% growth.
- Interest Income +27%.

Products

- Corporate Pension Schemes.
- Personal Investment and wealth.

Outlook

- The company has set an ambitious growth target to be achieved through a combination of superior investment returns, development of new product lines, and new business from existing product lines.
- We expect to launch unit trusts in 2018.

Stock Brokerage

We conduct stock brokerage business through our subsidiary Kingdom Securities Ltd.

The stock brokerage was conducted in a difficult operating environment that resulted in depressed equity prices and trades.

- Revenue Growth +11%.
- Client service delivery re-organized.
- Contact Centre team trained.
- SLA's enhanced.
- Branch service levels enhanced.

2017 Achievements

- Successful restructuring of KSL units for optimal performance.

- Roll out of the trading system (Clear Vision) to the branches.
- On boarding of clients on the Online Share Trading (OST) platform.

Outlook

We are optimistic that 2018 will be a better year for trading as we expect the markets to rebound.

Insurance Brokerage

We conduct Insurance Business through our fully owned subsidiary Co-op Consultancy and insurance Agency (CCIA)

Key achievements

Insurance premium Book (+24%)

Insurance Commission (+62%)

Outlook

Insurance continues to be a key business hence we will continue with offering more innovative Insurance products to our customers.

Insurance Commission for Bancassurance is expected to grow. This growth in Bancassurance insurance commission will be because of wider channels of selling insurance and efficiencies attributable to use of the Bancassurance system.

4.4. Integrated risk management review

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

Group Philosophy on Enterprise Risk Management

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

Risk management is at the core of the operating structure of the Group. We seek to limit adverse variations in earnings and capital by managing risk exposures within agreed levels of risk appetite. Our risk management approach includes minimizing undue concentrations of exposure, limiting potential losses from stress events and ensuring the continued adequacy of all our financial resources. Our risk management processes proved effective throughout the year, 2017, despite a tough economic environment and the capping of interest rates in Kenya. The Board of Management was closely involved in important risk

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

Enterprise Risk Management Framework

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

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

8. Proactively manage risk through our self risk assessments and stress testing processes.
9. Ensure compliance to regulatory requirements and adherence to best practice

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

Risk Governance

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

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

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

Risk Governance Structure

Strong independent oversight is in place at all levels throughout the group. Various committees allow the Board of management and the Board to evaluate the risks faced by the Group, as well as the effectiveness of the Group's management of these risks. These committees are integral to the Group's risk governance structure. The figure below depicts our risk governance structure.



The Bank participates in staff welfare activities including sports. Our teams are some of the best in the country.

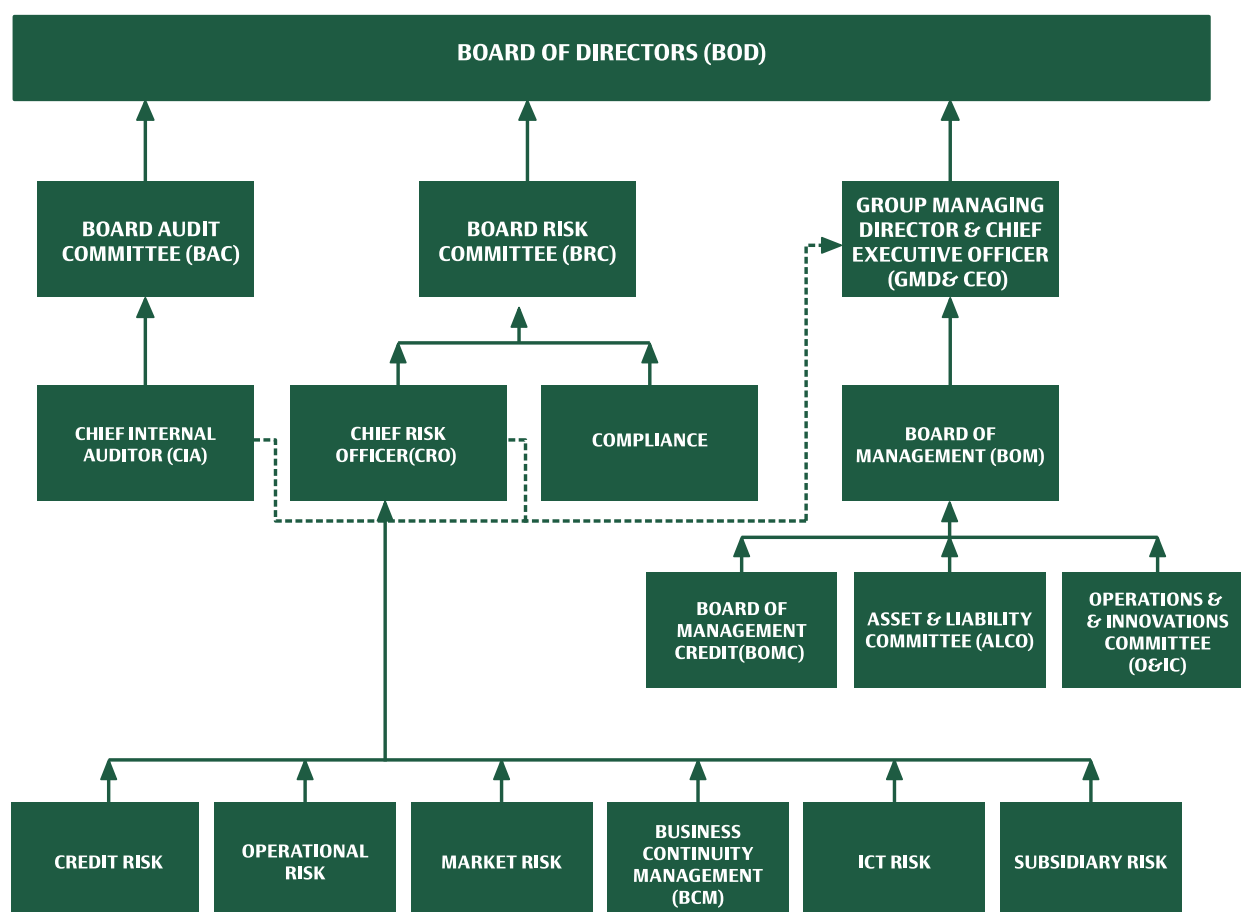


Figure 3: Risk Governance Structure

Risk Governance Standards, Policies and Procedures

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

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

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

Risk Management Lines of Defense in the Group

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

Risk Management Processes

Our risk management processes include:

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

Risk Appetite Framework & Statement

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

The Group regularly monitors the level of potential deviation from expected financial performance that it is prepared to sustain at relevant points on the risk profile. A review of the Group's business activities is undertaken to ensure that they are within the Group's risk appetite and are of an appropriate level (relative to the risk and reward of the underlying activities). To support its capital management objectives, the Group has an internal formalized and documented capital adequacy assessment process that it leverages to drive the capital management and allocation process. The Group's internal capital targets exceed the minimum regulatory capital requirements. Performance against risk appetite is measured by the RMD and reported to BRC regularly throughout the year. Refer to the Appendix for sample extract of the various indicators used to manage the Bank and subsidiaries risks.

Our Risk Universe

TYPES OF RISKS THAT WE FACE	KEY RISK INDICATORS	2017 Risk Review	Outlook 2018 and Beyond
PILLAR I RISKS			
Credit	<ul style="list-style-type: none"> • Loan Book Growth • Non- performing loan Book growth • Cost of risk • Coverage 	<ul style="list-style-type: none"> • Loan Book Growth +7% (CAGR +13%) • Non- performing loan Book +76% (CAGR 27%) • Cost of risk +26% (CAGR 19%) • Coverage -10% (CAGR -7%) 	<ul style="list-style-type: none"> • Ensure credit growth through Sales Force Effectiveness. • Proactive implementation and review of our Credit Policy. • Adherence to credit Risk Appetite and limits, credit risk early warning indicators, proper credit appraisal and approval mechanisms, KYC, AML due diligence, segregation of duties in credit analysis, administration, disbursement, collection, portfolio management, valuation and general collateral management, and remedial, proper grading and classification of facilities, restructuring, and proactive NPL management. • Stress testing & sensitivity analysis of credit risks scenarios. • Environmental & Social Policy – guides advances affecting the environment & social impacts. • Training – all credit approvers undertake training courses to acquire and upskill on credit approvals. This is delivered via external trainers like Omega and internally through our online E-Learning portal. • Adherence to the CBK regulations stipulated in this regard
Market	<ul style="list-style-type: none"> • Maturity gap • Value at Risk • Position limits • Stop loss limits 	The indicators were within our risk appetite	<ul style="list-style-type: none"> • Proactive models such as duration analysis, simulation, value at risk and stress testing to describe the uncertainties in the future values of the market risk indicators and ensure appropriate actions are implemented.

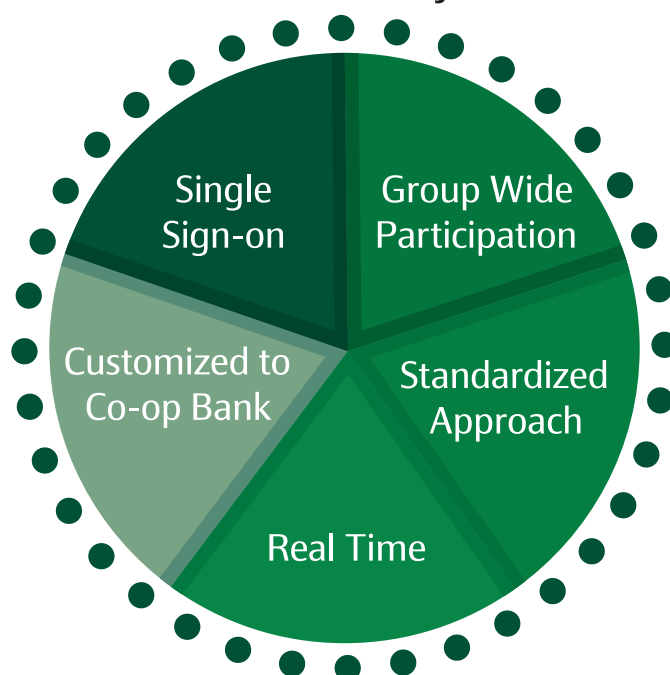
TYPES OF RISKS THAT WE FACE	KEY RISK INDICATORS	2017 Risk Review	Outlook 2018 and Beyond
Operational	<p>Gaps that may be identified in People, Processes or Technology especially;</p> <ul style="list-style-type: none"> • New Products • Security (staff and assets) • ICT infrastructure efficiency and Cyber security • Staff empowerment and productivity. • Business Continuity Plans • Code of Business Conduct • Insurance adequacy • Outsourcing engagements • Fraud and forgeries • Agency Banking • Mobile Banking • Internet banking • Reputation • Customer satisfaction index 	<p>Within our risk appetite. We ensured;</p> <p>Operational Risk was kept at the lowest level possible taking into account business strategy, market sentiment, regulatory requirements and the capacity to absorb losses through earnings and capital.</p>	<ul style="list-style-type: none"> • Enhanced Operational Risk and Control Self-Assessments (RCSA) • Proactive Operational Risks Incident Management • Proactive Internal control policies and procedure guidelines; • Service Quality Charter for both internal and external clients; and • Stress testing on identified Key Risk Indicators.
PILLAR II RISKS			
Concentration	Large exposures (Individual, Geographic, Industry / Sector, foreign currency loans or collateral)	<p>Within our Risk Appetite</p> <p>The Bank through its risk monitoring tools assesses and monitors concentration risk in both its Banking and Trading Books. The Group now leverages on the Herfindahl-Hirschman index (HHI) to assess the concentration levels.</p>	<ul style="list-style-type: none"> • Leveraging on internal systems and procedures to identify, assess, control and monitor any substantial credit risk concentrations. • The Bank will continue with strict limitation of concentration. The same will apply to the deposit profile and Bank investments where efforts are made to ensure that there is proper diversification. • Risk limits have been set on industry concentration and incorporated in the Bank's approved Risk Appetite Statement
Interest Rate Risk in Banking Book (IRRBB)	The Bank's 12 months repricing maturity gap between rate sensitive assets and liabilities	We are positively gaped in the aforementioned band (12 months) hence within our risk appetite	<ul style="list-style-type: none"> • IRRBB is managed by risk-taking business units. • Independent IRRBB monitoring and measurement • ALCO will continue to steer and integrate IRRBB risk management across the Bank

TYPES OF RISKS THAT WE FACE	KEY RISK INDICATORS	2017 Risk Review	Outlook 2018 and Beyond
Liquidity	<ul style="list-style-type: none"> • Liquidity Ratio • Maturity gaps • LCR • NSFR 	<p>Our liquidity, LCR, NSFR ratios have been within our internally set limits and the regulatory limits.</p> <p>The liquidity ratio has been above 30% (2017 - 33.8%) since 2013.</p>	<ul style="list-style-type: none"> • Managing liquidity risks will continue to be an integral part of Co-op Bank's business operation. Thus, liquidity risk is continuously forecasted and analyzed using different time horizons, with the aim of ensuring that the Group is able to meet its obligations optimally • The group's liquidity risk & contingency planning management framework will be reviewed on a regular basis.
Legal and Contractual	Litigation- net overall bank exposure (settlement amounts in Kshs) in respect to pending litigations against and for the Bank	<p>Was within our Risk Appetite</p> <p>The cases are in our favour and we do not envisage the exposure materializing against us.</p>	<ul style="list-style-type: none"> • All potential issues of legal and contractual nature stemming from the business activities with counterparties will be continually tracked, recorded and analyzed for any potential legal risks by the Legal Team and reported to the Company Secretary and Risk Management Department.
Compliance & Regulatory	Penalties and fines levied by the regulatory bodies to which the Bank and its subsidiaries companies adheres to i.e. CBK, CMA, RBA, IRA, KRA etc.	<p>We have sustained our compliance with the statutory and regulatory requirements.</p> <p>IFRS9 implementation is progressing well as per our roadmap</p> <p>Interest rates capping law was fully implemented</p>	<ul style="list-style-type: none"> • Co-op Bank is committed to adhere to statutory, regulatory requirements and follow best practices and market standards in the areas of accountability, transparency and business ethics. The Bank aims at a zero tolerance of misconduct and corruption.
Strategic	Current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.	<p>The Group has a Corporate Strategic Plan (2015 – 2019). The objectives and goals enshrined in the Plan have been formulated in a KPI format and these were used to align the Bank's activities to its vision and strategy, improve internal and external communications, and monitor performance against strategic goals.</p> <p>The Bank used budgets and modeling tools to measure strategic risk. These tools amongst others are provided in the Group's Strategic Risk Management Policy.</p>	<ul style="list-style-type: none"> • To continue with strategic response to changes in the industry. • To enhance and update the Strategic Risk Register.

TYPES OF RISKS THAT WE FACE	KEY RISK INDICATORS	2017 Risk Review	Outlook 2018 and Beyond
Systemic	Such risks are caused by factors such as a significant bank run, bank closures, significant interbank exposures through bankruptcy of a counterparty, significant credit exposures in the banking book, significant exposures/ losses in the trading book and macro-economic shocks such as high inflation, significant CBR rate reduction, economic recessions, significant FX structural exposures and collapse of key institution banks within the industry	We conducted a systemic risk assessment as part of our ICAAP process and outcome affirmed the Bank's posture within our risk appetite.	<ul style="list-style-type: none"> The Bank through the Risk Management Team and the Investor Relations Team in Finance will continue to identify, assess, measure and manage systemic risk. Stress testing both on a sensitivity analysis and scenario – based analysis will be conducted on a quarterly basis and based on the results of the tests, appropriate actions will be undertaken to inform strategies that need to be put in place to manage the adverse exposures.

Leveraging on risk data and infrastructure

R-Universe Risk System



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

The introduction of the automated system in 2016 was timely with one of the key benefits being providing a unified platform for effective collaboration between the business units through their risk champions and the Risk Management Department team. This collaboration has registered a number of successes which included the enhanced level of awareness of enterprise risk management within the Group and the level of commitment of the various stakeholders across board in playing their risk management roles as anticipated by the adopted framework. All business units today have been able to create their own risk registers through processes such as Risks & Controls Self-Assessment (RCSA), and Top Leadership of Business Units identification of their top 10 key risks.

Risk Communication

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

Risk communication in 2017 took the following forms;

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

Proactive management of risk through our Risk Appetite Framework.

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

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

Proactive management of risk through our self risk stress testing processes.

In the Stress Testing program, we conduct quarterly stress testing exercises leveraging three sets of scenario cases namely, Exceptional but Plausible, Moderate and Extreme stressful cases. We have conducted the tests for all the quarters in 2017 and the outcomes have informed the various measures that the Group has undertaken to ensure that our capital structure and levels, liquidity and business priorities/ activities are sound. The stress testing reports are also submitted to our regulator, The Central Bank of Kenya (CBK) on a quarterly basis.

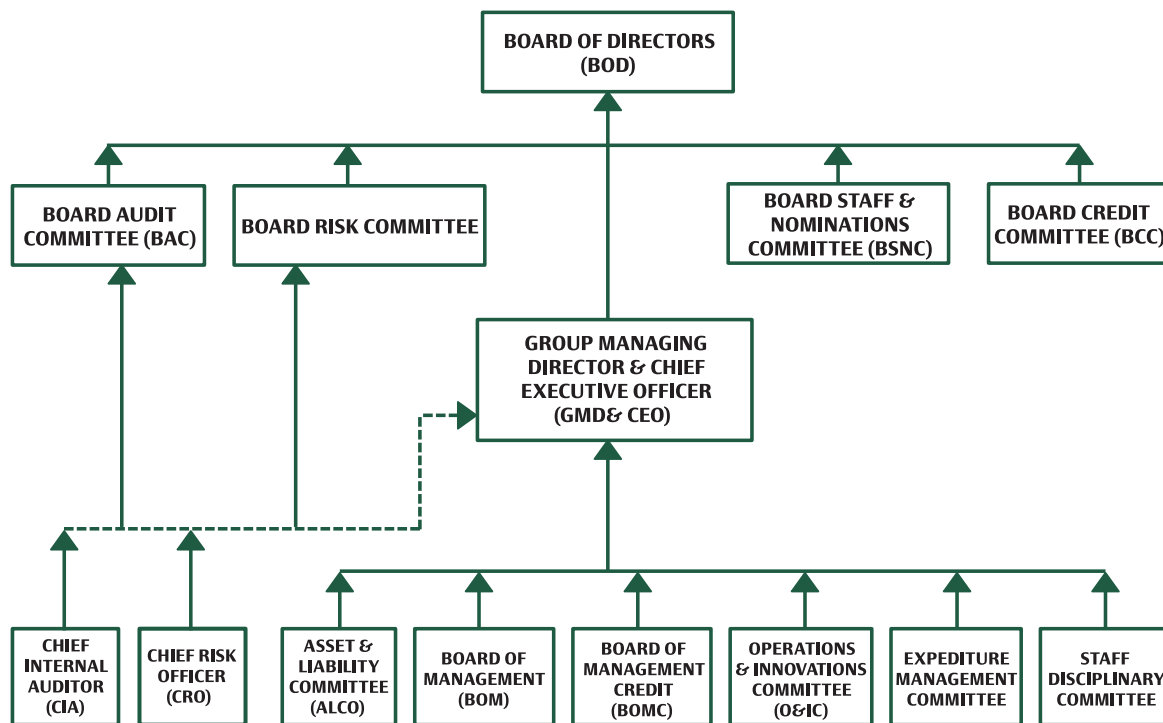
Outlook -2018 and Beyond Risk Priorities

- Ensuring the Board of management and Board Risk Committee are informed on emerging and current risk issues for enhanced strategic decision-making.
- Supporting the implementation of IFRS 9.
- Actively ensuring that our Policy framework is up to date and benchmarked to ensure optimal guidance on risk matters.
- Ensuring the Stress testing framework is proactively updated to capture all emerging key risk indicators and is implemented optimally.
- Implementing the Vulnerability Management Tool for optimal management of security gaps.
- Enhanced cyber security assessments and monitoring using our SIEM tool - Security Information and Event Management (SIEM) tool for optimal cyber threat management
- Carrying out annual Business Impact Assessment.
- Continuous training of Group staff to ensure all staff are well informed on risk matters. Capacity Building on Enterprise Risk Management and Business Continuity.
- Ensuring group wide regulatory compliance.
- Ensuring proactive Internal Capital Adequacy Assessment Process.

5. Governance

5.1. Governance Structure

Our Governance structure is as follows;



5.2. Key Board of Directors Issues

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) sets 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 feted

by reputable reviewers, leading to recognition awards. The Board is guided by the Board of Directors Charter which is disclosed on our website.

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. There were no known insider dealings in the year 2017.

The Group has a whistle blowing policy that encourages staff and other stakeholders to raise any pertinent issues on the bank.

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 Group Managing Director and CEO. Notably, seven members of the Board are elected from the co-operative movement and represent the strategic and majority shareholder in the bank, Co-op Holdings Cooperative Society Limited. In accordance with the company's Articles of Association, the Board includes the Principal Secretary to the Treasury appointed under Permanent Secretary to the Treasury (Incorporation) Act. The Board is composed of directors with a diverse mix of skills, experience and competences in the relevant fields of expertise and is well placed to take the business forward. Minority shareholders are sufficiently represented in the Board by the independent directors who are elected at the Annual General Meeting. The Company Secretary is responsible for monitoring and coordinating the Board's agenda and papers.

		Non-Executive Independent Directors 92%	Directors in Coop Holdings 58%	Skills
1	John Murugu (OGW), Chairman (67)			<ul style="list-style-type: none"> • Banking • Public Finance • Organizational Change and Development • Business administration • Management Information Systems • Strategic Planning • Public Secretarial • Strategic Leadership • Corporate & institutional Banking • Mathematics • Business Management • Coffee Industry Management • Human Resource Management • Accounting • Education management • Co-operative Management • Tax • Economics • Foreign affairs • Finance
2	Macloud Malonza, HSC, Vice Chairman (49)			
3	Dr. Gideon Muriuki, CBS, Group Managing Director & CEO (53)			
4	Patrick K. Githendu, Director (64)			
5	Rose Simani (Mrs.), Director (59)			
6	Lawrence Karissa, Director (62)			
7	Julius Sitienei, Director (63)			
8	Benedict W. Simiyu, Director (56)			
9	Richard L. Kimanthi, Director (61)			
10	Wanyambura Mwambia, Principal Secretary - National Treasury appointee (62)			
11	Wilfred Ongoro, HSC, Director (62)			
12	Godfrey K. Mburia, Director (61)			

Appointments and induction to the Board

Directors are appointed in accordance with the company's Articles of Association. At every Annual General Meeting, one third of directors are eligible to retire by rotation and may offer themselves for re-election. On appointment, directors receive an induction covering the bank's business and operations. As part of this process, the bank organizes for regular training on corporate governance and modern trends in directorship 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 of Directors has put in place an annual work plan to guide its activities and core functions and ensure compliance with the various laws and regulations. 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; the board has put in place a five-year strategic plan (2015 to 2019) currently under 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.

The board has put in place appropriate mechanisms to resolve any internal and external disputes through mediation. Litigation is a last resort.

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 Group Managing Director

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

Board Performance Evaluation

The Board is responsible for ensuring that an evaluation of its performance and that of its committees and individual directors is carried out each year. This involves a self-review of the Board's capacity, functionality and effectiveness of performance against its set objectives. Evaluation enables directors to suggest how

Board procedures may be improved by assessing strengths and weaknesses and addressing its balance of skills, knowledge and experience. This is done by way of both peer and self-evaluations, after which results are submitted to the Central Bank of Kenya (CBK). The evaluation forms and the parameters are as stipulated by the CBK prudential guidelines 2013. The Board and all its committees conducted evaluations during the year helping to improve the board performance and no material concerns were expressed.

Internal control and Audit

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

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

Risk Management and Compliance

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

The Board's Credit Committee oversees the overall lending policy of the bank by directing, monitoring, reviewing and considering all issues that may materially impact on the present and future quality of the Bank's credit

risk management. The Committee also ensures that the credit policy and risk lending limits are reviewed at least on an annual basis and when the environment so dictates.

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

Conflict of interest

The Board's policy provides that directors, their immediate families and companies in which directors have interests only do business with the bank at arm's length. Where a matter concerning the 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. The declaration is recorded by the company secretary in the declaration of interest register for record purposes. Directors also have a duty to avoid situations of appointment to positions or acquisition of significant interest in businesses competing with the Group. Business transactions with directors and related parties are disclosed in notes to the financial statements.

Board training

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

5.3. Board Committees

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

Committees of the Board are as follows:

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

These committees have formally determined terms of reference with defined scope of authority,

set by the Board of Directors which are from time to time refreshed to synchronize them with new developments and requirements of Central Bank (CBK) Prudential Guidelines and all are chaired by independent Non-Executive Directors.

Board Credit Committee

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

- Mr. John Murugu (OGW) - Chairman
- Mr. Macloud Malonza, HSC
- Mr. Wilfred Ongoro, HSC
- Mr. Richard Kimanathi
- Dr. Gideon Muriuki, CBS - Group Managing Director & CEO

The Committee meets at least once every four months. The objective of this Committee is to assist the Board of Directors in reviewing and overseeing the overall lending of the bank. The Committee is responsible for reviewing and overseeing the overall lending policy of the bank, deliberate and consider loan applications beyond the discretionary limits of Management as set out in the Credit policy, review lending 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 analyze Management's proposed Capital and Recurrent budgets and supplementary and /or revised budgets of the bank for presentation to the full Board of Directors.

Board Audit Committee

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

- Mrs. Rose Simani – Chairperson
- Mr. Lawrence Karissa
- Mr. Patrick K. Githendu
- Mr. Wanyambura Mwambia- PS Treasury appointee
- COO for Dr. Gideon Muriuki, CBS

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

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

The terms of reference of the Committee are achieved through review and evaluation of the financial status of the Group, review of internal controls, consider performance and findings of internal auditors and recommend appropriate remedial action, nominate external auditors for appointment by shareholders, review management reports and reports from external auditors concerning deviations and weaknesses in accounting and operational controls, coordinate between the internal audit function and external auditors, monitor the ethical conduct of the institution and consider the development of ethical

Standards and requirements, including effectiveness of procedures for handling and reporting complaints, review any related party transactions that may arise within the banking institution.

Board Risk Committee

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

- Mr. Wanyambura Mwambia - PS Treasury appointee (Chairman)
- Mr. Lawrence Karissa
- Mrs. Rose Simani
- Mr. Patrick K. Githendu
- COO for Dr. Gideon Muriuki, CBS

The Committee meets at least once every 3 months and at least twice in a year. Meetings

are normally attended by resources from Risk Management and Compliance.

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

Board Staff and Nomination Committee

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

- Mr. Lawrence Karissa - Chairman
- Mr. Godfrey Mburia
- Mr. Julius Sitienei
- Mr. Benedict W. Simiyu
- Dr. Gideon Muriuki, CBS - Group Managing Director & CEO

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

5.4. Board Attendance Summary

Directors-2017 Board Meetings Attendance	Co-operative Bank Group				Co-operative Bank of Kenya Ltd Board Sub-committees			
	Co-operative Bank of Kenya Ltd	Co-op Consultancy & Insurance Agency Ltd	Co-optrust Investment Services Ltd	Kingdom Securities	Audit Committee	Staff and Nomination Committee	Credit Committee	Risk Committee
Schedule of meetings:								
John K. Murugu, OGW - Chairman (appointed on 01 October 2017)	7						3	
Macloud Malonza, HSC- Vice Chairman (appointed on 01 October 2017)	7	2	2			1	3	
S. C. Muchiri, EBS - Immediate-former Chairman (retired on 30 September 2017)	5	3	3	3		1		
J. Riungu - Immediate-former Vice Chairman (retired on 30 September 2017)	5			3	2	2		2
Dr. G. Muriuki, CBS - Group Managing Director & CEO	7	5	5	3		3	3	
Lawrence C. Karissa	7				4	3		4
Rose Simani (Mrs)	7				4			4
W. Ongoro, HSC	5						3	
W. J. Mwambia	7				4			4
Julius Sitienei	7			2		3		
Richard L. Kimanthi	7						3	
Benedict W.Simiyu	7					3		
S. Odhiambo (Mrs)		5	5					
Dr. J. Kahunyo		5	5					
P. K. Githendu	2	3	3	2	2			2
G. K. Mburia	2	3	3			1		
J.N. Njiru		5	5					
D.M. Muthigani		5	5					
Mary N. Mungai (Mrs.), OGW		4	4					
Boaz o. Awitti				4				
Mwangi Kariuki				4				
Anthony Mburu				2				
Patrick Ndonye				5				

Co-op Bank South Sudan			
	Full BOD	Audit	Risk & Finance
Schedule of meetings:			
John K. Murugu – OGW- Chairman (appointed on 01 October 2017)	1		
Macloud Malonza – HSC Vice Chairman (appointed on 01 October 2017)	1		1
S. C. Muchiri, EBS – Immediate-former Chairman (retired on 30 September 2017)	3	1	
J. Riungu - Immediate-former Vice Chairman (retired on 30 September 2017)	3		1
Dr. G. Muriuki, CBS – Group Managing Director & CEO	3	1	1
ENG. William W. Mayar	3	1	1
Zachary Chianda-Immediate former Managing Director	3	1	1
Elijah Wamalwa Managing Director	1		1
Prof. Mathew Gordon Udo	3	1	1
Wani Buyu Dyori	3		1
Rosemary M. Githaiga (Mrs)	3		



A shareholder actively participates in the annual general meeting. The bank has tens of thousands of shareholders who have invested money and time to ensure the bank continuous growing strongly and giving a sustainable return on investment.

5.5. Board Remuneration

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

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

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

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

As at 31 December 2017 loans to Non-Executive Directors or companies controlled by Directors amounted to KShs 124 million (2016: KShs 277 million). All loans to directors were made in the ordinary course of business and substantially same terms including collateral as those prevailing at the same time for comparable transactions with other persons. No allowances for impairment were recognized in respect of the loans to Directors. (2016: KShs. Nil). All loans to directors were;

- Made in the ordinary course of business
- Were made on substantially same terms including collateral as those prevailing at the same time for comparable transactions with other persons. No allowances for impairment were recognized in respect of the loans to Directors. (2015 KShs. Nil)

5.6. Management Committees/Executive Committees

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

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

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

5.7. Directors Shareholdings

Directors' interest in the ordinary share capital of the Company on 31 December 2017 was as follows:

	Name	No. of Shares	%
1	John Murugu (OGW) - Chairman	1,895,040	0.03
2	Macloud Malonza, HSC - V. Chairman	5,160,000	0.09
3	DR. Gideon Muriuki, CBS - GMD	110,083,700	1.88
4	Rose Simani (Mrs)	-	-
5	Benedict Simiyu	3,360	0.00
6	Wilfred Ongoro, HSC	8,400	0.00
7	Lawrence Karissa	3,860	0.00
8	Richard L. Kimanthi	2,000	0.00
9	Julius Sitienei	4,542,639	0.08
10	Wanyambura Wambia	-	-
11	Patrick Gitendu	86,415	0.00
	TOTAL	121,785,414.00	2.08



“

I wanted to take my business to the next level but didn't know where to start. Co-operative Bank took me in and gave me the boost that I needed. Thank you for believing in my dreams and backing me up! Here's to 50 more years.

”



50 CELEBRATING
YEARS

6.1 Financial Statements

Report of the Directors

FOR THE YEAR ENDED 31 DECEMBER 2017

The directors submit their report together with the audited financial statements for the year ended 31 December 2017.

1. INCORPORATION

The company is domiciled in Kenya where it is incorporated as a public company limited by shares under the Kenyan Companies Act, 2015. The address of the registered office is set out on page 193.

2. PRINCIPAL ACTIVITIES

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

3. GROUP OPERATIONS

The financial position and performance of the Bank's subsidiaries, Co-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.

4. RESULTS

The results of the Group for the year are set out from page 107.

5. RECOMMENDED DIVIDEND

The directors recommend payment of a first and final dividend of KShs. 0.80 (2016 - KShs. 0.80) for every ordinary share of KShs. 1. The dividends will be paid on or about 30 June 2018 to the shareholders registered on the Bank's register at the close of business on 30 May 2018. The register will remain closed for one day on 29 May 2018 for the preparation of dividend warrants.

6. RESERVES

The movement in the Group's reserves is shown on page 113 of these financial statements.

7. GROUP DIRECTORS

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

Co-operative Bank of Kenya and Kenyan subsidiaries:-

J.K. Murugu, OGW	- Chairman (appointed on 01 October 2017)
M. Malonza, HSC	- Vice Chairman (appointed on 01 October 2017)
S.C. Muchiri, EBS	- Immediate-former Chairman (retired on 30 September 2017)
J.M. Riungu	- Immediate-former Vice Chairman (retired on 30 September 2017)
Dr. G. Muriuki, CBS	- Group Managing Director & CEO
L.C. Karissa	- Chairman, Staff and Nominations Committee
R. Simani (Mrs)	- Chairperson, Board Audit Committee
W. Ongoro, HSC	
Wanyambura Mwambia	- Representing PS, National Treasury (Chairman, Board Risk Committee)
J. Sitienei	
R. L. Kimanthi	
S. Odhiambo (Mrs)	
Dr. J. Kahunyo	
P.K. Githendu	
G. K. Mburia	
B.W. Simiyu	
J.N. Njiru	
D.M. Muthigani	
M. N. Mungai (Mrs), OGW	- Commissioner of Co-operatives

Report of the Directors (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

7. GROUP DIRECTORS (continued)

Co-operative Bank of South Sudan:-

William Mayar Wol*	Chairman
Elijah Wamalwa	Managing Director (Appointed on 31 December 2017)
Zachariah Chianda	Immediate former Managing Director (Retired on 31 December 2017)
Prof. Mathew Gordon Udo*	
Hon. Wani Buyu Dyori*	
Stanley C. Muchiri, EBS	Retired on 30 September 2017
John K Murugu, OGW	Appointed on 01 October 2017
Julius Riungu	Retired on 30 September 2017
Macloud Malonza, HSC	Appointed on 01 October 2017
Dr. Gideon Muriuki, CBS	
Rosemary M. Githaiga (Mrs)	

*South Sudanese

8. BUSINESS REVIEW

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

Business Operating Environment

- Macroeconomic Environment**-The Kenyan economy faced multiple headwinds in 2017. This is expected to change in 2018 with economic growth projected at 5.5% in 2018 and 5.9% in 2019. Overall rate of inflation averaged 8.04% in 2017 compared to 6.30% 2016. Kenya Shilling exchange rate was very stable throughout 2017 to average 103.41 to the US dollar. Interest rates were unchanged in most of 2017.
- Regulatory and compliance Environment**-Mainly focused on: Interest rates capping, IFRS 9, Internal Capital Adequacy Assessment Process (ICAAP), expansion of the Credit Information Sharing (CIS) mechanism and Risk Based Supervisory Framework for Anti-Money laundering and Countering Financing of Terrorism.
- Digital banking & Alternative Channels**- The need to optimally manage the opportunities and risks that come with rapidly changing technology.

Our Business Model

Our unique model is focused on value creation for all our stakeholders through strategic planning, efficient operations, risk management and Governance. Our key Business is; Retail, MSME, Corporate, Government, Institutional Banking and Co-operatives banking. Our customer base has grown by 13% to 7.1 Million accounts in 2017. Our 152 branch network (4 in South Sudan) covers 40 counties in Kenya, with our alternative channels growing: M-Co-op Cash (3.6 Million customers), Internet banking (79,218 customers), over 580 ATM's, Over 8,000 Co-op Kwa Jirani Agents and a 24 hour Contact Centre.

The 2015-2019 Business Plan and Strategy is founded on the 'Soaring Eagle Transformation'. Key achievements out of the transformation journey are;

- 87% of transactions are done on alternative channels
- Clearly defined MSME segments, clear focus on digital Bank transformation strategy, proactively reducing default risk and improved credit processes, Ongoing Data Analytics and Reporting, Cost to income Ratio- 51.9% from 59%(FY2014) and Implementation of the SAP Enterprise Resource Planning (ERP) solution.
- Notable improvement in cost to income ratio from 59% in 2014 to 52% in 2017

Financial Review

Despite the challenges in 2017, the Group made a profit before tax of Kshs16.4 billion compared to Kshs17.7 Billion in 2016. The bank's loan book grew by 7% to Kshs 254 billion whereas total deposits grew by 9% to Kshs 288 billion. Government securities increased by 20% to Kshs 69.2 billion. The bank closed the year with a solid capital base with a core capital to risk weighted assets of 16.5%, which is 6% above the statutory minimum of 10.5%.

Report of the Directors (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

- a) there is, so far as the person is aware, no relevant audit information of which the company's auditor is unaware; and
- b) the person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

10. TERMS OF APPOINTMENT OF THE AUDITORS

Ernst & Young LLP continues in office in accordance with the company's Articles of Association and Section 719 of the Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditors' appointment and the related fees. The agreed group auditor's remuneration of KShs 18.6 million has been charged to profit or loss in the year.

11. APPROVAL OF FINANCIAL STATEMENTS

The Board of Directors approved the financial statements on 14 March 2018.

By order of the Board



Group Managing Director & CEO

Statement of Directors' Responsibilities

FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

- (i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- (ii) selecting suitable accounting policies and applying them consistently; and
- (iii) making accounting estimates and judgements that are reasonable in the circumstances.

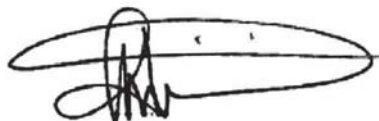
Having made an assessment of the Bank's and its subsidiaries ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the company's ability to continue as a going concern.

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

Approved by the board of directors on 14 March 2018 and signed on its behalf by:

A handwritten signature in black ink, enclosed within an oval shape.

CHAIRMAN

A handwritten signature in black ink, consisting of a large, sweeping loop followed by a series of smaller, connected strokes.

VICE CHAIRMAN

A handwritten signature in black ink, featuring a tall, thin vertical stroke followed by a series of horizontal and diagonal strokes.

GROUP MANAGING DIRECTOR & CEO

A handwritten signature in black ink, consisting of a series of connected, somewhat horizontal strokes.

COMPANY SECRETARY

Directors' Remuneration Report

FOR THE YEAR ENDED 31 DECEMBER 2017

The Bank's Directors Remuneration Policy

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

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

The board of directors as mandated by the shareholders establishes and reviews remuneration of the directors from time to time. At every Annual General Meeting (AGM), shareholders pass a resolution authorizing the Board to fix the directors' remuneration, emoluments and compensation appropriately as per industry practice. At the Annual General Meeting held on 26th May 2017 the shareholders authorized the Board to fix the directors remuneration by show of hands.

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

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

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

Transport Facilitation

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

Share Options

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

Loans to Directors

As at 31 December 2017 loans to Non-Executive Directors or companies controlled by Directors amounted to KShs 124 million (2016; KShs 277 million). All loans to directors were made in the ordinary course of business and substantially same terms including collateral as those prevailing at the same time for comparable transactions with other persons. No allowances for impairment were recognized in respect of the loans to Directors. (2016: KShs. Nil)

Directors' Remuneration Report (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

Contract of service

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

Directors Remuneration Schedules

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

Amounts in KShs Million

	Monthly Retainer	Travelling Facilitation	Sitting Allowance	Honorarium	Responsibility Allowance	Housing Allowance	CEO Annual remuneration	Total 2017	Total 2016
John K. Murugu, OGW - Chairman	2.68	0.23	0.89	3.86	1.66	0.74	-	10.06	5.95
M. Malonza, HSC - Vice Chairman	2.77	0.24	1.04	3.71	0.63	0.32	-	8.71	5.93
P. Githendu	2.03	0.55	0.96	3.57	-	-	-	7.11	6.15
J. Sitienei	2.17	0.93	0.74	3.57	-	-	-	7.41	6.22
Wanyambura Mwambia	1.91	0.34	0.96	3.57	-	-	-	6.78	5.61
Rose Simani (Mrs)	1.91	0.37	1.04	3.57	-	-	-	6.89	6.18
Lawrence C. Karissa	1.97	1.53	1.11	3.57	-	-	-	8.18	7.02
Benedict W. Simiyu	2.00	1.18	0.78	3.57	-	-	-	7.53	6.34
R. L. Kimanthi	1.95	1.10	0.74	3.57	-	-	-	7.36	6.46
Wilfred Ongoro, HSC	1.54	0.84	0.82	3.57	-	-	-	6.77	6.06
Godfrey Mburia	1.90	0.70	0.82	3.57	-	-	-	6.99	6.25
Mary N. Mungai, (Mrs.) OGW	1.90	0.23	0.85	3.57	-	-	-	6.55	-
Scholastica Odhiambo (Mrs.)	2.01	0.23	0.85	3.57	-	-	-	6.66	5.96
Dr. James Kahunyo	2.01	0.23	0.85	3.57	-	-	-	6.66	5.96
James Njue Njiru	2.05	0.53	0.85	3.57	-	-	-	7.00	6.17
David M. Muthigani	2.04	0.51	0.85	3.57	-	-	-	6.97	6.15
Stanley C. Muchiri, EBS	5.96	0.09	1.54	2.72	8.97	2.63	-	21.91	22.87
Julius Riungu	2.87	0.45	0.93	2.63	-	-	-	6.88	7.39
Philip Gichuki	-	-	-	-	-	-	-	-	5.16
Dr. Gideon Muriuki, CBS, Group MD & CEO	-	-	-	-	5.70	-	94.10	99.80	92.6
	41.67	10.28	16.62	62.90	16.96	3.69	94.10	246.22	222.43

Directors' Remuneration Report (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

b) Kingdom Securities Limited (60% Owned)

Amounts in KShs Million

	Monthly Retainer	Travelling Facilitation	Sitting Allowance	Total 2017	Total 2016
J. Sitienei, Chairman	0.18	0.20	0.13	0.51	-
P. Githendu	0.09	0.07	0.08	0.24	-
B. M. Ouma-Awiti	0.36	0.29	0.20	0.85	0.69
M. Kariuki	0.36	0.07	0.24	0.67	0.50
S. C. Muchiri, EBS	0.45	-	0.24	0.69	0.74
J. Riungu	<u>0.27</u>	<u>-</u>	<u>0.16</u>	<u>0.43</u>	<u>0.45</u>
	<u>1.71</u>	<u>0.63</u>	<u>1.05</u>	<u>3.39</u>	<u>2.38</u>

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

Amounts in KShs Million

	Monthly Retainer	Travelling Facilitation	Sitting Allowance	Responsibility Allowance	Housing Allowance	Total 2017	Total 2016
Eng. William Mayar Wol – Chairman	3.42	1.42	0.44	4.80	5.01	15.09	12.76
John K. Murugu, OGW	0.47	-	0.04	-	-	0.51	-
Prof. Mathew Gordon Udo	1.90	0.82	0.40	-	-	3.12	3.20
Macloud M. Malonza, HSC	0.47	-	0.09	-	-	0.56	-
Hon. Wani Buyu Dyori	2.03	0.82	0.63	-	-	3.48	2.37
Rosemary M. Githaiga (Mrs)	1.86	-	0.40	-	-	2.26	2.60
Dr. Gideon Muriuki, CBS -Group MD & CEO	1.86	-	0.49	-	-	2.35	2.70
Stanley C. Muchiri, EBS	1.45	-	0.36	-	-	1.81	2.88
Julius Riungu	1.39	-	0.40	-	-	1.79	2.87
Dr. Suzana D. Deng	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2.15</u>
	<u>14.85</u>	<u>3.06</u>	<u>3.25</u>	<u>4.80</u>	<u>5.01</u>	<u>30.97</u>	<u>31.53</u>

Five (5) Year Summary of Directors Emoluments

Amounts in KShs'000	2017	2016	2015	2014	2013
Directors emoluments	180,790	163,742	148,257	161,129	131,734

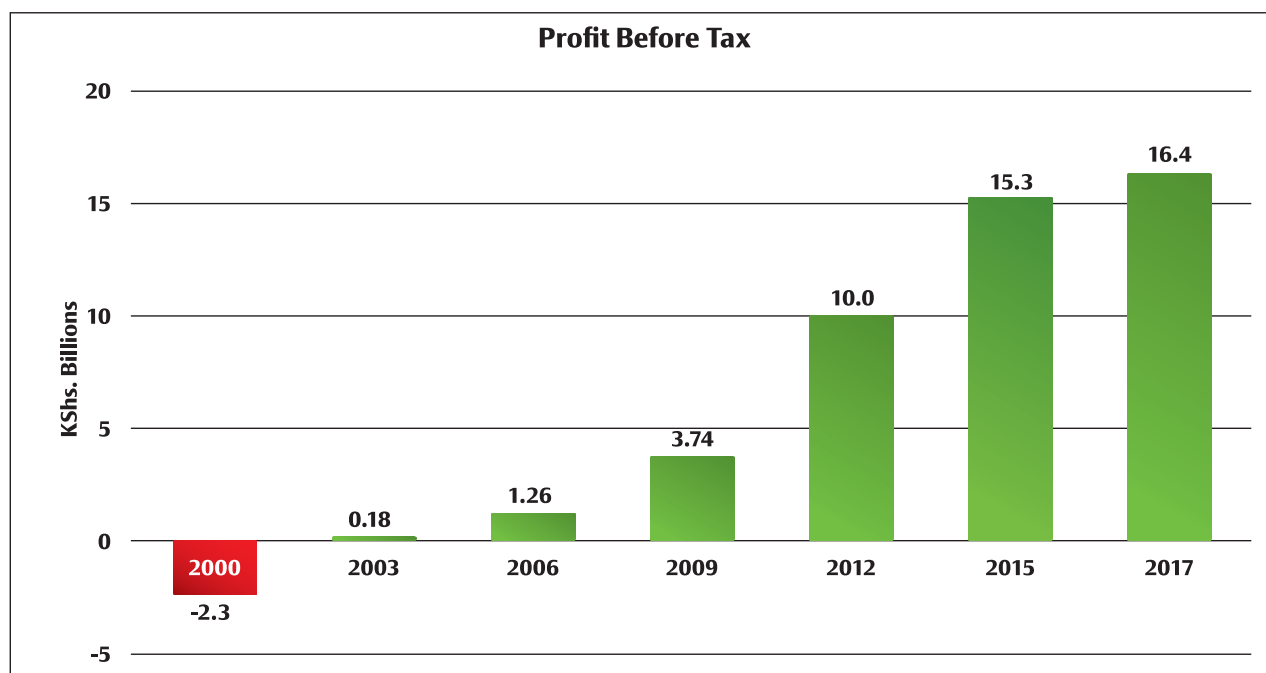
Directors' Remuneration Report (Continued)

Executive Management Compensation

The Bank has undergone tremendous Growth and Transformation; from a sectoral, for many years, a loss making Bank with no returns to shareholders, the Bank has boldly transformed to one of the Top Banks in the region with Asset base of almost Kshs400 billion and Profit Before tax of Kshs16.4 billion in a fast changing and highly competitive market environment, thereby maximizing on shareholder value. The Bank is now the largest Cooperative Bank in Africa, and 5th largest company by Market Capitalization at the Nairobi Securities Exchange.

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

Under the performance driven culture, it is noteworthy that the Bank has progressively improved profitability from a huge loss of KShs 2.3 billion in year 2000 and an asset base of KShs 22.3 billion to the current profit before tax of over KShs 16.4 billion and asset base of almost KShs 400 Billion.



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

Amount in KShs' Million

	Salaries	Bonus	Fees, Other allowances and Honorarium
Board of Directors	-	-	180.79
Executive Management	412.87	355.13	-

The Group Managing Director & CEO bonus award for the year was KShs 270.7 million.

By the order of the board.



Samuel M. Kibugi
Company Secretary

Independent Auditors' Report

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

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of The Co-operative Bank of Kenya Limited ("the Bank") and its subsidiaries (together, "the Group"), set out on pages 107 to 193, which comprise the consolidated and separate statement of financial position as at 31 December 2017, and the consolidated and separate statement of profit or loss and other comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and the Bank as at 31 December 2017, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

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

Key Audit Matters

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

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

Key Audit Matter	How the matter was addressed in the audit
<p>Credit risk and impairment of loans and advances to customers</p> <p>Loans and advances constituted 66% of the total assets of the group in the statement of financial position as at 31 December 2017.</p> <p>Management performs an annual impairment assessment as required by the Central Bank of Kenya prudential guidelines and the International Accounting Standard (IAS) 39 - Financial Instruments: Recognition and Measurement. This process is subjective in nature, due to the judgement involved in estimating the amount and timing of expected future cash flows of loans and advances.</p> <p>In addition to specific provisions against individually impaired loans and advances, the group also makes a collective impairment provision against the remainder of the loans and advances in relation to which specific provisions for impairment losses have not been made. The group, as disclosed in notes 2 (d) and 2 (n), assesses impairment collectively for portfolios with similar economic characteristics and for specific counterparties which is based upon the directors' best estimate of the present value of expected future cash flows.</p> <p>Accordingly, the impairment assessment of loans and advances is considered to be a key audit matter due to the level of judgement and estimation involved.</p>	<p>Our audit procedures included but were not limited to:-</p> <ul style="list-style-type: none"> Assessing key controls over the approval, recording and monitoring of loans and advances to customers; Evaluating the methodologies used by the group in calculating collectively assessed impairments for compliance with the requirements of the Central Bank of Kenya prudential guidelines and the International Accounting Standards 39 Reviewing the inputs and management's key assumptions about the amount and timing of expected future cash flows and net realizable value of securities held by the group with respect to specific counterparties on a sample basis. Assessing the adequacy of impairment allowances for some individually assessed loans and advances selected using sampling methods; and; Assessing whether the financial statement disclosures included in notes 3(a) and 13(c) in the financial statements appropriately reflect the group's credit risk experience and impairment provisions on loans and advances to customers.
<p>Reporting in hyperinflationary economies by Co-operative Bank of South Sudan</p> <p>With effect from 2016, the South Sudan economy was considered to be hyperinflationary in accordance with International Practices Task Force (IPTF) which required all registrants in South Sudan to report in accordance with International Accounting Standard (IAS) 29 -Financial Reporting in Hyperinflationary Economies. As a result, the financial statements of Co-operative Bank of South Sudan, which are included in the Group financial statements, have been restated to reflect the changes in general purchasing power of the South Sudanese Pound as required by International Accounting Standard (IAS) 29.</p> <p>We consider this to be a key audit matter due to effect of restatement on the Group Financial</p> <p>Statements as a result of adjusting Co-operative Bank of South Sudan financial statements to reflect the general change in purchasing power as disclosed in note 32 (c).</p> <p>The main inputs used in restatement of Co-operative Bank of South Sudan financial statements are the consumer price index (CPI) between 2016 and 2017 and conversion coefficient derived from the CPI. The conversion coefficient derived from the consumer price index (CPI) in the Republic of South Sudan and the corresponding CPI are disclosed in note 32(c).</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> Assessing the accuracy of restated financial statements for Co-operative Bank of South Sudan by reviewing the IAS 29 workings prepared by management and evaluating the reasonableness of the inputs used in the restatement. Assessing whether the Group financial statement disclosure in note 32 (c) appropriately reflect the impact of hyperinflation reporting in Co-Operative Bank of South Sudan.

Other Information

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

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

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

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

Responsibilities of the directors for the consolidated and separate financial statements

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

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

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

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

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

individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

- i) in our opinion, the information given in the report of the directors on pages 95 to 97 is consistent with the consolidated and separate financial statements; and,
- ii) in our opinion, the auditable part of directors' remuneration report on page 99 to 102 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

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

A handwritten signature in black ink, appearing to read 'Michael Kimoni'.

Nairobi, Kenya

29 March 2018

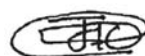
Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2017

	Note	2017 KShs'000	2016 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	7	24,260,196	25,682,704
Deposits and balances due from banks	8	7,730,354	5,017,303
Held-for-trading investments	9	639,952	147
Available-for-sale investments	10	28,698,765	24,758,146
Derivative financial instruments	11	763,540	126,776
Other assets	12	14,104,561	13,242,438
Loans and advances to customers	13(a)	253,861,644	232,307,329
Held-to-maturity investments	14	43,983,288	37,158,762
Tax recoverable	24(b)	156,695	-
Investments in associates	16	2,143,347	2,409,297
Intangible assets	17(a)	2,018,875	1,713,118
Prepaid lease rentals	18	35,742	36,352
Property and equipment	19(a)	7,493,574	8,308,698
Deferred tax asset	20	967,124	1,067,507
TOTAL ASSETS		386,857,657	351,828,577
LIABILITIES			
Deposits and balances due to banks	21	373,464	3,411,977
Customer deposits	22(a)	287,371,708	260,153,437
Loans and borrowings	23	25,156,054	19,813,260
Tax payable	24(b)	-	1,221,025
Provisions	25	187,793	141,281
Other liabilities	26	3,475,686	5,968,630
Government grants	27	480,367	498,842
TOTAL LIABILITIES		317,045,072	291,208,452
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT			
Share capital	28	5,867,180	4,889,317
Share premium	29	1,911,926	2,889,789
Revaluation reserve	30(a)	1,296,498	1,338,103
Retained earnings	30(b)	55,329,786	48,208,633
Available-for-sale reserve	30(c)	(733,149)	(1,158,031)
Statutory reserve	30(d)	718,617	736,418
Proposed dividends	31	4,693,744	3,911,453
		69,084,602	60,815,682
Non-controlling interest	32	727,983	(195,557)
TOTAL EQUITY		69,812,585	60,620,125
TOTAL LIABILITIES & EQUITY		386,857,657	351,828,577

The financial statements were approved by the Board of Directors on 14 March 2018 and signed on its behalf by: -

J. K. Murugu, OGW - Chairman



M. Malonza, HSC - Vice Chairman



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



S. M. Kibugi - Company Secretary



Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 KShs'000	2016 KShs'000
Interest income	33	36,272,613	37,349,857
Interest expense	34	(12,269,219)	(12,768,300)
NET INTEREST INCOME		24,003,394	24,581,557
Fees and commission income	35	9,815,411	9,787,509
Fees and commission expense	35	(94,600)	(248,482)
NET FEES AND COMMISSION INCOME		9,720,811	9,539,027
Net trading income	36	5,352,939	5,277,360
Amortisation of government grants	27	18,475	18,475
Other operating income	37	2,500,390	2,854,512
TOTAL OTHER INCOME		7,871,804	8,150,347
OPERATING INCOME		41,596,009	42,270,931
Net impairment losses on loans and advances	13(c)	(3,601,252)	(2,599,671)
Amortisation of intangible assets	17(a)	(549,307)	(485,506)
Amortisation of leasehold land	18	(610)	(612)
Depreciation of property and equipment	19(a)	(1,951,027)	(1,936,699)
Employee costs	38	(10,100,351)	(9,403,441)
Other operating expenses	39	(9,124,728)	(10,219,016)
OPERATING EXPENSES		(25,327,275)	(24,644,945)
OPERATING PROFIT		16,268,734	17,625,986
Share of profit of associates	16	129,904	97,546
PROFIT BEFORE TAX		16,398,638	17,723,532
Income tax expense	24(a)	(4,993,573)	(5,047,322)
PROFIT FOR THE YEAR		11,405,065	12,676,210
Attributable to:			
Equity holders of the parent		11,693,958	12,927,768
Non-controlling interest		(288,893)	(251,558)
		11,405,065	12,676,210
Basic earnings per share (KShs)	40	1.99	2.20
Diluted earnings per share (KShs)	40	1.99	2.20

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 KShs'000	2016 KShs'000
PROFIT FOR THE YEAR		11,405,065	12,676,210
OTHER COMPREHENSIVE INCOME, NET OF TAX			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Net movement on available-for-sale investments	41	512,969	708,015
Exchange differences on translation of a foreign operation		-	1,859,238
Share of other comprehensive income of associates			
-Fair value loss on available for sale investments		(73,946)	-
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Revaluation of land and building		-	1,227,694
Deferred tax on revaluation surplus			(368,308)
Share of other comprehensive income of associates			
- Revaluation of building	16	24,188	7,776
OTHER COMPREHENSIVE INCOME, NET OF TAX		463,211	3,434,415
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF INCOME TAX		11,868,276	16,110,625
Attributable to:-			
Equity holders of the parent		12,134,025	15,464,337
Non-controlling interest		(265,749)	646,288
		11,868,276	16,110,625

Bank Statement of Financial Position

AS AT 31 DECEMBER 2017

	Note	2017 KShs'000	2016 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	7	22,541,500	24,457,720
Deposits and balances due from banks	8	7,739,831	5,359,893
Held-for-trading investments	9	150	147
Available-for-sale investments	10	28,515,665	24,624,796
Derivative financial instruments	11	763,540	126,776
Other assets	12	14,068,733	13,071,271
Loans and advances to customers	13(a)	252,361,773	231,770,171
Held-to-maturity investments	14	43,827,327	37,003,530
Tax recoverable	24(b)	207,583	-
Investments in subsidiaries	15	2,512,920	2,512,920
Investments in associates	16	755,118	755,118
Intangible assets	17(b)	1,605,973	1,410,156
Prepaid lease rentals	18	35,742	36,352
Property and equipment	19(b)	6,811,963	7,817,715
Deferred tax asset	20	<u>1,081,822</u>	<u>1,051,197</u>
TOTAL ASSETS		<u>382,829,640</u>	<u>349,997,762</u>
LIABILITIES			
Deposits and balances due to banks	21	423,701	3,402,893
Customer deposits	22(a)	285,566,236	259,471,749
Loans and borrowings	23	25,156,054	19,813,260
Tax payable	24(b)	-	1,248,698
Provisions	25	184,297	139,198
Other liabilities	26	3,272,206	5,876,130
Government grants	27	<u>480,367</u>	<u>498,842</u>
TOTAL LIABILITIES		<u>315,082,861</u>	<u>290,450,770</u>
EQUITY			
Share capital	28	5,867,180	4,889,317
Share premium	29	1,911,926	2,889,789
Revaluation reserve	30(a)	1,227,294	1,256,445
Retained earnings	30(b)	53,954,407	46,970,978
Available-for-sale reserves	30(c)	(625,616)	(1,088,834)
Statutory reserve	30(d)	717,844	717,844
Proposed dividends	31	<u>4,693,744</u>	<u>3,911,453</u>
TOTAL EQUITY		<u>67,746,780</u>	<u>59,546,992</u>
TOTAL LIABILITIES & EQUITY		<u>382,829,640</u>	<u>349,997,762</u>

The financial statements were approved by the Board of Directors on 14 March 2018 and signed on its behalf by:-

J. K. Murugu, OGW - Chairman



M. Malonza, HSC - Vice Chairman



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



S. M. Kibugi - Company Secretary



Bank Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 KShs'000	2016 KShs'000
Interest income	33	36,028,099	37,181,204
Interest expense	34	<u>(12,232,701)</u>	<u>(12,727,244)</u>
NET INTEREST INCOME		23,795,398	24,453,960
Fees and commission income	35	8,635,149	8,818,080
Fees and commission expense	35	<u>(94,600)</u>	<u>(248,481)</u>
NET FEES AND COMMISSION INCOME		8,540,549	8,569,599
Net trading income	36	5,030,221	5,076,446
Amortisation of government grants	27	18,475	18,475
Other operating income	37	<u>2,571,488</u>	<u>2,892,718</u>
TOTAL OTHER INCOME		7,620,184	7,987,639
OPERATING INCOME		39,956,131	41,011,198
Net impairment losses on loans and advances	13(c)	(3,547,235)	(2,594,567)
Amortization of intangible assets	17(b)	(499,330)	(447,371)
Amortisation of leasehold land	18	(610)	(612)
Depreciation of property and equipment	19(b)	(1,786,069)	(1,834,722)
Employee costs	38	(9,614,810)	(8,944,786)
Other operating expenses	39	<u>(8,005,896)</u>	<u>(9,168,735)</u>
OPERATING EXPENSES		(23,453,950)	(22,990,793)
PROFIT BEFORE TAX		16,502,181	18,020,405
Income tax expense	24(a)	<u>(4,866,651)</u>	<u>(4,968,841)</u>
PROFIT FOR THE YEAR		11,635,530	13,051,564
Basic earnings per share (KShs)	40	<u>1.98</u>	<u>2.22</u>
Diluted earnings per share (KShs)	40	<u>1.98</u>	<u>2.22</u>

Bank Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 KShs'000	2016 KShs'000
PROFIT FOR THE YEAR		11,635,530	13,051,564
OTHER COMPREHENSIVE INCOME:			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Net loss/gain on available-for-sale investments	41	463,218	754,035
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Revaluation of land and building			1,227,694
Deferred tax on revaluation surplus		-	(368,308)
OTHER COMPREHENSIVE INCOME, NET OF TAX		<u>463,218</u>	<u>1,613,421</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		<u>12,098,748</u>	<u>14,664,985</u>

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2017

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 2016	4,889,317	2,889,789	459,414	784,381	(1,870,841)	(948,210)	3,911,453	39,574,445	49,689,748	(386,496)	49,303,252
Profit / (loss) for the year	-	-	866,587	-	721,770	948,210	-	12,927,768	12,927,768	(251,558)	12,676,210
Other comprehensive income	-	-	-	-	-	-	-	-	2,536,567	897,848	3,434,415
Total comprehensive income	-	-	866,587	-	721,770	948,210	-	12,927,768	15,464,335	646,290	16,110,625
Transfer to revaluation reserve	-	-	-	1,172	-	-	-	(1,172)	-	-	-
Exchange difference on hyperinflationary economy	-	-	12,102	(49,135)	(8,960)	-	-	(380,955)	(426,948)	(455,351)	(882,299)
2015- Dividends paid	-	-	-	-	-	-	(3,911,453)	-	(3,911,453)	-	(3,911,453)
Proposed dividends	-	-	-	-	-	-	3,911,453	(3,911,453)	-	-	-
At 31 December 2016	4,889,317	2,889,789	1,338,103	736,418	(1,158,031)	-	3,911,453	48,208,633	60,815,682	(195,557)	60,620,125
As at 1 January 2017	4,889,317	2,889,789	1,338,103	736,418	(1,158,031)	-	3,911,453	48,208,633	60,815,682	(195,557)	60,620,125
Profit / (loss) for the year	-	-	15,185	-	424,882	-	-	11,693,958	11,693,958	(288,893)	11,405,065
Other comprehensive income	-	-	-	-	-	-	-	-	440,068	23,144	463,211
Total comprehensive income	-	-	15,185	-	424,882	-	-	11,693,958	12,134,025	(265,749)	11,868,276
Transfer of excess depreciation	-	-	(29,150)	-	-	-	-	29,150	-	-	-
Deferred tax on excess depreciation	-	-	-	-	-	-	-	12,493	12,493	-	12,493
Exchange difference on hyperinflationary economy	-	-	(27,640)	(17,801)	-	-	-	79,296	33,854	221,515	255,370
Issue of bonus shares	977,863	(977,863)	-	-	-	-	-	-	-	-	-
Issue of additional shares	-	-	-	-	-	-	-	-	-	967,774	967,774
2016- Dividends paid	-	-	-	-	-	-	(3,911,453)	-	(3,911,453)	-	(3,911,453)
Proposed dividends	-	-	-	-	-	-	4,693,744	(4,693,744)	-	-	-
At 31 December 2017	5,867,180	1,911,926	1,296,498	718,617	(733,149)	-	4,693,744	55,329,786	69,084,602	727,983	69,812,585

Bank Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Statutory reserve KShs'000	Available-for-sale reserve KShs'000	Proposed dividends KShs'000	Retained earnings KShs'000	Total KShs'000
As at 1 January 2016	4,889,317	2,889,789	397,059	717,844	(1,842,869)	3,911,453	37,830,867	48,793,460
Profit for the year	-	-	-	-	-	-	13,051,564	13,051,564
Other comprehensive income	-	-	859,386	-	754,035	-	-	1,613,421
Total comprehensive income	-	-	859,386	-	754,035	-	13,051,564	14,664,985
2015- Dividends paid	-	-	-	-	-	(3,911,453)	-	(3,911,453)
Proposed dividends	-	-	-	-	-	3,911,453	(3,911,453)	-
At 31 December 2016	4,889,317	2,889,789	1,256,445	717,844	(1,088,834)	3,911,453	46,970,978	59,546,992
As at 1 January 2017	4,889,317	2,889,789	1,256,445	717,844	(1,088,834)	3,911,453	46,970,978	59,546,992
Profit for the year	-	-	-	-	-	-	11,635,530	11,635,530
Other comprehensive income	-	-	-	-	463,218	-	-	463,218
Total comprehensive income	-	-	-	-	463,218	-	11,635,530	12,098,748
Issue of bonus shares	977,863	-	-	-	-	-	-	-
Transfer of excess depreciation	-	-	-	-	-	-	29,150	-
Deferred tax on excess depreciation	-	-	-	-	-	-	12,493	12,493
2016- Dividends paid	-	-	-	-	-	(3,911,453)	-	(3,911,453)
Proposed dividends	-	-	-	-	-	4,693,744	(4,693,744)	-
At 31 December 2017	5,867,180	1,911,926	1,227,294	717,844	(625,616)	4,693,744	53,954,407	67,746,780

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 KShs'000	2016 KShs'000
Cash flows from/(used in) operations	42	12,597,092	(2,256,914)
Tax paid	24(b)	<u>(6,440,474)</u>	<u>(4,545,970)</u>
Net cash flows from/(used in) operating activities		<u>6,156,618</u>	<u>(6,802,884)</u>
INVESTING ACTIVITIES:-			
Purchase of property and equipment	19(a)	(838,088)	(687,739)
Purchase of intangible assets	17(a)	(713,692)	(595,352)
Proceeds from disposal of property and equipment		10,026	-
Purchase of held-to-maturity investments	14	(17,864,906)	(12,436,612)
Maturity of held-to-maturity investments	14	11,040,380	11,432,405
Dividends from an associate	16	<u>72,876</u>	<u>72,876</u>
Net cash flows used in investing activities:-		<u>(8,293,404)</u>	<u>(2,214,422)</u>
FINANCING ACTIVITIES:-			
Proceeds from borrowings	23	9,669,984	6,007,884
Repayment of borrowings	23	(3,755,281)	(5,465,665)
Dividends paid to equity holders of the parent		(3,911,453)	(3,911,453)
Additional capital by non-controlling interest		<u>967,774</u>	<u>-</u>
Net cash flows from/(used in) financing activities		<u>2,971,024</u>	<u>(3,369,234)</u>
Net movement in cash and cash equivalents		834,237	(12,386,540)
Effect of foreign exchange differences		(312,801)	3,887
Cash and cash equivalents at the beginning of the year		<u>16,985,780</u>	<u>29,368,433</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	42	<u>17,507,216</u>	<u>16,985,780</u>

Bank Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2017

		2017 KShs'000	2016 KShs'000
OPERATING ACTIVITIES:-	Note		
Cash from/(used in) operations	42	12,409,917	(717,665)
Tax paid	24(b)	<u>(6,341,065)</u>	<u>(4,420,630)</u>
Net cash flows from/(used in) operating activities		<u>6,068,852</u>	<u>(5,138,295)</u>
INVESTING ACTIVITIES:-			
Purchase of property and equipment	19(b)	(818,490)	(629,371)
Purchase of software	17(b)	(695,147)	(506,759)
Proceeds from disposal of property and equipment		10,002	-
Additional capital to a subsidiary		-	(305,550)
Purchase of held-to-maturity investments	14	(17,864,906)	(12,436,612)
Maturity of held-to-maturity investments	14	<u>11,041,109</u>	<u>11,433,053</u>
Net cash flows used in investing activities		<u>(8,327,432)</u>	<u>(2,445,239)</u>
FINANCING ACTIVITIES:-			
Proceeds from borrowings	23	9,669,984	6,007,884
Repayment of borrowings	23	(3,755,281)	(5,465,665)
Dividends paid		<u>(3,911,453)</u>	<u>(3,911,453)</u>
Net cash flows from/(used in) financing activities		<u>2,003,250</u>	<u>(3,369,234)</u>
Net movement in cash and cash equivalents		(255,331)	(10,952,768)
Cash and cash equivalents at the beginning of the year		<u>16,636,952</u>	<u>27,589,720</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	42	<u>16,381,622</u>	<u>16,636,952</u>

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL INFORMATION

The Co-operative Bank of Kenya Limited is a financial institution incorporated in Kenya under the Companies Act, 2015 as a public limited liability company, licensed under the Kenyan Banking Act (Chapter 488) and domiciled in Kenya. The consolidated financial statements comprise the Bank and its subsidiaries together referred to as "the Group". The Group is primarily involved in corporate and retail banking, investment and asset management services in various parts of Kenya. The Bank's equities are listed on the Nairobi Stock Exchange (NSE). The group information is included on page 193 of these financial statements.

Information on subsidiaries has been disclosed in Note 15 of the financial statements.

2. ACCOUNTING POLICIES

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

(a) Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except for 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 and 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) and the Kenyan Companies Act, 2015.

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

(b) Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries and associates as at 31 December 2017. Control is achieved by the Group over an investee if and only if the Group has:-

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

2. ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2017, they did not have a material impact on the annual financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

On initial application of the amendment, entities are not required to provide comparative information for preceding periods.

The amendments are intended to provide information to help investors better understand changes in an entity's debt. The Group has disclosed the changes arising from cash flows and non-cash changes in Note 23.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. The amendments are intended to remove existing divergence in practice in recognising deferred tax assets for unrealised losses. This amendment did not have an impact to the Group.

Annual Improvements Cycle - 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. These amendments did not affect the Group's financial statements as there were no subsidiaries or associates classified as held for sale.

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

On 29 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

The standard is effective for annual period beginning on or after 1 January 2018 with retrospective application permitted if, and only if, it is possible without the use of hindsight. The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement including impairment changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 January 2018.

The new classification and measurement and impairment requirements will be applied by adjusting our Balance Sheet on 1 January 2018, the date of initial application, with no restatement of comparative period financial information.

The new classification and measurement and impairment requirements will be applied by adjusting our statement of financial position on 01 January 2018, the date of initial application, with no restatement of comparative period financial information. Based on current estimates, the adoption of IFRS 9 is expected to result in a reduction to retained earnings as at 01 January 2018 of reasonable estimate range of 6% to 9%, net of taxes. Additionally, the adoption of IFRS 9 is expected to change our Core Capital to total risk weighted by a range of 16.2% to 16.8%. We will continue to monitor and refine certain elements of our impairment process in advance of Q1 2018 reporting.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES (Continued)

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

Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

Classification and measurement

IFRS 9 introduces a principles-based approach to the classification of financial assets. Debt instruments, including hybrid contracts, are measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortized cost based on the nature of the cash flows of the assets and an entity's business model. These categories replace the existing IAS 39 classifications of FVTPL, available for sale (AFS), loans and receivables, and held-to-maturity. Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9 other than the provisions relating to the recognition of changes in own credit risk for financial liabilities designated at fair value through profit or loss, as permitted by IFRS 9.

The combined application of the contractual cash flow characteristics and business model tests as at 1 January 2018 is expected to have no significant impact when compared to our classification under IAS 39.

Impairment

Overall comparison of the new impairment model and the current model

IFRS 9 introduces a new, single impairment model for financial assets that requires the recognition of expected credit losses (ECL) rather than incurred losses as applied under the current standard. Currently, impairment losses are recognized if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after initial recognition of the asset and that loss event has a detrimental impact on the estimated future cash flows of the asset that can be reliably estimated. If there is no objective evidence of impairment for an individual financial asset, that financial asset is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment losses incurred but not yet identified. Under IFRS 9, ECLs will be recognized in profit or loss before a loss event has occurred, which could result in earlier recognition of credit losses compared to the current model.

Under the current standard, incurred losses are measured by incorporating reasonable and supportable information about past events and current conditions. Under IFRS 9, the ECL model, which is forward-looking, in addition requires that forecasts of future events and economic conditions be used when determining significant increases in credit risk and when measuring expected losses. Forward-looking macroeconomic factors such as unemployment rates, inflation rates, interest rates, exchange rates, domestic borrowing, credit to private sector and gross domestic product will be incorporated into the risk parameters. Estimating forward-looking information will require significant judgment and must be consistent with the forward-looking information used by the Bank for other purposes, such as forecasting and budgeting.

Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at FVTPL and equity securities designated as at FVOCI, which are not subject to impairment assessment. The scope of the IFRS 9 expected credit loss impairment model includes amortized cost financial assets, debt securities classified as at FVOCI, and off balance sheet loan commitments and financial guarantees, which were previously provided for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37). The above-mentioned reclassifications into or out of these categories under IFRS 9 and items that previously fell under the IAS 37 framework were considered in determining the scope of the Bank's application of the new expected credit loss impairment model.

Measurement of expected credit losses

a) General Approach

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument.

The measurement of ECLs will be based primarily on the product of the instrument's probability of default (PD), loss given default (LGD), and exposure at default (EAD).

Measurement of expected credit losses

The ECL model contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES (Continued)

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

Standards issued but not yet effective (continued)

IFRS 9: Financial Instruments (continued)

Impairment (continued)

Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses.

When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

Interest income is calculated on the gross carrying amount of the financial assets in Stages 1 and 2 and on the net carrying amount of the financial assets in Stage 3.

b) Simplified approach

The Bank intends to apply the simplified approach and record lifetime expected losses for trade receivables or contract assets that result from transactions within the scope of IFRS 15 and that do not contain a significant financing component. The simplified approach does not require the tracking of changes in credit risk, but instead requires the recognition of lifetime ECLs at all times. For trade receivables or contract assets that do not contain a significant financing component, entities are required to apply the simplified approach.

Assessment of significant increase in credit risk

The determination of a significant increase in credit risk takes into account many different factors including a comparison of a financial instruments credit risk or PD at the reporting date and the credit or PD at the date of initial recognition. The Bank has included relative and absolute thresholds in the definition of significant increase in credit risk and a backstop of 30 days past due. All financial instruments that are 30 days past due are migrated to Stage 2.

Definition of default

IFRS 9 does not define default but requires the definition to be consistent with the definition used for internal credit risk management purposes. However, IFRS 9 contains a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due. Under IFRS 9, the Bank will consider a financial asset as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred or when contractual payments are 90 days past due. The Bank's write-off policy under IAS 39 is not expected to be materially different under IFRS 9.

Hedge accounting

IFRS 9 introduces a new general hedge accounting model that better aligns hedge accounting with risk management activities. However, the current hedge accounting requirements under IAS 39 may continue to be applied until the IASB finalizes its macro hedge accounting project. The IFRS 9 Hedge accounting requirements will not have any significant impact on the Group as the Group does not apply hedge accounting.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

Temporary exemption from IFRS 9

The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 Financial Instruments: Recognition and Measurement while they defer the application of IFRS 9 until 1 January 2021 at the latest. Predominance must be initially assessed at the annual reporting date that immediately precedes 1 April 2016 and before IFRS 9 is implemented. Also the evaluation of predominance can only be reassessed in rare cases. Entities applying the temporary exemption will be required to make additional disclosures.

The overlay approach

The overlay approach is an option for entities that adopt IFRS 9 and issue insurance contracts, to adjust profit or loss for eligible financial assets; effectively resulting in IAS 39 accounting for those designated financial assets. The adjustment eliminates accounting volatility that may arise from applying IFRS 9 without the new insurance contracts standard. Under this approach, an entity is permitted to reclassify amounts between profit or loss and other comprehensive income (OCI) for designated financial assets. An entity must present a separate line item for the amount of the overlay adjustment in profit or loss, as well as a separate line item for the corresponding adjustment in OCI.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES (Continued)

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

Standards issued but not yet effective (continued)

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (continued)

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4. When applying the temporary exemption, entities must still provide extensive disclosure that require the application of some aspects of IFRS 9. The amendment is effective from 1 January 2018. The amendment will not have an impact on the Group as it does not have insurance contracts.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- *Step 1: Identify the contract(s) with a customer*
- *Step 2: Identify the performance obligations in the contract*
- *Step 3: Determine the transaction price*
- *Step 4: Allocate the transaction price to the performance obligations in the contract*
- *Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation*

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

The Group does not anticipate early adopting IFRS 15 and the amendment will have no impact on the Group. Revenues for the Group are in from of services from fees and commissions, interest income and foreign exchange income. Interest income and foreign exchange income are not in the scope of the standard. The Group essentially has financial instruments contracts, and has no other contracts.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES (Continued)

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

Standards issued but not yet effective (Continued)

IFRS 16 Revenue from Contracts with Customers (continued)

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

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

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

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

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

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

Entities must apply the amendments retrospectively, with certain exceptions. Early application of the amendments is permitted and must be disclosed.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The amendment is effective from 1 January 2018. The Group is currently evaluating the impact.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* which clarifies application of the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments.

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

The interpretation specifically addresses the following:

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

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES (Continued)

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

Standards issued but not yet effective (Continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment (Continued)

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.

Applying the interpretation could be challenging for entities, particularly those that operate in more complex multinational tax environments. Entities may also need to evaluate whether they have established appropriate processes and procedures to obtain information on a timely basis that is necessary to apply the requirements in the interpretation and make the required disclosures. The Group will apply interpretation from its effective date.

IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group does not have share-based transactions therefore the amendment is expected to have no impact.

Transfers of Investment Property — Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. However, the Group does not expect the amendments to have an impact as they do not have investment property.

IFRS 17 Insurance Contracts

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

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

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES (Continued)

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

Standards issued but not yet effective (Continued)

2014-2016 cycle (issued in December 2016)

Following is a summary of the amendments from the 2014-2016 annual improvements cycle.

IFRS 1 First-time Adoption of International Financial Reporting Standards	<p>Deletion of short-term exemptions for first-time adopters</p> <p>Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Group.</p>
IAS 28 <i>Investments in Associates and Joint Ventures</i>	<p>Clarification that measuring investees at fair value through profit or loss is an investment-by- investment choice</p> <ul style="list-style-type: none"> • The amendments clarify that: • An entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. • If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. • The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES (Continued)

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

Standards issued but not yet effective (Continued)

2015-2017 cycle (issued in December 2017)

Following is a summary of the amendments from the 2015-2017 annual improvements cycle:

IFRS 3 <i>Business Combinations</i>	<p>Previously held Interests in a joint operation</p> <ul style="list-style-type: none"> The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including re-measuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer re-measures its entire previously held interest in the joint operation. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.
IFRS 11 <i>Joint Arrangements</i>	<p>Previously held Interests in a joint operation</p> <ul style="list-style-type: none"> A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not re-measured. An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.
IAS 12 <i>Income Taxes</i>	<p>Income tax consequences of payments on financial instruments classified as equity</p> <ul style="list-style-type: none"> The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.
IAS 23 <i>Borrowing Costs</i>	<p>Borrowing costs eligible for capitalization</p> <ul style="list-style-type: none"> The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES (Continued)

(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.

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 reporting 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 group 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. The carrying amount of available for sale investments has been disclosed in note 10.

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.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

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, 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 and dividends for financial assets and financial liabilities held for trading.

(f) 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. Land and buildings are revalued after every 3 years by approved external valuers.

An annual transfer from the asset revaluation surplus to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being disposed is transferred to retained earnings.

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

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

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES (continued)

(f) Property and equipment (continued)

Recognition and measurement (continued)

Depreciation

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

Buildings	40 years	2.5%
Fixtures	8 years	12.5%
Furniture and equipment	5 years	20.0%
Motor vehicles	5 years	20.0%
Office machinery	5 years	20.0%
Computers	5 years	20.0%

Leasehold land is depreciated over the remaining period of the lease. Buildings on leasehold land are depreciated over the remaining period of the lease subject to a maximum of forty years. Buildings on freehold land are depreciated over forty years. Freehold land is not depreciated.

The asset's residual values, useful lives and methods of depreciation are reviewed, at each financial year end and prospectively adjusted as a change in estimate, if appropriate.

(g) Business combinations and goodwill

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

If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, the discount on acquisition is recognised directly in profit and loss in the year of acquisition.

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

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

Where goodwill has been allocated to a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal.

Goodwill disposed of in these circumstances are measured based on the relative values of the disposed operation and the portion of the CGU retained. When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in profit or loss.

(h) 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.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES (continued)

(h) Intangible assets (continued)

(1) Computer software licences

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

(2) Other intangible assets

Other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. Other intangible assets consist of the NSE trading right and joint venture development cost (Cost incurred for the joint venture agreement during the set-up of Co-operative bank of South Sudan). The Joint Venture development assets relate 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.

Effective September 2014 and upon demutualization of Nairobi Securities Exchange (NSE), the NSE Seat initially valued at KShs 251 million was replaced with a trading right which gave 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 was 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.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(i) Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in its associates are accounted for using the equity method and at cost in the separate financial statements.

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES (continued)

(j) 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 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.

ii) Finance leases:

Group as lessee

A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Group as lessor

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. 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.

(k) Financial assets

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

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

(i) Financial assets at fair value through profit or loss

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

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

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES (continued)

(k) Financial assets (continued)

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 dividend income and expenses on financial assets held-for-trading are also included in profit or loss.

(ii) Held-to-maturity financial assets

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

(iii) Loans and receivables

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

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.

(iv) Available-for-sale financial assets

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

(l) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. External valuers are involved for valuation of significant assets, such as properties.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES (continued)

(m) Derivative financial instruments

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the 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.

(n) Impairment of financial assets

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

(1) Financial assets carried at amortised cost

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

For loans and advance impairment losses are computed based on:

i) Central Bank of Kenya Prudential Guidelines

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

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

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

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES (continued)

(n) Impairment of financial assets (continued)

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

ii) *International Accounting Standard (IAS) 39*

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

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

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

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

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

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

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from the available-for-sale reserve and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. 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.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES (continued)

(o) 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:
 - (a) The Group has transferred substantially all the risks and rewards of the asset, or
 - (b) 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.

(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

i) Customer deposits

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

ii) Deposits from/ to other banks

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

iii) Other borrowed funds

Borrowings are financial liabilities and measured initially at fair value and subsequently at amortised cost using the effective interest rate method.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES (continued)

(p) Financial liabilities (continued)

Subsequent measurement (continued)

iv) *Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are recognized as an expenses when incurred. The Group did not have any qualifying assets during the year.

v) *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.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in or loss.

(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 consolidated statement of financial position if there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(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 (2016: 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 reporting date. Any resulting gains or losses on exchange are dealt with in profit or loss in the period in which they arise. Non-monetary items carried at cost are translated using the exchange rate at the date of the initial transactions, whilst assets carried at fair value are translated at the exchange rate when the fair value was determined.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

ii) *Group companies*

With effect from 2016, the South Sudanese economy is considered to be hyperinflationary in accordance with criteria in International Accounting Standards (IAS) 29-Financial Reporting in Hyperinflationary Economies.

On consolidation, the results and financial position of foreign operations whose functional currency is the currency of a hyperinflationary economy are translated into the group's functional currency at the closing rate at the reporting date as the statement of profit or loss

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES (continued)

(u) Employee benefits

The Group operates a defined contribution retirement scheme for its employees. The assets of the scheme are held in a separate trustee administered fund which is funded by contributions from both the Group and employees. The Group's contributions to the scheme are charged to profit or loss in the year to which they relate. The Group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to KShs 200 per employee per month.

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

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the reporting date.

(v) Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of reporting period. Current tax relating to items recognised outside profit or loss is recognised outside profit or loss. Current tax items are recognised in correlation to the underlying transaction either in profit or loss, other comprehensive income or directly in equity.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- (i) where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- (i) where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset
- (ii) or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (iii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each end of the reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is 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 (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

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 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.

(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, or exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase. 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 (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

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 (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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

	Note	2017 KShs '000	2016 KShs '000	2017 KShs '000	2016 KShs '000
Gross amount	13(a)	<u>268,067,320</u>	<u>245,002,074</u>	<u>266,504,742</u>	<u>244,455,158</u>
Staff loans amortization	12	(3,951,827)	(4,628,234)	(3,951,827)	(4,628,234)
Individually assessed for impairment:					
Grade 5: Loss category		508,156	674,983	506,373	674,983
Grade 4: Doubtful category		<u>8,305,229</u>	<u>4,771,526</u>	<u>8,273,082</u>	<u>4,770,400</u>
Gross amount		8,813,384	5,446,509	8,779,455	5,445,383
Allowance for impairment		<u>(4,928,633)</u>	<u>(3,995,201)</u>	<u>(4,910,777)</u>	<u>(3,994,075)</u>
Carrying amount		<u>3,884,751</u>	<u>1,451,308</u>	<u>3,868,678</u>	<u>1,451,308</u>
Collectively assessed for impairment:					
Grade 1: Normal		214,822,320	197,251,662	213,345,130	196,708,388
Grade 2: Watch list		<u>34,488,807</u>	<u>36,474,619</u>	<u>34,445,855</u>	<u>36,474,619</u>
Gross amount		249,311,127	233,726,281	247,790,985	233,183,007
Allowance for impairment		<u>(3,201,352)</u>	<u>(3,068,119)</u>	<u>(3,166,827)</u>	<u>(3,061,323)</u>
Carrying amount		<u>246,109,775</u>	<u>230,658,162</u>	<u>244,624,158</u>	<u>230,121,684</u>
Past due loans (Grade 3 - Substandard):					
Past due up to 30 days		3,717,850	2,180,967	3,717,850	2,180,967
Past due 31-60 days		3,277,132	1,922,433	3,277,132	1,922,433
Past due 61-90 days		1,759,596	1,032,215	1,759,596	1,032,215
Past due 91-150 days		<u>1,188,230</u>	<u>692,050</u>	<u>1,179,723</u>	<u>692,050</u>
Gross amount		<u>9,942,808</u>	<u>5,827,665</u>	<u>9,934,302</u>	<u>5,827,665</u>
Allowance for impairment		<u>(2,123,864)</u>	<u>(1,002,163)</u>	<u>(2,113,537)</u>	<u>(1,002,163)</u>
Carrying amount		<u>7,822,416</u>	<u>4,825,502</u>	<u>7,820,764</u>	<u>4,825,502</u>
Net carrying amount	13(a)	<u>253,861,644</u>	<u>232,307,329</u>	<u>252,361,773</u>	<u>231,770,171</u>

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Maximum exposure to credit risk before collateral held:

	Group		Bank	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Items recognised in the statement of financial position:				
Items in the course of collection	804,779	195,791	804,779	195,791
Deposits and balances due from banking institutions	7,730,354	5,017,303	7,739,831	5,359,893
-Derivatives	763,540	126,776	763,540	126,776
-Held-to-maturity investments	43,983,288	37,158,761	43,827,326	37,003,530
-Held-for-trading investments	639,952	147	150	147
-Available-for-sale investments	28,698,765	24,624,796	28,515,665	24,624,796
Interest receivable	3,606,257	3,848,678	3,606,257	3,848,491
Loans and advances to customers	253,861,644	232,307,329	252,361,773	231,770,171
	340,088,579	303,279,581	337,619,321	302,929,595
Items not recognised in the statement of financial position (note 47)				
	17,455,140	12,465,919	17,455,140	12,465,919
	357,543,719	315,745,500	355,074,461	315,395,514

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 71.1 Million (2016- KShs 64.429 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 Group 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 Group'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 Group 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 Group.

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 (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

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:

	2017 KShs'000	2016 KShs'000
Commercial loans	<u>24,852,909</u>	<u>21,646,699</u>
	<u>24,852,909</u>	<u>21,646,699</u>

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 and Bank	
	2017 KShs'000	2016 KShs'000
(i) Categorised by loans & advances:		
Doubtful & loss categories	10,359,681	10,480,512
Past due but not impaired (Sub-standard) category	15,402,979	15,100,117
Normal & watch categories	<u>671,066,119</u>	<u>378,334,639</u>
	<u>698,828,779</u>	<u>403,915,268</u>
(ii) Categorised by nature of collateral:		
Land & buildings	287,904,610	208,107,228
Cash & other pledges	11,602,168	4,165,063
Motor vehicles	212,937,198	49,985,757
Hypothecation of stock	37,220,411	1,343,493
Debentures & guarantees	146,193,660	133,811,514
Other chattels	<u>970,732</u>	<u>6,502,213</u>
	<u>698,828,779</u>	<u>403,915,268</u>

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

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	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
(i) Concentration by sector:				
Agriculture	5,086,148	8,185,857	5,050,277	8,185,857
Manufacturing, energy & water	26,588,150	27,450,579	26,579,451	27,450,579
Financial services	27,926,934	25,582,370	27,926,934	25,582,370
Tourism & hospitality	3,044,445	1,507,486	2,277,141	1,507,486
Wholesale and retail trade	43,235,903	40,315,026	42,773,157	40,315,026
Transport and communication	23,307,177	15,967,830	23,210,700	15,967,830
Real Estate, building & construction	46,159,155	39,290,875	45,976,031	38,746,475
Consumer & household	<u>92,719,408</u>	<u>86,702,051</u>	<u>92,711,051</u>	<u>86,699,535</u>
	268,067,320	245,002,074	266,504,742	244,455,158
Less: staff loans amortisation	<u>(3,951,827)</u>	<u>(4,628,234)</u>	<u>(3,951,827)</u>	<u>(4,628,234)</u>
	264,115,493	240,373,840	262,552,915	239,826,924
(ii) Concentration by business:				
Corporate	104,992,887	80,923,439	103,836,171	80,923,439
Mortgage & Asset Finance	61,773,038	54,204,700	61,773,038	54,204,700
Small, Medium and Microenterprises	18,169,449	18,619,394	18,169,449	18,619,393
Retail	80,568,170	85,487,807	80,162,308	84,940,891
Agribusiness	<u>2,563,776</u>	<u>5,766,734</u>	<u>2,563,776</u>	<u>5,766,735</u>
	268,067,320	245,002,074	266,504,742	244,455,158
Less: staff loans amortisation	<u>(3,951,827)</u>	<u>(4,628,234)</u>	<u>(3,951,827)</u>	<u>(4,628,234)</u>
	264,115,493	240,373,840	262,552,915	239,826,924

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.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk

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

Management of liquidity risk

The 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.

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 cash flows:

31 December 2017	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	24,260,196	-	-	-	-	24,260,196
Deposits and balances due from banks	7,730,354	-	-	-	-	7,730,354
Investment in financial instruments	-	6,670,040	17,823,166	30,286,334	19,306,004	74,085,544
Loans and advances to customers	30,581,910	4,439,919	16,870,975	103,803,006	98,165,834	253,861,644
Total undiscounted financial assets	62,572,460	11,109,959	34,694,141	134,089,340	117,471,838	359,937,738
FINANCIAL LIABILITIES						
Deposits and balances due to banks	322,589	-	50,000	-	-	372,589
Customers' deposits	233,193,808	36,154,292	17,988,602	35,006	-	287,371,708
Loans	3,992,240	-	-	4,307,871	16,855,943	25,156,054
Total undiscounted financial liabilities	237,508,637	36,154,292	18,038,602	4,342,877	16,855,943	312,900,351
Net liquidity gap at 31 December 2017	(174,936,177)	(25,044,333)	16,655,539	129,746,463	100,615,895	47,037,387
Liabilities not recognised in statement of financial position (note 47)	1,409,059	4,260,543	9,790,386	1,995,152	-	17,455,140

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

31 December 2016	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	25,682,704	-	-	-	-	25,682,704
Deposits and balances due from banks	5,017,303	-	-	-	-	5,017,303
Investment in financial instruments	-	7,318,182	5,130,027	27,718,944	21,876,678	62,043,831
Loans and advances to customers	35,282,250	5,145,919	29,041,593	97,388,300	65,449,267	232,307,329
Total undiscounted financial assets	65,982,257	12,464,101	34,171,620	125,107,244	87,325,945	325,051,167
FINANCIAL LIABILITIES						
Deposits and balances due to banks	3,411,977	-	-	-	-	3,411,977
Customers' deposits	203,373,110	38,695,532	18,079,980	4,815	-	260,153,437
Loans	-	-	-	12,667,854	7,145,406	19,813,260
Total undiscounted financial liabilities	206,785,087	38,695,532	18,079,980	12,672,669	7,145,406	283,378,674
Net liquidity gap at 31 December 2016	(140,802,830)	(26,231,431)	16,091,640	112,434,575	80,180,539	41,672,493
Liabilities not recognised in statement of financial position (note 47)	1,213,193	2,697,706	7,349,400	1,205,620	-	12,465,919

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:

	2017	2016
	%	%
At 31 December	33.8	33.7
Average for the year	35.7	38.1
Maximum for the year	38.2	41.0
Minimum for the year	31.4	33.7
Statutory minimum ratio	20.0	20.0

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk

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

Management of market risk

The Bank separates its exposure to market risk between trading and 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 (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Exposure to interest rate risk (Continued)

31 December 2017	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	-	-	-	-	-	24,260,196	24,260,196
Deposits and balances due from banks	7,730,534	-	-	-	-	-	7,730,534
Investment in financial instruments	-	6,670,040	17,823,166	30,286,334	19,306,004	-	74,085,544
Loans and advances to customers	30,581,910	4,439,919	16,870,975	103,803,006	98,165,834	-	253,861,644
Other assets	-	-	-	-	-	14,104,561	14,104,561
Total assets	38,312,444	11,109,959	34,694,141	134,089,340	117,471,838	38,364,757	374,042,479
LIABILITIES							
Deposits and balances due to banks	322,589	50,000	-	-	-	-	372,589
Customers' deposits	128,273,491	36,154,292	17,988,602	35,006	-	104,920,317	287,371,708
Loans	3,992,240	-	-	4,307,871	16,855,943	-	25,156,054
Other financial liabilities	-	-	-	-	-	3,475,808	3,475,808
Total liabilities	132,588,320	36,204,292	17,988,602	4,342,877	16,855,943	108,396,125	316,376,159
Interest sensitivity gap	(94,275,876)	(25,044,333)	16,655,537	129,746,463	100,615,895	(70,031,368)	57,666,320

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Exposure to interest rate risk (Continued)

31 December 2016	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	25,682,704	25,682,704
Deposits and balances due from banks	5,017,303	-	-	-	-	-	5,017,303
Investment in financial instruments	-	7,318,182	5,130,027	27,718,944	21,876,678	-	62,043,831
Loans and advances to customers	35,282,250	5,145,919	29,041,593	97,388,300	65,449,267	-	232,307,329
Other assets	-	-	-	-	-	13,242,438	13,242,438
Total assets	40,299,553	12,464,101	34,171,620	125,107,244	87,325,945	38,925,142	338,293,605
LIABILITIES							
Deposits and balances due to banks	3,200,000	-	-	-	-	211,977	3,411,977
Customers' deposits	96,983,471	38,695,532	18,079,980	4,815	-	106,389,639	260,153,437
Loans	-	-	-	12,667,854	7,145,406	-	19,813,260
Other financial liabilities	-	-	-	-	-	5,968,630	5,968,630
Total liabilities	100,183,471	38,695,532	18,079,980	12,672,669	7,145,406	112,570,246	289,347,304
Interest sensitivity gap	(59,883,918)	(26,231,431)	16,091,640	112,434,575	80,180,539	(73,645,104)	48,946,301

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Exposure to interest rate risk (Continued)

Interest rate risk sensitivity analysis

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

ASSETS	2017		2016	
	Carrying amount KShs'000	1% increase	Carrying amount KShs'000	1% increase
Deposits and balances due from banks	7,730,354	77,304	5,017,303	50,173
Held-for-trading investments	639,952	6,400	147	1
Held to maturity investments	43,983,288	439,833	37,158,762	371,588
Available for sale investments	28,698,765	286,988	24,758,146	247,581
Loans and advances to customers	253,861,644	2,538,616	232,307,329	2,323,073
		<u>3,349,142</u>		<u>2,992,416</u>
				<u>(2,992,416)</u>
LIABILITIES & EQUITY				
Deposits and balances due to banks	373,464	(3,735)	3,411,977	(34,120)
Customers' deposits	182,451,391	(1,824,514)	153,763,798	(1,537,638)
Loans and borrowings	25,156,054	(251,561)	19,813,260	(198,133)
		<u>(2,079,809)</u>		<u>(1,769,890)</u>
				<u>1,769,890</u>
Effect on profit before tax				
As percentage of profit before tax (%)		<u>1,264,331</u>		<u>1,222,527</u>
		7.7%		6.9%
				<u>(158,629)</u>
				<u>(6.9%)</u>
Effect on equity				
As percentage of equity (%)		<u>888,533</u>		<u>855,769</u>
		1.3%		1%
				<u>(855,769)</u>
				<u>(1%)</u>

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Exposure to currency risk

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

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

CURRENCY TYPE	USD	GBP	EURO	JPY	CHF	ZAR	OTHERS	TOTAL
EXCHANGE RATE	103	139	123	1	105	8	-	
31-Dec-17	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	4,117,542	161,404	4,990,813	64,168	50,485	16,895	36,622	9,437,929
Loan and advances	36,269,283	158,858	290,448	-	-	-	-	36,718,589
Other foreign assets	578,465	7,365	2,673	-	-	5	(107)	588,401
Total statement of financial position items	40,965,290	327,627	5,283,934	64,168	50,485	16,900	36,515	46,744,919
Items not recognised in statement of financial position	13,988,429	408,401	3,473,481	-	-	7,711	-	17,878,022
Total Foreign Assets	54,953,719	736,028	8,757,415	64,168	50,485	24,611	36,515	64,622,941
Foreign Currency Liabilities:								
Balances due to banks abroad	-	-	-	-	-	-	-	-
Deposits	10,090,190	319,314	3,659,350	66,433	6,987	1,889	998	14,145,160
Loan and advances	19,934,123	-	-	-	-	-	-	19,934,123
Other foreign liabilities	1,963,360	26,589	20,300	4	92	1,611	2,169	2,014,125
Total statement of financial position items	31,987,673	345,903	3,679,050	66,437	7,079	3,500	3,167	36,093,409
Items not recognised in statement of financial position	22,504,353	380,651	5,141,384	-	36,254	24,723	8,606	28,095,971
Total Foreign liabilities	54,492,026	726,554	8,821,034	66,437	43,333	28,223	11,773	64,189,380
Net Exposure at 31 December 2017	461,693	9,474	(63,619)	(2,269)	7,152	(3,612)	24,742	433,561

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Exposure to currency risk (Continued)

CURRENCY TYPE EXCHANGE RATE 31 December 2016	USD 102	GBP 152	EURO 112	JPY 1	CHF 103	ZAR 7	OTHERS 102	TOTAL
	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	4,317,992	345,780	1,704,873	77,014	33,049	8,791	26,596	6,514,095
Loan and advances	34,201,130	142,243	51,798	-	-	-	-	34,395,171
Other foreign assets	597,210	59,371	762	-	-	5	98	657,446
Total statement of financial position items	39,116,332	547,394	1,757,433	77,014	33,049	8,796	26,694	41,566,712
Items not recognised in statement of financial position	9,662,287	685,993	1,586,698	-	-	-	-	11,934,978
Total Foreign Assets	48,778,619	1,233,387	3,344,131	77,014	33,049	8,796	26,694	53,501,690
Foreign Currency Liabilities:								
Balances due to banks abroad	-	-	352,068	-	-	-	-	-
Deposits	8,643,178	390,066	1,275,854	79,010	2,450	557	1,716	10,392,831
Loan and advances	17,363,985	-	-	-	-	-	-	17,363,985
Other foreign liabilities	2,415,543	21,723	423,498	2	87	184	441	2,861,478
Total statement of financial position items	28,774,774	411,789	1,699,352	79,012	2,537	741	2,157	30,970,362
Items not recognised in statement of financial position	20,252,378	706,988	1,671,811	-	21,375	15,620	25,043	22,693,215
Total Foreign liabilities	49,027,152	1,118,777	3,371,163	79,012	23,912	16,361	27,200	53,663,577
Net Exposure at 31 December 2016	(248,533)	114,610	(27,032)	(1,998)	9,137	(7,565)	(506)	(161,887)

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT (continued)

- (c) Market risk (continued)
(ii) Exposure to currency risk (continued)

Currency risk sensitivity analysis

With all other variables held constant, the effect of 10% appreciation or depreciation of the shilling against major trading currencies on profit before tax and equity would be as follows:-

	2017		2016	
	Carrying amount KShs'000	10% appreciation	Carrying amount KShs'000	10% appreciation
Foreign Currency Assets:				
USD	40,965,290	(4,096,529)	37,972,813	(3,797,281)
GBP	327,627	(32,762)	547,395	(54,739)
EURO	5,283,934	(528,393)	1,757,433	(175,743)
JPY	64,168	(6,417)	77,014	(7,701)
CHF	50,485	(5,049)	33,049	(3,304)
ZAR	16,900	(1,690)	8,796	(879)
Other currencies	36,515	(3,652)	26,695	(2,669)
		(4,674,492)		(4,042,316)
				4,042,316
Foreign Currency Liabilities:				
USD	31,987,673	3,198,767	27,850,038	2,785,003
GBP	345,903	34,590	411,789	41,178
EURO	3,639,050	363,905	16,993,536	1,699,353
JPY	66,437	6,644	79,013	7,901
CHF	7,079	708	2,537	253
ZAR	3,500	350	742	74
Other currencies	3,167	317	2,157	215
		3,605,281		4,533,977
				(4,533,977)
Effect on profit before tax				
As percentage(%) of profit before tax		(1,069,211)		491,661
		(6.44%)		(2.72%)
Effect on equity				
As percentage(%) of equity		(748,448)		344,163
		(1.23%)		(0.58%)

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT (continued)

(d) Operational risk

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

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

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

- (i) requirements for appropriate segregation of duties, including the independent authorisation of transactions
- (ii) requirements for the reconciliation and monitoring of transactions
- (iii) compliance with regulatory and other legal requirements
- (iv) documentation of controls and procedures
- (v) requirements for the yearly assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- (vi) requirements for the reporting of operational losses and proposed remedial action
- (vii) development of contingency plans
- (viii) training and professional development
- (ix) ethical and business standards
- (x) risk mitigation, including insurance where this is effective

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

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

4. CAPITAL MANAGEMENT

Regulatory capital

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

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

- (a) Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- (b) Tier 2 capital, which includes 25% of asset revaluation reserves which have received prior Central Bank approval, subordinated debt and other capital instruments approved by Central Bank.

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

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

4. CAPITAL MANAGEMENT (continued)

Regulatory capital (Continued)

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:

	2017 KShs'000	2016 KShs'000
Tier I Capital:		
Ordinary share capital	5,867,180	4,889,317
Share premium	1,911,926	2,889,789
Retained earnings	53,954,407	46,970,978
Other reserves	480,365	498,841
Less: Investments in equity of other institutions & deferred tax	(3,354,743)	(3,324,117)
Core Capital	58,859,135	51,924,808
Tier II Capital:		
Revaluation reserves (25%)	306,823	314,111
Term subordinated debt	21,163,814	19,813,260
Loan loss provisions	717,844	717,844
Supplementary capital	22,188,481	20,845,215
Total regulatory capital	81,047,616	72,770,023
Total risk weighted assets	357,310,063	319,614,654
Capital ratios:		
Core capital to Total deposit liabilities (CBK minimum 10.5%)	20.8%	20%
Core capital to Total risk weighted assets (CBK minimum 10.5%)	16.5%	16.2%
Total capital to Total risk weighted assets (CBK minimum 14.5%)	22.7%	22.8%

Capital Allocation

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

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

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017 or 2016.

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	Wholesale	Retail	Un-allocated	Total
31 December 2017	banking	banking	Un-allocated	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Net interest income	11,281,596	12,241,731	480,067	24,003,394
Non-funded income	<u>8,268,590</u>	<u>8,972,300</u>	<u>351,725</u>	<u>17,592,615</u>
Operating income	19,550,186	21,214,031	831,792	41,596,009
Depreciation	(916,983)	(995,024)	(39,020)	(1,951,027)
Amortization	(258,461)	(280,458)	(10,998)	(549,917)
Other operating expenses	(10,728,376)	(11,641,428)	(456,527)	(22,826,331)
Share of profit in associates	<u>-</u>	<u>-</u>	<u>129,904</u>	<u>129,904</u>
Profit before tax	7,646,366	8,297,121	455,151	16,398,638
Income tax expense	<u>(2,325,114)</u>	<u>(2,522,996)</u>	<u>(145,463)</u>	<u>(4,993,573)</u>
Profit after tax	<u>5,321,252</u>	<u>5,774,125</u>	<u>309,688</u>	<u>11,405,065</u>
Profit or loss for the year ended	Wholesale	Retail	Un-allocated	Total
31 December 2016	banking	banking	Un-allocated	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Net interest income	11,555,382	11,310,919	1,715,256	24,581,557
Non-funded income	<u>8,315,481</u>	<u>8,139,561</u>	<u>1,234,332</u>	<u>17,689,374</u>
Operating income	19,870,863	19,450,480	2,949,588	42,270,931
Depreciation	(55,714)	(1,150,764)	(730,221)	(1,936,699)
Amortisation	(67,197)	(134,395)	(284,526)	(486,118)
Other operating expenses	(9,836,914)	(11,061,528)	(1,323,686)	(22,222,128)
Share of profit in associates	<u>-</u>	<u>-</u>	<u>97,546</u>	<u>97,546</u>
Profit before tax	9,911,038	7,103,793	708,701	17,723,532
Income tax expense	<u>(2,372,662)</u>	<u>(2,322,467)</u>	<u>(352,193)</u>	<u>(5,047,322)</u>
Profit after tax	<u>7,538,376</u>	<u>4,781,326</u>	<u>356,508</u>	<u>12,676,210</u>

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

5. SEGMENT REPORTING (continued)

Statement of financial position as at 31 December 2017	Wholesale banking KShs'000	Retail banking KShs'000	Un-allocated KShs'000	Total KShs'000
Assets:				
Segment assets	123,394,240	129,914,127	-	253,308,367
Unallocated assets	-	-	133,549,290	133,549,290
Total assets	<u>123,394,240</u>	<u>129,914,127</u>	<u>133,549,290</u>	<u>386,857,657</u>
Equity	25,432,720	26,285,617	18,094,248	69,812,585
Liabilities:				
Segment liabilities	140,932,216	145,658,437	-	286,590,653
Unallocated liabilities	-	-	100,267,004	100,267,004
Total liabilities and equity	<u>140,932,216</u>	<u>145,658,437</u>	<u>100,267,004</u>	<u>386,857,657</u>
Other disclosures				
Capital expenditure	<u>565,313</u>	<u>584,271</u>	<u>402,196</u>	<u>1,551,780</u>
Statement of financial position as at 31 December 2016	Wholesale banking	Retail banking	Un-allocated	Total
Assets:				
Segment assets	67,766,169	106,708,399	-	174,474,568
Unallocated assets	-	-	177,354,009	177,354,009
Total assets	<u>67,766,169</u>	<u>106,708,399</u>	<u>177,354,009</u>	<u>351,828,577</u>
Equity	22,898,898	21,817,373	15,903,854	60,620,125
Liabilities and equity:				
Segment liabilities	110,002,288	104,806,833	-	214,809,121
Unallocated liabilities	-	-	76,399,331	76,399,331
Total liabilities and equity	<u>132,901,186</u>	<u>126,624,206</u>	<u>92,303,185</u>	<u>351,828,577</u>
Other disclosures				
Capital expenditure	<u>481,159</u>	<u>459,288</u>	<u>342,644</u>	<u>1,283,091</u>

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

5. SEGMENT REPORTING (continued)

Geographical information

The Group's operations are within the two geographical segments of Kenya and South Sudan. The table below contains segmental information provided by the Board of Management for the year ended 31 December 2017.

Profit or loss for the year ended 31 December 2017	Kenya KShs'000	South Sudan KShs'000	Total KShs'000
Net interest income	23,822,244	181,150	24,003,394
Non-funded income	16,858,068	734,547	17,592,615
Operating income	40,680,312	915,697	41,596,009
Depreciation	(1,788,967)	(162,060)	(1,951,027)
Amortization	(517,011)	(32,906)	(549,917)
Other operating expenses	(21,499,675)	(780,587)	(22,280,262)
Loss on net monetary position	-	(546,069)	(546,069)
Operating profit/(Loss)	16,874,659	(605,925)	16,268,734
Share of profit in associates	126,850	3,054	129,904
Profit/(Loss) before tax	17,001,509	(602,871)	16,398,638
Income tax expense	(5,006,163)	12,590	(4,993,573)
Profit for the year	11,995,346	(590,281)	11,405,065
Statement of financial position as at 31 December 2017			
Segment assets			
Non-current assets	84,952,629	1,028,038	85,980,667
Current assets	297,376,998	3,499,992	300,876,990
	382,329,627	4,528,030	386,857,657
Segment liabilities	(315,059,080)	(1,985,992)	(317,045,072)
Equity	67,270,547	2,542,038	69,812,585
Profit or loss for the year ended 31 December 2016			
Net interest income	24,505,527	76,030	24,581,557
Non-funded income	17,037,343	652,031	17,689,374
Operating income	41,542,870	728,061	42,270,931
Depreciation	(1,837,630)	(99,069)	(1,936,699)
Amortization	(465,159)	(20,959)	(486,118)
Other operating expenses	(21,044,514)	(751,865)	(21,796,379)
Loss on net monetary position	-	(425,749)	(425,749)
Operating profit/(Loss)	18,195,567	(569,581)	17,625,986
Share of profit in associates	27,459	70,087	97,546
Profit/(Loss) before tax	18,223,026	(499,494)	17,723,532
Income tax expense	(5,047,322)	-	(5,047,322)
Profit for the year	13,175,704	(499,494)	12,676,210
Statement of financial position as at 31 December 2016			
Segment assets			
Non-current assets	40,754,736	1,834,945	42,589,681
Current assets	308,542,847	696,049	309,238,896
	349,928,140	2,883,062	351,828,577
Segment liabilities	(290,065,747)	(1,142,705)	(291,208,452)
Equity	59,231,836	1,388,289	60,620,125

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

6. FAIR VALUE OF ASSETS AND LIABILITIES

(a) Determination of fair value and fair value hierarchy

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

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

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

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

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

As at 31 December 2017	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
<u>Assets measured at fair value:</u>				
Free hold land and buildings	-		2,408,791	2,408,791
Held-for-trading investments:				
Treasury bonds	639,952	-	-	639,952
Available-for-sale investment				
Treasury bills	3,482,891	-	-	3,482,891
Treasury bonds	21,773,591	-	-	21,773,591
Corporate bonds	3,229,174	-	-	3,229,574
Derivatives	-	763,540	-	763,540
Loans and advances				
Directors and staff loans	-	3,144,192	-	3,144,192
<u>Assets for which fair values are disclosed (note 6b)</u>				
Held-to-maturity				
Treasury bonds	35,845,036			35,845,036
<u>Liabilities for which fair values are disclosed (note 6b)</u>				
Loans and borrowings	-	2,978,879	-	2,978,879
As at 31 December 2016	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
<u>Assets measured at fair value:</u>				
Free hold land and buildings	-		2,408,791	2,408,791
Held-for-trading investments:				
Treasury bonds	147	-	-	147
Available-for-sale investment				
Treasury bonds	20,675,539	-	-	20,675,539
Corporate bonds	3,919,648	-	-	3,919,648
Derivatives	-	126,776	-	126,776
Loans and advances				
Directors and staff loans	-	4,628,234	-	4,628,234
<u>Assets for which fair values are disclosed (note 6b)</u>				
Held-to-maturity				
Treasury bonds	29,320,838			29,320,838
<u>Liabilities for which fair values are disclosed (note 6b)</u>				
Loans and borrowings	-	3,328,383	-	3,328,383

There were no transfers between levels 1, 2 and 3 in the year (2016: no transfer).

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

6. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

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

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

	2017		2016	
	Carrying amount KShs'000	Fair value KShs'000	Carrying amount KShs'000	Fair value KShs'000
Financial assets:				
Held-to-maturity investments				
Treasury bonds	35,229,289	35,845,036	29,902,252	29,320,838
	35,229,289	35,845,036	29,902,252	29,320,838
Financial liabilities:				
Loans and borrowings				
Fixed-rates borrowings	3,636,834	2,978,879	4,144,448	3,328,383
	3,636,834	2,978,879	4,144,448	3,328,383

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:

- Assets for which fair value approximates carrying amounts
For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to inter-bank placements, demand deposits, and savings accounts without a specific maturity and treasury bills held to maturity.
- 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.
- 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 Technique	Significant unobservable inputs	Range (Weighted Average)
Free hold land and building	DCF	Estimated rental value per s.q.m. 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 3,144 M	Discounted cash flows	Market interest rate
Loans and borrowings	KShs 2,978 M	Discounted cash flows	Market interest rate

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

7. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	Group		Bank	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
Cash on hand	8,387,452	8,432,987	7,715,294	8,119,617
Central Bank of Kenya:				
Restricted balances (Cash Reserve Ratio)	14,704,488	13,376,450	14,704,488	13,376,450
Unrestricted balances available for use by the Group	121,718	2,961,653	121,718	2,961,653
Central Bank of South Sudan	1,046,538	911,614	-	-
	24,260,196	25,682,704	22,541,500	24,457,720

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 2017, the Cash Reserve Ratio requirement was 5.25% (2016 – 5.25%) on all deposits. The restricted balances are not considered as part of cash and cash equivalents from a statement of cash flows perspective as these do not meet the definition of cash and cash equivalents as 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	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
Local banks	27,382	703,530	61,650	703,530
Foreign banks	7,702,972	4,313,773	7,678,181	4,656,363
	7,730,354	5,017,303	7,739,831	5,359,893

The weighted average effective interest rate on deposits and balances due from banks as at 31 December 2017 was 4.06% (2016-3.12%).

9. HELD-FOR-TRADING INVESTMENTS

	Group		Bank	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
(a) Treasury bonds				
Maturing after 91 days of reporting date	639,952	147	150	147
	639,952	147	150	147

The weighted average effective interest rate on government securities held-for-trading at 31 December 2017 was 10.35% (2016 – 10.75%).

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

10. AVAILABLE- FOR -SALE INVESTMENTS

	Group		Bank	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Government treasury bills:				
Maturing within 91 days of the reporting date	-	-	-	-
Maturing after 91 days of the reporting date	3,482,891	-	3,482,891	-
Treasury Bonds:				
Maturing within 91	-	903,362	-	903,362
Maturing after 91	21,773,591	19,772,177	21,773,591	19,772,177
Corporate bonds:				
Maturing after 91 days of the reporting date	3,229,574	3,919,648	3,229,174	3,919,248
Quoted equity Investments:-				
Nairobi Securities Exchange:-				
7,000,000 shares of KShs 14.65 each (note 17(a))	137,900	102,550	-	-
CIC Insurance Group Ltd:-				
8,000,000 shares of Kshs 3.80 each	44,800	30,400	-	-
Unquoted equity Investments:-				
Consolidated Bank of Kenya Ltd:-				
135,000 ordinary shares of KShs 20 each	2,700	2,700	2,700	2,700
580,000 4% non-cumulative preference shares of KShs 20 each	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
	28,713,065	24,772,446	28,529,965	24,639,096
Less: Provision for diminution in value of investment in Consolidated Bank of Kenya Ltd	(14,300)	(14,300)	(14,300)	(14,300)
	28,698,765	24,758,146	28,515,665	24,624,796
Movement in the year:				
At January 1	24,758,146	28,771,869	24,624,796	28,641,531
Additions	10,979,240	3,923,105	10,979,240	3,867,073
Disposals and maturities	(7,551,590)	(8,645,543)	(7,551,590)	(8,637,843)
Change in fair value recognized in other comprehensive income	512,969	708,715	463,219	754,035
At December 31	28,698,765	24,758,146	28,515,665	24,624,796

The above unquoted instruments relate to investments in the banking sector co-operative movement. The unquoted equities are not actively traded and management does not intend to dispose them in the immediate future.

The fair value measurement of the above unquoted equity instruments has not been disclosed. The carrying amounts of the above financial instruments amounting to KShs. 44.31 million (2016: KShs. 44.31 million) may therefore differ from their fair values. The valuation has not been done by management because the significant inputs that would be used by management for the valuation are not based on observable market data neither does management have any recent price quotations of all of the above investments. Management would therefore be required to make significant judgements and assumptions, which may or may not result in correct fair value measurements.

The instruments have therefore been stated at cost less accumulated impairment losses.

The weighted average effective interest rate on available for sale investments as at 31 December 2017 was 12.04% (2016- 11.62%).

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

11. DERIVATIVE FINANCIAL INSTRUMENTS

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

Group and Bank			
	2017 KShs'000	2016 KShs'000	
	Notional value	Notional value	
	Fair value of contracts:	Fair value of contracts:	
	Asset /(Liability)	Asset /(Liability)	
Forward exchange contracts	2,318,170	661,588	(10,803)
Swaps	14,680,836	6,577,552	137,579
	16,999,006	7,239,140	126,776

12. OTHER ASSETS

	Group		Bank	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Interest receivable	3,606,257	3,848,678	3,606,257	3,848,491
Items in the course of collection from other banks	804,779	195,791	804,779	195,791
Deposits with financial Institutions	966,478	966,478	966,478	966,478
Sundry debtors and prepayments	4,933,630	3,646,309	4,768,770	3,302,806
Amounts due from related parties (43 (c))	-	-	129,032	172,523
Staff loan amortisation	3,951,897	4,628,234	3,951,897	4,628,234
	14,263,041	13,285,490	14,227,213	13,114,323
Impairment losses on deposits with financial institutions	(158,480)	(43,052)	(158,480)	(43,052)
	14,104,561	13,242,438	14,068,733	13,071,271

No provision on impairment losses has been made for staff loans as all staff are active and recoveries are made directly through payroll. Interest receivable relates to accrued interest on treasury bonds and accrued interest on impaired loans whose interest income is suspended as required by CBK prudential guidelines.

Included in sundry debtors is KShs 923 million relating to fixed deposits invested in Chase Bank (Kenya) Limited by the Group on behalf of Co-optrust Investment Services Limited customers. Chase Bank was placed under receivership on 7 April 2016 and re-opened on 27 April 2016 under a receiver Manager (KCB Bank Limited). Co-operative Bank paid out all the customers their fixed deposits on maturity and left to pursue Chase Bank for a refund. Owing to uncertainty in recoverability of these investments, the management assessed the amount as not impaired. In making this assessment, in 2016 the management sought the advice of the Capital Market Authority (CMA) on the accounting treatment of these investments given the situation of Chase Bank. CMA in its advice indicated that Chase Bank was still operating and there was indication from Central Bank Kenya (CBK) of fully operationalisation of the bank by end of March 2017 hence likelihood of the investments being recovered. Further, the management in assessing for the impairment, considered the regular updates from CBK and the most recent update of January 2018 which indicated that Mauritian lender SBM Holdings had received the CBK greenlight to take acquire Chase Bank. As part of the deal, SBM Holding will acquire the Chase Bank's 75% carved out assets and liabilities while 25% will remain under statutory management of KDIC. Following this update, managements assessed that KShs 692 million is recoverable from SBM over a period of 3 years. However, due to the uncertainty on the deposits that will not be taken over by SBM Holding, the management provided for impairment loss of KShs 115 million. The amount reported is thereby net of provisions held.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

13. LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
(a) Net loans and advances				
Overdrafts	9,410,320	7,781,024	9,410,320	7,781,024
Commercial loans	255,344,320	229,636,764	253,781,741	229,089,848
Government/Donor funded loan schemes	139,621	2,029,062	139,621	2,029,062
Credit card balances	588,783	1,191,947	588,783	1,191,947
Micro enterprises & SME	<u>2,584,276</u>	<u>4,363,277</u>	<u>2,584,277</u>	<u>4,363,277</u>
Gross loans and advances	268,067,320	245,002,074	266,504,742	244,455,158
Staff loans amortisation (note 12)	<u>(3,951,827)</u>	<u>(4,628,234)</u>	<u>(3,951,827)</u>	<u>(4,628,234)</u>
	264,115,493	240,373,840	262,552,915	239,826,924
Impairment losses on loans and advances (note 13 c)	<u>(10,253,849)</u>	<u>(8,066,511)</u>	<u>(10,191,142)</u>	<u>(8,056,753)</u>
Net loans and advances	<u>253,861,644</u>	<u>232,307,329</u>	<u>252,361,773</u>	<u>231,770,171</u>

Group and Bank

(b) The weighted average effective interest rates at 31 December were:-

	2017 %	2016 %
Overdrafts	14	14
Commercial loans	14	13.9
Government/Donor funded loan schemes	8.6	8
Credit card balances	14	14

(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 2017	5,000,982	3,065,358	8,066,340
Impairment losses recognised during the year through profit or loss	3,465,629	135,623	3,601,252
Interest on impaired loans recognised as income	(28,659)	-	(28,659)
Impaired losses written off during the year	(1,233,292)	-	(1,233,292)
Amounts released to income – unused provision reversed	<u>(151,792)</u>	<u>-</u>	<u>(151,792)</u>
Balance at 31 December 2017	<u>7,052,868</u>	<u>3,200,981</u>	<u>10,253,849</u>
Balance at 1 January 2016	4,640,709	2,531,266	7,171,975
Impairment losses recognised during the year through profit or loss	2,065,579	534,092	2,599,671
Interest on impaired loans not recognised as income	579,390	-	579,390
Impaired losses written off during the year	(1,775,608)	-	(1,775,608)
Amounts released to income – unused provision reversed	<u>(509,088)</u>	<u>-</u>	<u>(509,088)</u>
Balance at 31 December 2016	<u>5,000,982</u>	<u>3,065,358</u>	<u>8,066,340</u>

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

13. LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Impairment losses on loans and advances (continued)

Bank	Specific impairment losses KShs'000	Collective impairment losses KShs'000	Total KShs'000
Balance at 1 January 2017	4,996,328	3,061,322	8,057,650
Impairment losses recognised during the year through profit or loss	3,441,731	105,504	3,547,235
Interest on impaired loans recognised as income	(28,659)	-	(28,659)
Impaired losses written off during the year	(1,233,292)	-	(1,233,292)
Amounts released to income – unused provision reversed	<u>(151,792)</u>	<u>-</u>	<u>(151,792)</u>
Balance at 31 December 2017	<u>7,024,316</u>	<u>3,166,826</u>	<u>10,191,142</u>
Balance at 1 January 2016	4,636,055	2,532,334	7,168,389
Impairment losses recognised during the year through profit or loss	2,065,579	528,988	2,594,567
Interest on impaired loans not recognised as income	579,390	-	579,390
Impaired losses written off during the year	(1,775,608)	-	(1,775,608)
Amounts released to income – unused provision reversed	<u>(509,088)</u>	<u>-</u>	<u>(509,088)</u>
Balance at 31 December 2016	<u>4,996,328</u>	<u>3,061,322</u>	<u>8,057,650</u>

- 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 18.8 billion (2016 – KShs 11.3 billion).

14. HELD-TO-MATURITY INVESTMENTS

	Group		Bank	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Government treasury bills:				
Maturing within 91 days of the reporting date	5,387,877	3,924,467	5,387,877	3,924,467
Maturing after 91 days of the reporting date	3,386,122	3,332,043	3,386,122	3,332,043
Treasury bonds:				
Maturing within 91 days of the reporting date	1,151,555	1,701,578	1,151,555	1,701,578
Maturing after 91 days of the reporting date	<u>34,057,734</u>	<u>28,200,674</u>	<u>33,901,773</u>	<u>28,045,442</u>
	<u>43,983,288</u>	<u>37,158,762</u>	<u>43,827,327</u>	<u>37,003,530</u>
Movement in the year:				
At 1 January	37,158,762	36,154,555	37,003,530	35,999,971
Additions	17,864,906	12,436,612	17,864,906	12,436,612
Amortization of premiums and discounts	1,054,620	946,595	1,053,891	945,947
Maturities	<u>(12,095,000)</u>	<u>(12,379,000)</u>	<u>(12,095,000)</u>	<u>(12,379,000)</u>
At December 31	<u>43,983,288</u>	<u>37,158,762</u>	<u>43,827,327</u>	<u>37,003,530</u>

The weighted average effective interest rate on held-to-maturity investments as at 31 December 2017 was 12.02% (2016 – 11.92%).

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

15. INVESTMENT IN SUBSIDIARIES

The following subsidiaries are owned by the Bank:-

Bank	Ownership	Principal activity	2017 KShs'000	2016 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	<u>2,272,920</u>	<u>2,272,920</u>
			<u>2,512,920</u>	<u>2,512,920</u>

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

Co-op Consultancy & Insurance Agency Limited was established as Co-op Consultancy Services in 2002 to offer consultancy, advisory and insurance agency services. The audited financial statements for the year ended 31 December 2017 show that the company made a profit after tax of KShs 287,878,934 (2016- KShs 138,218,873).

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 2017 show that the company made a profit after tax of KShs 17,099,704 (2016- KShs 48,613,577).

Kingdom Securities Limited (previously Bob Mathews Stockbrokers Limited) was acquired by Co-operative Bank Limited through purchase of 60% shareholding in 2009. The company offers brokerage services and is a registered broker with the Nairobi Securities Exchange. The audited financial statements for the year ended 31 December 2017 show that the company made a profit after tax of KShs 863,134 (2016 – loss after tax of KShs 18,448,934). Refer to note 32 for financial statements summaries.

Co-operative Bank of South Sudan was registered in 2013 with the partnership of Government of South Sudan which holds 49% of the ordinary shares. As at year end, Co-operative Bank of Kenya Limited had contributed 51% of the total share capital with the Government of South Sudan contributing 34%. The Subsidiary is based in South Sudan and commenced operation in September 2013. The audited financial statements for the year ended 31 December 2017 show that the company made a loss of KShs 590,281,540 (2016- KShs 498,323,569). Refer to note 32 for financial statements summaries.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

16. INVESTMENTS IN ASSOCIATES

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 fair value of the investment as at 31 December 2017 was Kshs 812.15 million.

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

The Bank's interest in Co-operative Insurance Society Limited is accounted for at cost in the separate financial statements.

Co-operative Bank of South Sudan owns 31% stake in CIC South Sudan. The interest in CIC South Sudan is accounted for using the equity method in the consolidated financial statements.

The following table illustrates the summarised financial information of the Group's investment in CIC Insurance Group Limited:

	Group		Bank	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January	2,409,297	2,267,230	755,118	755,118
Share of profit	129,904	97,546	-	-
Other comprehensive income	(49,758)	7,776	-	-
Exchange difference on translation	(273,220)	109,621	-	-
Dividends received	(72,876)	(72,876)	-	-
As at 31 December	<u>2,143,347</u>	<u>2,409,297</u>	<u>755,118</u>	<u>755,118</u>

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

	Co-operative Insurance Society Limited		CIC South Sudan Limited	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
Statement of financial position:				
Non-current assets	9,336,024	8,534,123	350,388	267,308
Current assets	<u>21,117,269</u>	<u>18,377,683</u>	<u>261,749</u>	<u>259,865</u>
	30,453,293	26,911,806	612,137	527,173
Current liabilities	<u>(22,911,561)</u>	<u>(19,379,793)</u>	<u>(113,034)</u>	<u>(67,947)</u>
Equity	<u>7,541,732</u>	<u>7,532,013</u>	<u>499,103</u>	<u>459,226</u>
Group's share in equity	2,693,152	2,689,682	154,722	142,360
Cumulative share of profit	(1,179,062)	(944,999)	-	-
Cumulative dividends received	460,826	245,667	-	-
Cumulative share of OCI	13,709	81,841	-	-
Inflation adjustment	-	-	-	194,746
Group's carrying amount of the investment	<u>1,988,625</u>	<u>2,072,191</u>	<u>154,722</u>	<u>337,106</u>

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

16. INVESTMENTS IN ASSOCIATES (Continued)

	Co-operative Insurance Society Limited		CIC South Sudan Limited	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
Statement of comprehensive income:				
Revenue	15,600,262	13,088,006	371,863	248,683
Operating and other expenses	(15,082,927)	(12,937,047)	(362,013)	(22,606)
Profit before tax	517,335	150,959	9,850	226,076
Income tax expense	(39,241)	(45,307)	-	-
Profit after tax	478,094	105,652	9,850	226,076
Other comprehensive income	(256,788)	24,889	59,271	2,349
Total comprehensive income for the year	221,306	130,541	69,121	228,425
Attributable to parent	164,430	96,641	-	-
Attributable to Non-controlling interest	56,876	33,900	-	-
	221,306	130,541	-	-
Group's share of comprehensive income for the year and split as follows:	58,718	34,510	21,428	70,812
i) Share of profit or loss	126,850	27,462	3,054	70,084
ii) Share of other comprehensive income	(68,132)	6,604	18,374	1,172

17. INTANGIBLE ASSETS

(a) GROUP	Computer software	Joint venture development	Other intangible assets	Work-in-progress	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
COST					
At 1 January 2017	3,280,990	73,049	25,000	255,287	3,634,326
Additions	92,238	-	-	621,454	713,692
Transfers from WIP	158,094	-	-	(158,094)	-
Write off	(115,453)	-	-	-	(115,453)
Exchange difference on translation	18,105	41,535	-	104,725	164,365
At 31 December 2017	3,433,974	114,584	25,000	823,372	4,396,930
AMORTISATION					
At 1 January 2017	1,877,417	43,790	-	-	1,921,207
Amortisation for the year	526,390	22,917	-	-	549,307
Write off	(115,453)	-	-	-	(115,453)
Exchange difference on translation	7,106	15,888	-	-	22,994
At 31 December 2017	2,295,460	82,595	-	-	2,378,055
NET CARRYING AMOUNT					
At 31 December 2017	1,138,514	31,989	25,000	823,372	2,018,875

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

17. INTANGIBLE ASSETS (continued)

	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 2016	2,701,258	28,159	25,000	260,249	3,014,665
Additions	243,030	-	-	352,322	595,352
Transfers	316,414	-	-	(316,414)	-
Reclassification from property and equipment				(110,796)	(110,796)
Exchange difference on translation	<u>20,288</u>	<u>44,890</u>	<u>-</u>	<u>69,926</u>	<u>135,104</u>
At 31 December 2016	<u>3,280,990</u>	<u>73,049</u>	<u>25,000</u>	<u>255,287</u>	<u>3,634,325</u>
AMORTISATION					
At 1 January 2016	1,398,307	11,289	-	-	1,409,596
Amortisation for the year	470,895	14,611	-	-	485,506
Exchange difference on translation	<u>8,215</u>	<u>17,890</u>	<u>-</u>	<u>-</u>	<u>26,105</u>
At 31 December 2016	<u>1,877,417</u>	<u>43,790</u>	<u>-</u>	<u>-</u>	<u>1,921,207</u>
NET CARRYING AMOUNT					
At 31 December 2016	<u>1,403,573</u>	<u>29,259</u>	<u>25,000</u>	<u>255,287</u>	<u>1,713,118</u>

- i) The write offs relate to decommissioned software amounting to Kshs 115,452,684 following an asset verification undertaken in the year
- ii) Other intangible assets relate to trading rights by Kingdom Securities Limited to participate in trading at Nairobi Securities Exchange (NSE). The Joint Venture development assets relate 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 (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

17. INTANGIBLE ASSETS (continued)

(b) BANK	Computer Software KShs'000	Work –in progress KShs'000	Total KShs'000
COST			
At 1 January 2017	3,140,032	71,074	3,211,106
Additions	92,238	602,909	695,147
Transfers	158,094	(158,094)	-
Write offs	(96,048)	-	(96,048)
Reclassification to Property and equipment	-	-	-
Cost at 31 December 2017	<u>3,294,317</u>	<u>515,887</u>	<u>3,810,205</u>
AMORTISATION			
At 1 January 2017	1,800,950	-	1,800,950
Amortisation for the year	499,330	-	499,330
Write offs	(96,048)	-	(96,048)
At 31 December 2017	<u>2,204,232</u>	<u>-</u>	<u>2,204,232</u>
NET CARRYING AMOUNT			
At 31 December 2017	<u>1,090,085</u>	<u>515,887</u>	<u>1,605,973</u>
COST			
At 1 January 2016	2,586,513	228,656	2,815,169
Additions	237,105	269,654	506,759
Transfers	316,414	(316,414)	-
Reclassification to Property and equipment	-	(110,822)	(110,822)
Cost at 31 December 2016	<u>3,140,032</u>	<u>71,074</u>	<u>3,211,106</u>
AMORTISATION			
At 1 January 2016	1,353,579	-	1,353,579
Amortisation for the year	<u>447,371</u>	<u>-</u>	<u>447,371</u>
At 31 December 2016	<u>1,800,950</u>	<u>-</u>	<u>1,800,950</u>
NET CARRYING AMOUNT			
At 31 December 2016	<u>1,339,082</u>	<u>71,074</u>	<u>1,410,156</u>

- i) The write offs relate to decommissioned software amounting to Kshs 96,047,064 following an asset verification undertaken in the year
- ii) 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 659,254,782 (2016 - KShs 726,721,845), 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 131,850,956 (2016 –KShs 145,344,368).

18. PREPAID LEASE RENTALS

	Group and Bank	
	2017 KShs'000	2016 KShs'000
COST		
At 1 January and 31 December	<u>54,413</u>	<u>54,413</u>
AMORTISATION:		
At 1 January	18,061	17,449
Charge for the year	<u>610</u>	<u>612</u>
At 31 December	<u>18,671</u>	<u>18,061</u>
NET CARRYING AMOUNT		
At 31 December	<u>35,742</u>	<u>36,352</u>

Prepaid lease rentals relate to the lease payments for leasehold land to the government. Amortization is done over the remaining lease period of the lease as at the time of purchase.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

(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 2017	2,408,791	518,695	8,038,856	2,161,803	159,355	6,849,222	20,136,722
Additions	-	717,409	11,451	46,138	25,184	37,906	838,088
Disposals	-	-	-	(18,372)	(37,045)	(12,184)	(67,601)
Transfers from WIP	-	(526,573)	243,307	13,051	10,720	259,495	-
Exchange difference on translation	-	51,958	-	320,683	10,727	45,153	428,521
Write off	-	(28,723)	(10,404)	(365,721)	-	(1,248,351)	(1,653,199)
At 31 December 2017	2,408,791	732,766	8,283,210	2,157,582	168,941	5,931,241	19,682,531
ACCUMULATED DEPRECIATION							
At 1 January 2017	-	-	5,182,904	1,555,723	134,138	4,955,258	11,828,023
Charge for the year	93,143	-	829,937	244,594	15,605	767,748	1,951,027
Disposals	-	-	-	(15,925)	(32,327)	8,977	(39,275)
Exchange difference on translation	-	-	-	70,389	2,137	-	72,526
Write off	-	-	(10,847)	(365,278)	(47)	(1,247,172)	(1,623,344)
At 31 December 2017	93,143	-	6,001,994	1,489,503	119,506	4,484,811	12,188,957
NET CARRYING AMOUNT							
At 31 December 2017	2,315,648	732,766	2,281,216	668,079	49,435	1,446,430	7,493,574

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

(ii) Land and Buildings were revalued on open market value basis by professional valuers (N.W Realite Limited, Seven Degrees North Valuers, Kiragu and Mwangi Valuers and Afriland Valuers Limited) as at 31 December 2016. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs 1,130 million (2016: KShs 1,218 million).

(iii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs 292,790,830 (2016: 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 3,812,851,933 (2016: KShs 5,496,487,965), 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 690,075,369 (2016 - KShs 855,305,140).

(v) In the year, the write off of KShs 1,653 Million represented the write-off of certain property, plant and equipment as a result of an asset verification undertaken in the year. The value written off is based on the book value of the asset as at the time of write off. An impairment loss of KShs 29,856,490 was recognised in profit or loss as operating expenses being assets not located following the asset verification exercise.

(vi) The Group has not pledged any item of property, plant and equipment as security as at 31 December 2017 (31 December 2016: Nil)

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

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 2016	1,387,097	636,904	7,861,296	1,719,942	148,076	6,376,378	18,129,693
Additions	-	492,165	15,496	96,891	6,652	76,535	687,739
Disposals	-	-	(88,889)	(11,651)	-	(35,983)	(136,523)
Reclassification from intangible assets (note 17(a))	-	110,796	-	-	-	-	110,796
Revaluation gain	1,227,693	-	-	-	-	-	1,227,693
Transfer	(206,000)	-	-	-	-	-	(206,000)
Transfers from WIP	-	(681,738)	292,156	10,777	-	378,805	-
Exchange difference on translation	-	42,405	-	345,844	4,627	53,487	446,363
Write off	-	(81,837)	(41,203)	-	-	-	(123,040)
At 31 December 2016	2,408,790	518,695	8,038,856	2,161,803	159,355	6,849,222	20,136,721
ACCUMULATED DEPRECIATION							
At 1 January 2016	154,500	-	4,401,032	1,255,360	118,286	4,179,737	10,108,915
Charge for the year	51,500	-	868,549	218,557	14,388	783,705	1,936,699
Disposals	-	-	(86,677)	(11,658)	-	(33,052)	(131,387)
Transfer	(206,000)	-	-	-	-	-	(206,000)
Exchange difference on translation	-	-	-	93,464	1,464	24,868	119,796
At 31 December 2016	-	-	5,182,904	1,555,723	134,138	4,955,258	11,828,023
NET CARRYING AMOUNT							
At 31 December 2016	2,408,790	518,695	2,855,952	606,080	25,217	1,893,964	8,308,698

- (i) The transfer relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset.
- (ii) Capital work-in-progress represents ongoing construction work at the various branches of the Bank.
- (iii) Land and Buildings were revalued on open market value basis by professional valuers (NW Realite Limited, Seven Degrees North Valuers, Kiragu and Mwangi Valuers and Afriland Valuers Limited) as at 31 December 2016. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs 1,218 million (2015: KShs 1,269 million).
- (iv) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs 35,496,498 (2015: KShs. 35,496,498) against which no depreciation has been charged, as these are pieces of land.
- (v) 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 KShs5,496,487,965 (2015- KShs 4,119,728,390), 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 855,305,140 (2015 - KShs 790,549,466).
- (vi) In the year, the Group reclassified items of capital work in progress in relation to intangible assets which were inadvertently captured under capital work in progress-property, plant and equipment.
- (vii) In the year, the write off of KShs 123 million represented the write off of certain property, plant and equipment as a result of an asset verification undertaken in the year. The value written off is based on the book value of the asset as at the time of write off. An impairment loss of KShs 123 million was recognised in the statement of profit and loss as operating expenses being assets not located following the asset verification exercise.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017	2,408,791	435,965	8,038,219	1,575,480	140,490	6,749,889	19,348,834
Additions	-	707,123	11,451	38,055	25,184	36,676	818,490
Disposals	-	-	-	(15,704)	(37,045)	(9,053)	(61,802)
Revaluation	-	-	-	-	-	-	-
Transfer from Work in Progress	-	(513,421)	243,307	-	10,720	259,394	-
Write offs	-	(28,723)	(10,404)	(365,721)	-	(1,248,351)	(1,653,199)
At 31 December 2017	2,408,791	600,944	8,282,574	1,232,111	139,350	5,788,556	18,452,323
ACCUMULATED DEPRECIATION							
At 1 January 2017	-	-	5,181,930	1,335,013	126,631	4,887,545	11,531,119
Charge for the year	93,143	-	829,937	112,331	9,687	740,971	1,786,069
Disposals	-	-	-	(13,262)	(32,327)	(7,897)	(53,486)
Write offs	-	-	(10,847)	(365,278)	(47)	(1,247,170)	(1,623,342)
At 31 December 2017	93,143	-	6,001,021	1,068,804	103,945	4,373,449	11,640,360
NET CARRYING AMOUNT							
At 31 December 2017	2,315,648	600,944	2,281,553	163,306	35,406	1,415,106	6,811,963

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

(ii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs 292,790,830 (2016- KShs. 35,496,498) against which no depreciation has been charged, as these are pieces of land. If the freehold land and buildings were measured using the cost model, the carrying amount would be KShs 1,129 million (2016: KShs 1,181 million)

(iii) Land and Buildings were revalued on open market value basis by professional valuers (NW Realite Limited, Seven Degrees North Valuers, Kiragu and Mwangi Valuers and Afriland Valuers Limited) as at 31 December 2016. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs 1,130 million (2016: KShs 1,218 million).

(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. 3,812,851,933 (2016- KShs 5,496,487,965), 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 690,075,369 (2016 - KShs 855,305,140).

(v) In the year, the write off of KShs 1,653,199 represented the write off of certain property, plant and equipment as a result of an asset verification undertaken in the year. The value written off is based on the book value of the asset as at the time of write off. An impairment loss of KShs 29,857 million was recognised in the statement of profit and loss as operating expenses being assets not located following the asset verification exercise.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

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 2016	1,387,097	606,881	7,860,659	1,519,515	140,490	6,331,882	17,846,524
Additions	-	472,356	15,496	66,346	-	75,173	629,371
Disposals	-	-	(88,889)	(11,651)	-	(35,971)	(136,511)
Reclassification of Work in Progress	-	39,724	-	-	-	-	39,724
Transfer from Work in Progress	-	(672,231)	292,156	1,270	-	378,805	-
Write Offs	-	(81,837)	(41,203)	-	-	-	(123,040)
Transfer	(206,000)	-	-	-	-	-	(206,000)
Revaluation	1,227,693	-	-	-	-	-	1,227,693
Reclassification from intangible assets(note 17(b))	-	71,072	-	-	-	-	71,072
At 31 December 2016	2,408,791	435,965	8,038,219	1,575,480	140,490	6,749,889	19,348,834
ACCUMULATED DEPRECIATION							
At 1 January 2016	154,500	-	4,400,058	1,208,763	115,684	4,154,779	10,033,784
Charge for the year	51,500	-	868,549	137,908	10,947	765,818	1,834,722
Disposals	-	-	(86,677)	(11,658)	-	(33,052)	(131,388)
Transfers	(206,000)	-	-	-	-	-	(206,000)
At 31 December 2016	-	-	5,181,930	1,335,013	126,631	4,887,545	11,531,119
NET CARRYING AMOUNT							
At 31 December 2016	2,408,791	435,965	2,856,289	240,467	13,859	1,862,344	7,817,715

- (i) The transfer relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset.
- (ii) Capital work-in-progress represents ongoing construction work at the various branches of the Bank. In the year, the Bank reclassified items of capital work in progress in relation to intangible assets which were inadvertently captured under capital work in progress-property, plant and equipment.
- (iii) In the year, the write off of Kshs 123.04 Million represented the write off of certain property, plant and equipment as a result of an asset verification undertaken in the year. The value written off is based on the book value of the asset as at the time of write off. An impairment loss of Kshs 123.04 million was recognised in profit or loss as operating expenses being assets not located following the asset verification exercise.
- (iv) Land and Buildings were revalued on open market value basis by professional valuers (NW Realite Limited, Seven Degrees North Valuers, Kiragu and Mwangi Valuers and Afriland Valuers Limited) as at 31 December 2016. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs 1,218 million (2015: KShs 1,218 million).
- (v) Freehold land and buildings are revalued every three years. Freehold land and buildings include an amount of KShs 35,496,498 (2015- KShs. 35,496,498) against which no depreciation has been charged, as these are pieces of land.
- (vi) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 5,496,487,965 (2015- KShs 4,119,728,390), 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 855,305,140 (2015 - KShs 760,549,466).

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

20. DEFERRED TAX

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

GROUP	2017 Deferred tax assets KShs'000	2017 Through Profit or loss KShs'000	2017 Through reserves KShs'000	2016 Deferred tax assets KShs'000	2016 Through Profit or loss KShs'000	2016 Through OCI KShs'000
Collective allowance for impairment disallowed for tax purposes	(968,503)	(36,009)	-	(932,494)	(164,314)	-
Revaluation surplus	445,155	-	(12,493)	457,647	-	368,308
Excess of tax wear and tear allowance over depreciation	(968,362)	61,525	-	(1,029,887)	(292,777)	-
Unrealised exchange gains	584,676	103,534	-	481,142	(83,043)	-
Other temporary differences	(60,090)	(16,174)	-	(43,916)	(10,209)	-
	<u>(967,124)</u>	<u>112,876</u>	<u>(12,493)</u>	<u>(1,067,507)</u>	<u>(548,343)</u>	<u>(368,308)</u>
BANK	2017 Deferred tax assets KShs'000	2017 Through Profit or loss KShs'000	2017 Through reserves KShs'000	2016 Deferred tax assets KShs'000	2016 Profit or loss KShs'000	2016 Through OCI KShs'000
Collective allowance for impairment disallowed for tax purposes	(950,048)	(31,651)	-	(918,397)	(158,696)	-
Revaluation surplus	445,155	-	(12,493)	457,647	-	368,308
Excess of tax wear and tear allowance over depreciation	(1,106,317)	(76,487)	-	(1,029,830)	(292,497)	-
Unrealised exchange gains	584,676	103,534	-	481,142	(83,043)	-
Other temporary differences	(55,289)	(13,530)	-	(41,759)	(8,654)	-
	<u>(1,081,822)</u>	<u>(18,134)</u>	<u>(12,493)</u>	<u>(1,051,197)</u>	<u>(542,890)</u>	<u>(368,308)</u>

The Group had unused tax losses in relation to Kingdom Securities Limited of KShs 14,057,798 (2016 – KShs 23,395,842) as at 31 December 2017. The deferred tax asset of KShs 4,217,340 (2016 – KShs 7,018,753) arising from the tax losses has not been recognised in the financial statements since it is unlikely that sufficient taxable profits will be available in the foreseeable future against which the unused tax losses can be utilized. Unused tax losses expire in ten (10) years with effect from the year in which they were incurred.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

21. DEPOSITS AND BALANCES DUE TO BANKS

	Group		Bank	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Local banks	10,325	3,401,828	10,325	3,392,744
Foreign banks	<u>363,139</u>	<u>10,149</u>	<u>413,376</u>	<u>10,149</u>
	<u>373,464</u>	<u>3,411,977</u>	<u>423,701</u>	<u>3,402,893</u>

The weighted average effective interest rate on deposits from other banks at 31 December 2017 was 7.04% (2016- 8.75%).

22. CUSTOMER DEPOSITS

	Group		Bank	
(a) Deposit category	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Call deposits	28,103,247	6,045,085	28,103,247	6,045,085
Fixed deposits	65,638,460	68,940,819	65,638,440	68,921,330
Transaction accounts	104,920,317	106,389,639	103,116,782	106,389,639
Savings accounts	10,951,008	7,282,024	10,950,520	7,280,356
Current accounts	63,613,516	60,276,632	63,612,087	59,616,101
Foreign currency deposits	<u>14,145,160</u>	<u>11,219,238</u>	<u>14,145,160</u>	<u>11,219,238</u>
	<u>287,371,708</u>	<u>260,153,437</u>	<u>285,566,236</u>	<u>259,471,749</u>
(b) From government and parastatals:-				
Payable on demand	13,356,609	17,592,364	13,356,609	17,592,364
Payable within 30 days	2,942,420	2,965,163	2,942,420	2,965,163
Payable after 30 days but within 1 year	<u>16,608,697</u>	<u>19,461,284</u>	<u>16,608,697</u>	<u>19,461,284</u>
	<u>32,907,726</u>	<u>40,018,811</u>	<u>32,907,726</u>	<u>40,018,811</u>
(a) From private sector and individuals:-				
Payable on demand	170,165,999	158,511,363	168,360,527	157,849,164
Payable within 30 days	25,419,613	10,617,020	25,419,613	10,617,020
Payable after 30 days but within 1 year	<u>58,878,370</u>	<u>51,006,243</u>	<u>58,878,370</u>	<u>50,986,754</u>
	<u>254,463,982</u>	<u>220,134,626</u>	<u>252,658,510</u>	<u>219,452,938</u>
	<u>287,371,708</u>	<u>260,153,437</u>	<u>285,566,236</u>	<u>259,471,749</u>

Included in customers' deposits is an amount of KShs. 11,577 Million (2016- KShs 7,098 Million) that has been pledged to the Bank by customers as security for loans and advances. The weighted average effective interest rate on interest-bearing customer deposits as at 31 December was 7% (2016- 8.83%).

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

23. LOANS AND BORROWINGS

	Group & Bank	
	2017 KShs'000	2016 KShs'000
Long-term borrowing		
IFAD	30,000	38,636
DEG	3,272,033	4,333,574
International Finance Corporation (IFC)	13,119,935	9,055,379
European Investment Bank	1,113,396	2,279,859
AFD Microfinance & line of credit	3,561,672	4,040,649
KFW Loan –SIPMK	<u>66,778</u>	<u>65,163</u>
	21,163,814	19,813,260
Short-term borrowing		
Central Bank REPO	<u>3,992,240</u>	<u>-</u>
	25,156,054	19,813,260
Movement in the year:		
At 1 January	19,813,260	19,271,212
Additional loan disbursement	5,677,744	6,007,884
Central Bank REPO	3,992,240	-
Accrued interest	115,565	131,088
Loan Repayment	(3,755,281)	(5,465,665)
Foreign exchange difference	<u>(687,474)</u>	<u>(131,259)</u>
At 31 December	25,156,054	19,813,260

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

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 when the project comes to an end. The loan attracts a fixed interest of 3% p.a.

European Investment Bank

Two loan agreements for Euros 20 million and Euros 50 million were entered into in April 2012 between the European Investment Bank and The Co-operative Bank of Kenya Limited. The loans were to be disbursed upon request for onward lending to micro and small enterprises including self-employed entrepreneurs and sole proprietorships in income generating activities and productive sectors such as trade, retail, agro industries, fishing, food processing, manufacturing, construction transport, tourism. The interest on the first loan of Euros 20 million is 1.56% plus a currency risk premium of 6.00% and the second loan of Euros 50 million is 2.43% plus a currency risk premium determined over a period of time. As at end of 2017, Euros 50 million had been disbursed to the bank. The 20 million Euros loan matured in year 2016 and was fully repaid. The loans are to be repaid over a period of 10 years.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

23. LOANS AND BORROWINGS (Continued)

French Development Agency (AFD)

The bank entered into agreement with AFD in 2011 for a credit facility at fixed rate of 3.25% to finance investments in the fields of sustainable energy (energy efficiency & renewable energy) projects. As at the end of year 2017, the amount disbursed to the bank was USD 35,710,169. The bank secured an additional credit facility of USD 50 Million in year 2016 and the first drawdown of USD 8 Million received within the year.

International Finance Corporation

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

The loan has an element of fixed and variable interest rate which is pegged to the LIBOR rate. Repayment shall be in eleven (11) equal semi-annual instalments starting December 2013. The 1st disbursement of USD 30M was in March 2013, and the 2nd in March 2014. By 31 December 2017, the bank had drawn USD 60 Million from this facility.

In December 2015 the bank entered into agreement with IFC for a senior unsecured loan of USD 105 Million to finance the growth of SMEs portfolio, WOE's portfolio and affordable housing through expansion of mortgage & construction finance. The loan has an element of fixed and variable interest rate which is pegged to the LIBOR rate. The loan has a maturity period of 7 years and a 2 year grace period on principal repayment. As at the end of year 2017 the bank had received a drawdown of USD 105 Million.

DEG - Deutsche Investitions- Und Entwicklungsgesellschaft MbH

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

KFW Loan-SIPMK (Small holder Irrigation Programme Mt. Kenya Region)

The Government of Kenya signed a Loan Agreement and Financing Agreement on September 23, 2004, with KFW Frankfurt to make available to Government a credit of 4.6 Million for Smallholder Irrigation Programme in Mt. Kenya Region. Part of the credit was to be provided to one or more commercial banks. In 2007, the bank signed an agreement with the Government of Kenya where the bank was to finance smallholder irrigation development in the Mt Kenya Region by offering credit facilities to project developers in order to enable them cover the investments costs for the infrastructure.

Under the SIPMK agreement the reimbursement received from the Government was on a 50% grant and 50% loan basis.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

24. TAXATION

	Group		Bank	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
(a) Income Statement:-				
Current tax at 30% on the taxable profit for the year	5,059,967	5,598,455	4,884,785	5,511,731
Under / (over) provision in previous year	2,787	(2,790)	-	-
Prior year unrecognized deferred tax	(181,602)	-	-	-
Deferred tax charge /(credit)	<u>112,876</u>	<u>(548,343)</u>	<u>(18,134)</u>	<u>(542,890)</u>
	<u>4,993,573</u>	<u>5,047,322</u>	<u>4,866,651</u>	<u>4,968,841</u>
(b) Statement of financial position:-				
Balance brought forward	1,221,025	171,330	1,248,698	157,596
Under / (over) provision in previous year	2,787	(2,790)	-	-
Charge for the year	5,059,967	5,598,455	4,884,784	5,511,732
Paid during the year	<u>(6,440,474)</u>	<u>(4,545,970)</u>	<u>(6,341,065)</u>	<u>(4,420,630)</u>
Tax (recoverable)/payable	<u>(156,695)</u>	<u>1,221,025</u>	<u>(207,583)</u>	<u>1,248,698</u>
(c) Reconciliation of tax expense to tax based on accounting profit:-				
Accounting profit	<u>16,398,638</u>	<u>17,723,532</u>	<u>16,502,181</u>	<u>18,020,405</u>
Tax applicable rate at 30%	4,919,591	5,317,060	4,950,654	5,406,121
Under/(over)-provision in previous year	2,787	(2,790)	-	-
Share of profit in associate	(38,971)			
Unrecognised deferred tax asset on tax loss	(1,765)	101,850	-	-
Exchange differences on translation	190,559	68,289		
Tax effect of items not eligible for tax	<u>(78,628)</u>	<u>(437,087)</u>	<u>(84,003)</u>	<u>(437,280)</u>
Tax expense in the income statement	<u>4,993,573</u>	<u>5,047,322</u>	<u>4,866,651</u>	<u>4,968,841</u>

The corporation tax rate applicable to the Bank and subsidiaries and associates is 30% except for Co-operative Bank of South Sudan charged at a rate of 10-25% depending on the revenue of the tax payer.

Items not eligible for tax relates to items disallowed for purpose of calculating the income tax in accordance with the Income Tax Act.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

25. PROVISIONS

	Group		Bank	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Leave liability	<u>187,793</u>	<u>141,281</u>	<u>184,297</u>	<u>139,198</u>
Balance at 1 January	141,281	110,191	139,198	110,190
Movement through profit or loss	<u>46,512</u>	<u>31,090</u>	<u>45,099</u>	<u>29,008</u>
Balance at 31 December	<u>187,793</u>	<u>141,281</u>	<u>184,297</u>	<u>139,198</u>

This provision is for obligations in respect of annual leave entitlements not taken as at close of the period. The amount has been accrued at remuneration rates expected to apply when the obligation is settled.

26. OTHER LIABILITIES

	Group		Bank	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Bills payable	1,119,855	2,638,567	1,119,855	2,593,120
Sundry creditors and accruals	<u>2,355,851</u>	<u>3,330,063</u>	<u>2,152,351</u>	<u>3,283,010</u>
	<u>3,475,686</u>	<u>5,968,630</u>	<u>3,272,206</u>	<u>5,876,130</u>

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

27. GOVERNMENT GRANTS

	Group and Bank	
	2017 KShs'000	2016 KShs'000
Grant net of amortisation:		
At 1 January	498,842	517,317
Amortisation for the year	<u>(18,475)</u>	<u>(18,475)</u>
At 31 December	<u>480,367</u>	<u>498,842</u>

The grants relate to rehabilitation work on Co-operative House financed by USAID following the August, 1998 bomb blast. The grant is amortised in line with the depreciation on the building. The grant is amortised for the same period of the building since it was part of the cost to reconstruct the building.

28. SHARE CAPITAL

	Group and Bank	
	2017 KShs'000	2016 KShs'000
Authorised :-		
7,500,000,000 (2016: 5,000,000,000) ordinary shares of KShs 1 each.	7,500,000	5,000,000
Issued and fully paid:-		
At start of the year	4,889,317	4,889,317
Issue of bonus shares	<u>977,863</u>	<u>-</u>
At the end of the year	<u>5,867,180</u>	<u>4,889,317</u>
Movement in the year:-		
At start of the year	4,889,317	4,889,317
Issue of bonus shares	<u>977,863</u>	<u>-</u>
At the end of the year	<u>5,867,180</u>	<u>4,889,317</u>

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

29. SHARE PREMIUM

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

	Group and Bank	
	2017 KShs'000	2016 KShs'000
At 1 January	2,889,789	2,889,789
Issue of bonus shares	(977,863)	-
At 31 December	1,911,926	2,889,789

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 and Bank	
	2017 KShs'000	2016 KShs'000
Proposed dividends	4,693,744	3,911,453

- Dividend per share is arrived at by dividing the total dividends by the weighted average number of shares in issue during the year.
- 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 2017 financial statements, a first and final dividend in respect of year 2017 of KShs 0.80 (2016 - KShs 0.80) for every ordinary share of KShs 1 each will be proposed by the directors and is subject to approval by shareholders.
- Payment of dividend is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

32. NON-CONTROLLING INTERESTS

(a) Kingdom Securities Limited

Kingdom Securities Limited (previously Bob Mathews Stockbrokers Limited) was acquired in 2009 by the Bank through the purchase of 60% shareholding. The company offers brokerage services and is a registered broker with the Nairobi Securities Exchange.

(b) Co-operative Bank of South Sudan

Co-operative Bank of South Sudan was registered in partnership with the Government of South Sudan which holds 49% of the ordinary shares while the Bank holds 51%. The subsidiary is based in South Sudan and offers banking services.

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

Summarised statement of profit or loss and other comprehensive income for:-

	Kingdom Securities Limited		Co-operative Bank of South Sudan	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Interest and other income	69,032	61,856	952,214	769,117
Interest and commission expenses	(1,820)	(1,392)	(36,517)	(46,159)
	67,212	60,464	915,697	722,958
Operating expenses	(66,243)	(80,628)	(975,553)	(866,787)
Loss on net monetary position	-	-	(546,069)	(425,749)
Profit / (loss) before tax	969	(20,164)	(605,925)	(569,578)
Share of profit of an associate	-	-	3,054	70,084
Income tax expense	(105)	1,714	12,590	-
Profit / (loss) for the year	864	(18,450)	(590,281)	(499,494)
Other comprehensive income	35,350	(27,387)	18,374	1,172
Total comprehensive income	36,214	(45,837)	(571,907)	(498,322)
Attributable to non-controlling interests	14,486	(18,335)	(280,234)	(244,179)

Summarised statement of financial position as at 31 December

	Kingdom Securities Limited		Co-operative Bank of South Sudan	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Current assets	343,911	247,712	3,499,992	1,773,256
Non-current Assets	38,669	37,146	1,182,760	1,109,806
Current liabilities	(111,715)	(50,206)	(2,573,818)	(1,494,773)
Total equity	270,865	234,652	2,108,934	1,388,289
Attributable to:-				
Equity holders of the parent	162,519	140,791	1,075,556	708,027
Non-controlling interest	108,346	93,861	1,033,378	680,261

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

32. NON-CONTROLLING INTERESTS (continued)

(c) Hyperinflationary economy in South Sudan

With effect from 2016, the South Sudanese economy is considered to be hyperinflationary in accordance with the criteria in International Accounting Standards (IAS) 29- *Financial Reporting in Hyperinflationary Economies*

IAS 29 requires the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy, shall be stated in terms of the measuring unit current at the end of the reporting period. The corresponding figures for the previous period and any information in respect of earlier periods shall also be stated in terms of the measuring unit current at the end of the reporting period. The management applied this standard to prepare the financial statements for the Co-operative Bank of South Sudan. The corresponding figures for the previous reporting period were restated. Following the application of IAS 29, the subsidiary recorded a loss on net monetary position of KShs 546 million (2016: KShs 426 million). In the application of IAS 29, the Group used conversion coefficients derived from the consumer price index (CPI) in the Republic of South Sudan. CPIs and the corresponding conversion coefficients are presented below:

Year	CPI	Conversion factor
2016	2,799	1
2017	4,502	2.2

33. INTEREST INCOME

	Group		Bank	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Loans and advances to customers	31,929,951	33,345,459	31,712,283	33,228,373
Held-to-maturity investments	4,007,574	3,432,600	3,990,902	3,415,876
Deposits and balances due from other banks	183,296	391,319	173,122	356,476
Interest on previously impaired loans	<u>151,792</u>	<u>180,479</u>	<u>151,792</u>	<u>180,479</u>
	<u>36,272,613</u>	<u>37,349,857</u>	<u>36,028,099</u>	<u>37,181,204</u>

34. INTEREST EXPENSE

	Group		Bank	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Call deposits	1,469,500	894,483	1,432,982	853,427
Fixed deposits	7,354,770	9,054,999	7,354,770	9,054,999
Savings accounts	849,829	517,173	792,858	517,173
Current accounts	1,229,144	1,191,760	1,229,144	1,191,760
Deposits and balances due to banks	169,251	117,980	226,222	117,980
Loans	<u>1,196,725</u>	<u>991,905</u>	<u>1,196,725</u>	<u>991,905</u>
	<u>12,269,219</u>	<u>12,768,300</u>	<u>12,232,701</u>	<u>12,727,244</u>

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

35. FEES AND COMMISSIONS

	Group		Bank	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Fees and commissions income:				
Fees and commissions on loans and advances	3,060,035	2,330,859	2,578,367	2,330,859
Ledger fees & service charges	1,128,370	1,227,381	1,107,039	1,158,964
Other fees and commissions	<u>5,627,006</u>	<u>6,229,269</u>	<u>4,949,743</u>	<u>5,328,257</u>
	<u>9,815,411</u>	<u>9,787,509</u>	<u>8,635,149</u>	<u>8,818,080</u>
Fees and commissions expense:				
Inter-bank transaction charges	87,016	239,165	87,016	239,164
Brokerage fees	<u>7,584</u>	<u>9,317</u>	<u>7,584</u>	<u>9,317</u>
	<u>94,600</u>	<u>248,482</u>	<u>94,600</u>	<u>248,481</u>
Net fees and commissions income	<u>9,720,811</u>	<u>9,539,027</u>	<u>8,540,549</u>	<u>8,569,599</u>

36. NET TRADING INCOME

	Group		Bank	
	2017 KShs'000	2016 KShs'000	2016 KShs'000	2016 KShs'000
Foreign exchange gain	2,180,470	1,836,876	1,948,921	1,635,962
Interest income on investment securities:				
-Available for sale	3,299,128	3,481,698	3,299,077	3,481,698
-Held-for-trading	16	16	16	16
Changes in fair value of financial assets held-for-trading	3	1	3	1
Amortisation of financial instruments	<u>(126,678)</u>	<u>(41,231)</u>	<u>(217,796)</u>	<u>(41,231)</u>
	<u>5,352,939</u>	<u>5,277,360</u>	<u>5,030,221</u>	<u>5,076,446</u>

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

37. OTHER OPERATING INCOME

	Group		Bank	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Gain / (loss) on disposal of property and equipment	1,686	(19,806)	1,686	(19,806)
Dividend income	1,778	-	72,876	73,001
Rental income	93,187	97,900	93,187	97,900
Loan recoveries	32,358	33,928	32,358	33,928
Gain on sale of financial assets available-for-sale	249,042	217,577	249,042	217,577
Amortisation of treasury bills	1,229,639	1,654,777	1,229,639	1,654,777
Interest received repo placement	2,172	96,507	2,172	96,507
Sundry Income*	<u>890,528</u>	<u>773,629</u>	<u>890,528</u>	<u>738,834</u>
	<u>2,500,390</u>	<u>2,854,512</u>	<u>2,571,488</u>	<u>2,892,718</u>

* Sundry income relates to income generated from the Bank's fiduciary and share registration services.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

38. EMPLOYEE COSTS

	Group		Bank	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
Basic salaries	8,299,508	7,765,801	7,974,113	7,480,335
Allowances	376,685	435,592	352,955	409,444
Pension scheme contribution				
- Statutory Scheme	8,920	8,778	8,809	8,592
- Employee Scheme	608,218	544,083	597,475	525,553
Medical expenses	284,331	146,324	281,566	141,836
Education and training	90,181	104,115	87,036	102,246
Others	<u>432,508</u>	<u>398,748</u>	<u>312,856</u>	<u>276,780</u>
	<u>10,100,351</u>	<u>9,403,441</u>	<u>9,614,810</u>	<u>8,944,786</u>
The number of employees at the year-end was:	2017	2016	2017	2016
Management	623	452	496	435
Supervisory and unionisable	3,089	3,201	3,033	2,903
Others	<u>357</u>	<u>474</u>	<u>357</u>	<u>242</u>
	<u>4,069</u>	<u>4,127</u>	<u>3,886</u>	<u>3,580</u>

39. OTHER OPERATING EXPENSES

	Group		Bank	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
Rent and maintenance costs for branch premises	1,518,200	1,511,417	1,395,356	1,420,959
Motor vehicle running & other equipment maintenance	1,455,054	1,305,494	1,391,661	1,265,461
Stationery and printing	302,129	645,480	296,981	636,908
Travelling and insurance	543,667	596,509	487,287	538,013
Telephone, postage, electricity and water	591,441	655,919	558,018	623,577
Contribution to Deposit Protection Fund	396,699	361,012	396,699	361,012
Directors' emoluments	180,790	163,742	129,422	115,861
Auditors' remuneration	18,585	17,182	12,560	11,418
Loss on net monetary position	546,069	425,749	-	-
Other operating and administrative expenses	<u>3,572,334</u>	<u>4,536,512</u>	<u>3,337,912</u>	<u>3,572,335</u>
	<u>9,124,728</u>	<u>10,219,016</u>	<u>8,005,896</u>	<u>9,168,735</u>

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

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	
	2017	2016	2017	2016
Profit for the year attributable to equity holder of the parent (KShs'000)	<u>11,693,958</u>	<u>12,927,768</u>	<u>11,635,530</u>	<u>13,051,564</u>
Weighted average number of ordinary shares for basic earnings per share (Thousands)	<u>5,867,180</u>	<u>5,867,180</u>	<u>5,867,180</u>	<u>5,867,180</u>
Weighted average number of ordinary shares for diluted earnings per share (Thousands)	<u>5,867,180</u>	<u>5,867,180</u>	<u>5,867,180</u>	<u>5,867,180</u>
Basic earnings per share (KShs)	<u>1.99</u>	<u>2.20</u>	<u>1.98</u>	<u>2.22</u>
Diluted earnings per share (KShs)	<u>1.99</u>	<u>2.20</u>	<u>1.98</u>	<u>2.22</u>

41. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Available for sale investments

	Group		Bank	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Gains/(losses) arising during the year	(855,183)	563,157	(988,850)	616,177
Reclassification to profit or loss	<u>1,368,152</u>	<u>144,858</u>	<u>1,452,068</u>	<u>137,858</u>
	<u>512,969</u>	<u>708,015</u>	<u>463,218</u>	<u>754,035</u>

The changes in fair value are not subject to income tax.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

42. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of profit before taxation to cash generated from operations

OPERATING ACTIVITIES:-	Note	Group		Bank	
		2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Profit before tax		16,398,638	17,723,532	16,502,181	18,020,405
Adjustments for:-					
Depreciation	19	1,951,027	1,936,699	1,786,069	1,834,722
Amortization of prepaid lease rentals	18	610	612	610	612
Write off property and equipment	19	29,855	123,040	29,857	123,040
Movement in provisions		3,417,158	893,468	3,366,784	2,664,859
Leave provision		46,512	31,090	45,099	29,008
Unrealised exchange differences		(260,244)	(193,561)	(260,244)	(193,561)
Amortization of intangible assets	17	549,307	485,506	499,330	447,371
Amortization of capital grants	27	(18,475)	(18,475)	(18,475)	(18,475)
Loss / (gain) on disposal of property and equipment		(1,686)	5,135	(1,686)	5,150
Changes in fair value of financial instruments held-for-trading	9	2	2	(3)	2
Share of profit in associates	16	(129,904)	(97,546)	-	-
Exchange difference on borrowings	23	(687,474)	(131,259)	(687,474)	(131,259)
Interest on loans and borrowings	23	115,565	131,088	115,565	131,088
Loss on net monetary position		546,069	425,749	-	-
Cash flows from operating activities before working capital changes		21,956,960	21,315,080	21,377,613	22,912,962
Advances to customers		(24,971,473)	(24,628,877)	(23,958,385)	(26,360,517)
Other assets		7,109	(1,106,749)	(128,230)	(1,047,484)
Deposits from customers		27,218,271	(5,245,150)	26,094,487	(4,237,666)
Deposits from banks		(3,038,513)	(9,242)	(2,979,192)	497,488
Other liabilities		(2,492,944)	1,661,928	(2,603,924)	1,790,912
Central Bank of Kenya cash reserve ratio		(1,378,097)	538,640	(1,328,038)	460,909
Held-for-trading investments		(639,807)	57	-	-
Available-for-sale investments		(3,427,650)	4,722,438	(3,427,650)	4,770,770
Derivative financial instruments		(636,764)	494,961	(636,764)	494,961
Cash flows generated from/ (used in) operations		12,597,092	(2,256,914)	12,409,917	(717,665)
Cash and cash equivalents comprises of:-					
Cash on hand (note 7)		8,387,452	8,432,987	7,715,294	8,119,617
Cash with Central Bank of Kenya		15,872,744	17,249,715	14,826,206	16,338,101
Deposits and balances due from banking institutions (note 8)		7,730,354	5,017,303	7,739,831	5,359,893
Items in the course of collection from other Banks (note 12)		804,779	195,791	804,779	195,791
		32,795,329	30,895,796	31,086,110	30,013,402
Less: CBK Cash reserve ratio (note 7)		(15,288,113)	(13,910,016)	(14,704,488)	(13,376,450)
Cash and cash equivalents		17,507,216	16,985,780	16,381,622	16,636,952

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

43. RELATED PARTY BALANCES AND TRANSACTIONS

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

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

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

	2017 KShs'000	2016 KShs'000
Directors	124,103	277,346
Employees	7,769,502	7,543,400
Associates	1,585,942	-
	9,479,547	7,820,746
Interest income earned	730,018	700,218
Weighted average interest rate	7.0%	7.0%

The loans are secured by property and are repayable in less than 30 years. No impairment losses have been recorded against balances outstanding during the period and no specific allowance has been made for impairment losses on balances at period end (2016-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 year as received from directors, employees of the Bank and other related parties in the ordinary course of business is as follows :

	2017 KShs'000	2016 KShs'000
Directors and Employees	697,219	759,667
Subsidiaries and Associate companies	1,361,194	3,171,841
Interest expensed	55,895	40,440
Weighted average interest rate	7.0%	6.95%

(c) Inter-company balances and transactions:-

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

		Bank	
	Relationship	2017 KShs'000	2016 KShs'000
Due from:-			
Co-optrust Investment Services Limited	Subsidiary	7,247	-
Co-op Consultancy & Insurance Agency Ltd	Subsidiary	24,645	9,085
Co-opholdings Co-operative Society Limited	Parent	33,648	29,779
Co-operative Bank of South Sudan	Subsidiary	62,618	133,659
Kingdom Securities Limited	Subsidiary	874	-
		129,032	172,523
Insurance premium:-			
Co-operative Insurance Company Limited	Associate	177,451	36,821

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 (2016-nil).

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

43. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

(d) Compensation of key management personnel

	Group		Bank	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Directors' emoluments:				
-Fees	160,444	143,116	112,820	96,276
-Others	<u>20,346</u>	<u>20,626</u>	<u>16,602</u>	<u>19,585</u>
	<u>180,790</u>	<u>163,742</u>	<u>129,422</u>	<u>115,861</u>
Senior Managers:				
-Short-term employee benefits	812,920	862,772	788,061	805,509
-Post-employment pension	57,961	62,904	55,999	59,805
-Termination benefits	<u>227,850</u>	<u>1,109</u>	<u>227,850</u>	<u>1,109</u>
	<u>1,098,731</u>	<u>926,785</u>	<u>1,071,910</u>	<u>866,423</u>

(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 2017, KShs 159,526,047 (2016-KShs 183,000,883) was disbursed to the Foundation. At 31 December 2017, the Foundation held deposits of KShs 883,302 (2016 - KShs 1,373,496) 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 608 million (2016 - KShs 544 million) as at 31 December 2017. 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:

	2017 KShs'000	2016 KShs'000
Rent paid to the scheme on leased property	<u>7,095</u>	<u>6,450</u>
Dividends paid on the Bank's ordinary shares	<u>24,742</u>	<u>26,368</u>

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

44. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The Group presents its statement of financial position in order of liquidity. The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	Within 12 months KShs'000	After 12 months KShs'000	Total KShs'000
As at 31 December 2017			
ASSETS			
Cash & Balances with Central Bank of Kenya	24,260,196	-	24,260,196
Deposits and balances due from banks	7,730,354	-	7,730,354
Investment in Financial Instruments	24,341,309	49,744,236	74,085,545
Loans and advances	51,892,804	201,968,840	253,861,644
Tax Recoverable	156,695	-	156,695
Deferred Tax asset	-	967,124	967,124
Prepaid Lease Rentals	-	35,742	35,742
Other assets	-	14,104,561	14,104,561
Investment in associate	-	2,143,347	2,143,347
Property and equipment	-	7,493,574	7,493,574
Intangible assets	-	2,018,875	2,018,875
Total assets	108,381,358	278,476,299	386,857,657
LIABILITIES			
Customer Deposits	287,336,702	35,006	287,371,708
Deposits and balances due to banks	373,464	-	373,464
Tax Payable	-	-	-
Other Liabilities	-	3,663,479	3,663,479
Government grants	-	480,367	480,367
Loans and Borrowings	-	25,156,054	25,156,054
Total liabilities	287,710,166	29,334,906	317,045,072
Net	(179,328,808)	249,141,393	69,812,585

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

44. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	Within 12 months KShs'000	After 12 months KShs'000	Total KShs'000
As at 31 December 2016			
ASSETS			
Cash & Balances with Central Bank of Kenya	25,682,704	-	25,682,704
Deposits and balances due from banks	5,017,303	-	5,017,303
Investment in Financial Instruments	9,861,450	52,055,605	61,917,055
Loans and advances	69,469,762	162,837,567	232,307,329
Deferred Tax asset	126,776	1,067,507	1,194,283
Prepaid Lease Rentals	-	36,352	36,352
Other assets	-	13,242,438	13,242,438
Investments in associates	-	2,409,297	2,409,297
Property and equipment	-	8,308,698	8,308,698
Intangible assets	-	1,713,118	1,713,118
Total assets	110,157,995	241,670,582	351,828,577
LIABILITIES			
Customer Deposits	260,148,261	5,176	260,153,437
Deposits and balances due to banks	3,411,977	-	3,411,977
Tax Payable	1,221,025	-	1,221,025
Other Liabilities	-	6,109,911	6,109,911
Government grants	-	498,842	498,842
Loans and Borrowings	-	19,813,260	19,813,260
Total liabilities	264,781,263	26,427,189	291,208,452
Net	(154,623,268)	215,243,393	60,620,125

45. OPERATING LEASE COMMITMENTS

As lessor:

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

	Group and Bank	
	2017	2016
	KShs'000	KShs'000
Within One year	130,764	126,788
Between 2 and 5 years	288,714	316,220
Over 5 years	13,556	9,226
	433,034	452,234

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

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

45. OPERATING LEASE COMMITMENTS

As lessee:

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

	Group and Bank	
	2017	2016
	KShs'000	KShs'000
Within one year	1,033,763	979,092
Between 2 and 5 years	2,491,626	2,089,648
Over 5 years	<u>1,138,808</u>	<u>1,127,641</u>
	<u>4,664,197</u>	<u>4,196,381</u>

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.

46. COMMITMENTS

	Group and Bank	
	2017	2016
	KShs'000	KShs'000
(i) Capital: Authorised and contracted for	<u>142,885</u>	<u>333,473</u>
(ii) Capital: Authorised and not contracted for	<u>3,824,413</u>	<u>3,457,469</u>
(iii) Loans committed but not disbursed at year end	<u>53,503,803</u>	<u>26,962,895</u>

47. CONTINGENT LIABILITIES

	Group and Bank	
	2017	2016
	KShs'000	KShs'000
(a) Not recognised in statement of financial position		
Letters of credit	8,496,709	4,920,013
Guarantees	<u>8,958,431</u>	<u>7,545,906</u>
	<u>17,455,140</u>	<u>12,465,919</u>

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.

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

47. CONTINGENT LIABILITIES (Continued)

(b) Pending legal suits

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings, arising in the ordinary course of the Bank's business. When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosures in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

Some of the key pending legal suits include:-

(i) *Kenya Continental Holdings*

This is an injunction application seeking to stop the Bank from selling the company's security alleging fraud and misrepresentation on the part of the Bank with a claim for special damages for alleged loss of opportunities amounting to Kshs. 404,785,225. The Bank has a counterclaim amounting to Kshs 521,318,439 against the debtor. The Borrower and the Bank have agreed on an out of court settlement and the matter is slated for a mention on 17th May, 2018 for purpose of marking the matter as settled.

(ii) *Boaz Mathews Ouma Awiti & three others*

This is a claim for KShs 31,864,120 against the Bank relating to the sale and purchase of shares in Bob Mathews Stock Brokers Ltd (now Kingdom Securities Limited). The Bank has successfully applied for and obtained a stay of proceedings and referral of the matter to arbitration as per the terms of the Share purchase agreement. The plaintiffs have not been able to agree on an arbitrator.

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

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

(iv) *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. The matter is pending for judgement which the Court has advised will be on notice.

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

Notes to the Consolidated Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

47. CONTINGENT LIABILITIES (Continued)

(c) Excise duty on financial transactions

In 2016, the Kenya Revenue Authority (KRA) demanded from the Bank tax amounting to KShs 621,537,611 relating to alleged non-payment of excise duty for the period 2013 to 2015. This amount is made up of principal excise duty of KShs 495,403,544 and interest of KShs 126,134,067 as shown below:-

Period	Principal KShs	Interest KShs	Total KShs
2013	134,213,458	51,167,844	185,381,302
2014	263,528,443	63,246,826	326,775,269
2015	<u>97,661,643</u>	<u>11,719,397</u>	<u>109,381,040</u>
	<u>495,403,544</u>	<u>126,134,067</u>	<u>621,537,611</u>

As at 31 December 2017, this amount had not been paid to KRA. The above interest amount is calculated up to 2015 and excludes any such amounts that may be demanded after this date.

The management, through the tax agent, disputed the demand on factual and technical grounds and the matter was referred to the Tax Appeals Tribunal. The subject of the dispute is industry-wide and the umbrella body for the commercial banks, the Kenya Bankers Association (KBA), is in consultation with the KRA over the matter.

No provision has been made in these financial statements for the principal tax and interest shown above as the directors based on the advice by the tax consultant are of the opinion that no liability will arise.

48. FIDUCIARY ACTIVITIES

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

The Group at Custodial Services department holds assets on behalf of customers with a value of KShs 46.669 billion (2016 – KShs 35.210 billion). The income for the period for custodial services was KShs 60.777 million (2016- KShs 57.168 million) while the expenses amounted to KShs 37.739 million (2016- KShs 42.708 million).

The Group, through Co-op Trust Investment Services Limited manages securities with a value of KShs 33.46 billion (2016- KShs 38.88 billion) on behalf of customers. The total income for the period from fund management was KShs 122.56 million (2016- KShs 123.28 million), with total expenses amounting to KShs 116.04 million (2016 - KShs 78.5 million).

49. ASSETS PLEDGED AS SECURITY

As at 31 December 2017, there were no assets pledged by the Group to secure liabilities.

50. 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.

51. INCORPORATION

The Bank is incorporated in Kenya under the Companies Act, 2015

52. CURRENCY

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

53. EVENTS AFTER REPORTING PERIOD

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.

7. Shareholder Information

Group Information

FOR THE YEAR ENDED 31 DECEMBER 2017

REGISTERED OFFICE AND HEAD OFFICE

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

SUBSIDIARIES

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

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

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

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

COMPANY SECRETARY

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

SHARES REGISTRAR

The Co-operative Bank of Kenya Limited
Shares Registry Services,
CIC Plaza. Mara Road, Upperhill,
P.O. Box 48231 – 00100,
NAIROBI

LAWYERS

Various
A list is available at the Bank

AUDITORS

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



Co-operative Bank staff members in a worship session at the end of year party to thank God for successful 2017.

Disclaimer

Co-operative Bank of Kenya Group has acted in good faith and has made every reasonable report to ensure the comprehensiveness and accuracy of the information contained in this document, including all 'forward-looking statements'.

Forward-looking statements may be identified by words such as 'believe', 'anticipate', 'expect', 'plan', 'estimate', 'intend', 'project', 'target', 'predict' and 'hope'. These statements have been made by the Management of Co-op Bank and are purely based on the

current operating environment, estimates, assumptions, beliefs and projections hence undue dependence should not be placed on such statements.

Co-operative Bank of Kenya Group does not undertake to update any forward-looking statements contained in this document and hence does not assume responsibility for any loss or damage whatsoever and howsoever arising as a result of the reliance by any party.

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