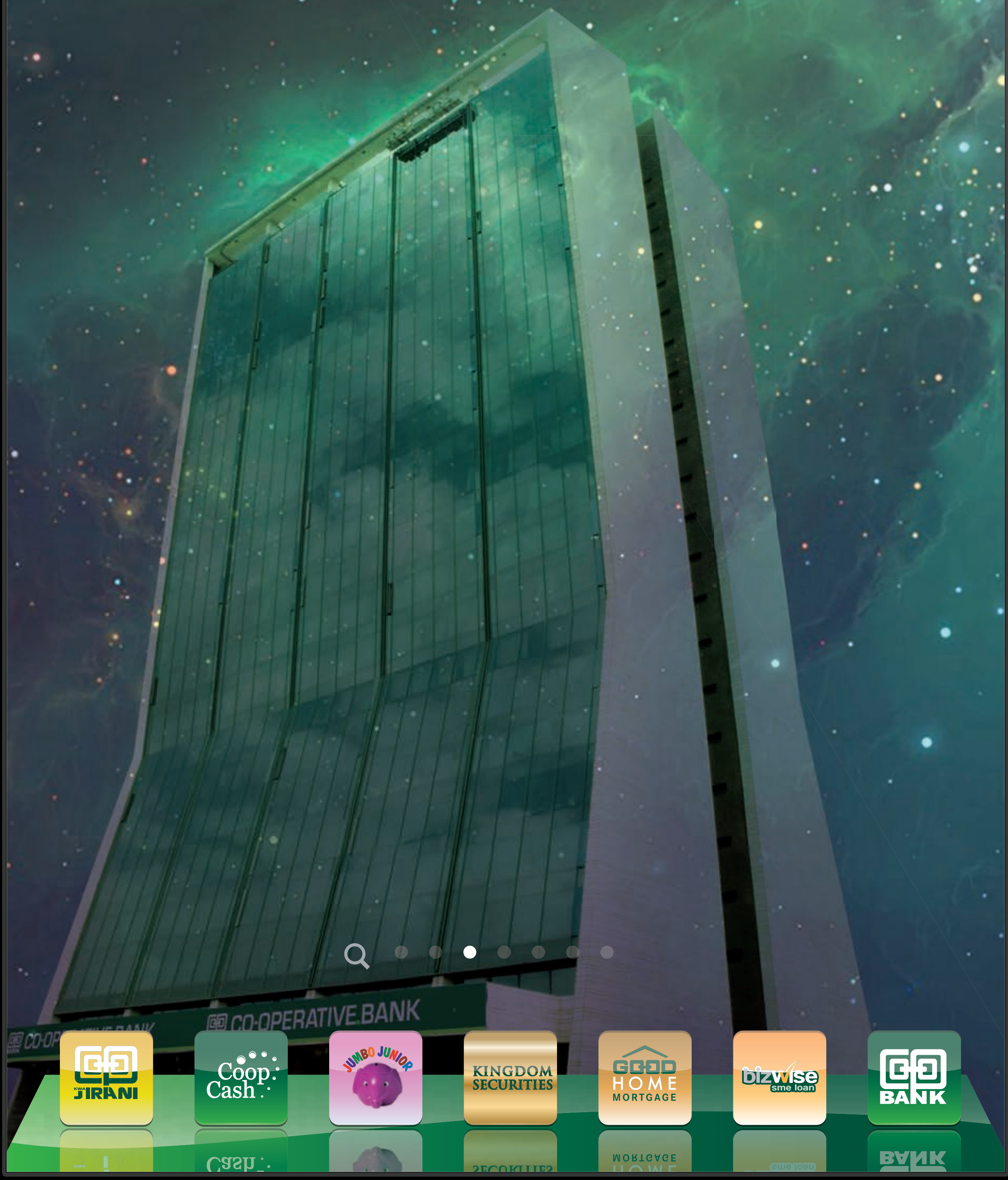
Co-op Bank

Innovating today to inspire the future

2016

Integrated Report & Financial Statements



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the ninth Annual General Meeting of THE CO-OPERATIVE BANK OF KENYA LIMITED will be held at the Safari Park Hotel Thika Road Nairobi on Friday, 26th May 2017 at 11.00 a.m. for the transaction of the following business:-

ORDINARY BUSINESS

1. To read the notice convening the meeting and determine if a quorum is present.
2. To receive and consider, and, if approved adopt the Audited Consolidated Financial Statements of the Company for the financial year ended 31st December 2016 together with the Directors' and Auditors' report thereon.
3. To approve and declare a first and final dividend of KShs. 0.80 per share in respect of the year ended 31st December 2016, to be paid to the shareholders on the register at the close of business on 30th May 2017.
4. Election of Directors:

   1) Mr. Stanley C. Muchiri, Mr. Julius Riungu, Mr. Wilfred Ongoro being directors appointed under Article 104A of the Company's Articles under which the majority and strategic shareholder of the Company, Co-opholdings Co-operative Society Limited, nominates to the Board of the Company seven (7) directors, are retiring by rotation and being eligible offer themselves for re-election in accordance with Article 100 of the Company's Articles of Association.

   Co-opholdings Co-operative Society Limited has already nominated them for re-election.
5. To authorize the Board to fix the Directors' remuneration.
6. To re-appoint Ernst and Young, Auditors of the Company, having expressed their willingness to continue in office and to authorize the directors to fix their remuneration.

SPECIAL BUSINESS

7. To consider and, if thought fit pass the following resolutions as recommended by the Directors, as Ordinary Resolutions:

   1) **THAT** pursuant to section 404 of the Companies Act 2015 and Article 46 of the Company's Articles of Association, the Company increases its authorized share capital to KShs. 7,500,000,000 [divided into 7,500,000,000 shares of KShs. 1/- each] by the creation of an additional 2,500,000,000 ordinary shares of KShs. 1/- each (the "New Shares"), such shares to rank pari passu in all respects with the existing ordinary shares of the Company.

   2) **THAT** the directors of the Company be and are hereby authorised pursuant to section 329 of the Companies Act, 2015 to exercise any power of the Company to allot any un-allotted shares. Provided that the authority hereby given shall expire 5 years from the date of this resolution unless previously renewed or varied save that the directors may, notwithstanding such expiry, allot any shares under this authority in pursuance of an offer or agreement so to do made by the Company before the expiry of this authority.
8. To consider a bonus share issue of one (1) share for every five (5) shares held and if approved then pass the following Ordinary Resolution:-

   "That subject to the approval of the Capital Markets Authority the sum of KShs. 977,863,400 being part of the money now standing to the credit of the share premium reserves of the Company be capitalized and that the same be applied in making payment in full at par for 977,863,400 ordinary shares of KShs. 1/- each in the capital of the Company. Such shares to be distributed as fully paid among the persons who are registered as holders of the ordinary shares in the capital of the Company at the close of business on 30th June 2017 at the rate of one (1) new fully paid ordinary share for every five (5) ordinary shares held by such holders respectively and that such shares shall rank pari passu for all purposes and in all respects with the existing shares in the share capital of the Company and to be listed on the Nairobi Securities Exchange and the Board of Directors be and are hereby also authorized generally to do and effect all acts and things required to give effect to this Resolution".
9. Transact any other business, which may be properly transacted at an Annual General Meeting.

Dated at Nairobi this 28th day of April 2017.

By order of the Board,

SAMUEL MWAURA KIBUGI

COMPANY SECRETARY

NB: Every member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his behalf and the proxy need not be a member of the Company. A form of proxy can downloaded from the Company's website www.co-opbank.co.ke and should be delivered or sent to the Shares Registrar, 1st Floor, CIC Plaza II (Upper Hill) or to any Co-operative Bank branch, P. O. Box 48231-00100, Nairobi so as to be received not later than 24th May 2017, i.e. 48 hours before the meeting.

The Annual report and Financial statements of the Company and this Notice are available on our website www.co-opbank.co.ke and an abridged version of the financial statements has been published in the daily newspapers.

CO-OPERATIVE BANK
We are you

Co-op Bank

Integrated Reporting (IR) in Co-op Bank

• About our 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 the 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 2016.

• The scope of this report

This report covers the period from 1st January 2016 to 31st December 2016. We have made reference to other periods for comparison purpose and also for enriching the report with detailed information.

The report covers the entire co-operative bank group i.e 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, corporate governance, consideration of material matters, employment of our 6 capitals, our stakeholder engagement, enterprise risk management, our business model and tracking of key financial indicators.

The targeted readers of this report are our shareholders who need to make informed choices about our stock for short, medium or long term investment. This report is also meant for all our stakeholders who include but not limited to our customers, staff members, regulators, 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 integrated approach in all our decision making through the careful consideration of the relationship between our 6 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
- An analysis of the environment within which we operate
- An analysis of strategic focus
- A description of how we create value using our business model
- A description of our integrated enterprise risk management framework
- Corporate governance at Co-op bank
- 5 year performance review and audited reports for the year ended 31st December 2016

Assurance

This integrated report was prepared in accordance with the 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 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 15th March 2017.

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

S.C Muchiri-EBS

Group Chairman

Dr. Gideon Muriuki-MBS

Group Managing Director & CEO

Group information for the year ended 31 December 2016

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, 0703 027000
www.co-opbank.co.ke
NAIROBI

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

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

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

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

@Coopbankenya   Co-op Bank Kenya (Official)

ASSOCIATE COMPANIES
Co-operative Insurance Society Ltd, CIC Plaza
Mara Road, Upper Hill.
Tel: 020-2823000,
Cell: 0721 632713, 0735 750885
Email: callc@cic.co.ke

COMPANY SECRETARY
Samuel Mwaura Kibugi
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, Upper Hill.
P.O. Box 48231 – 00100,
NAIROBI

LAWYERS
Various
A list is available at the Bank

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

Showcasing the Kenyan co-operative movement at Mombasa International Trade Fair

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Dr. Gideon Muriuki, GMD & CEO Co-operative Bank, shares the success story of Co-operative Bank with His Excellency Yoweri Museveni, President of the Republic of Uganda and His Excellency Hon. Uhuru Kenyatta, President of the Republic of Kenya during the Mombasa International Show and Trade Fair. The Heads of State were visiting the Co-operative Bank stand.

Co-op Bank Group at a glance

Our History

1966/1968

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

1994

Converts into a full-fledged commercial bank to bank other customers beyond co-operatives including personal, corporate and institutional

1998

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

2000

The bank makes a huge loss of KShs 2.3 Billion

2002

Returns to profitability reporting KShs.103 Million profit. In 2003 the bank re-occupies the renovated Co-operative Bank house

2005

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

2007

Records a complete turnaround by reporting a KShs. 2.3 Billion profit before tax. Successfully listed at the Nairobi Securities Exchange in 2008

2009-2013

The bank undergoes it most rapid expansion by opening 77 branches. Customer accounts grow from 700,000 at the close of 2008 to 5.1 Million at the end of 2014

2014-2015

Embarks on the bold 'Soaring Eagle' Transformation Agenda to scale greater frontiers riding on over 6.1 Million account holders

2016

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

Co-op Bank Group at a glance (Continued)

Vision, Mission, Values, Awards

OUR VISION

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

OUR MISSION

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

OUR VALUES

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

AWARDS

2016 World Finance Awards
Best Commercial Bank, Kenya
Banker Africa – East Africa Awards 2016
The Best Socially Responsible Bank in East Africa
Banker Africa – East Africa Awards 2016
The Best Retail Bank in Kenya

Winning at the East Africa Banking Awards

Co-operative Bank Director Retail Banking, Mr. Maurice Matumo second left receives the Most Socially Responsible Bank Award from Mr. Robin Amlot, CEO CPI Financial. With Director Retail is Mrs. Jacqueline Waithaka-Mungai, Head Corporate Banking and Ms. Sarah Owermohle, Editor Banking Awards.

Co-op Bank Group at a glance (Continued)

Customer, Channels, Key Numbers

Our Customers

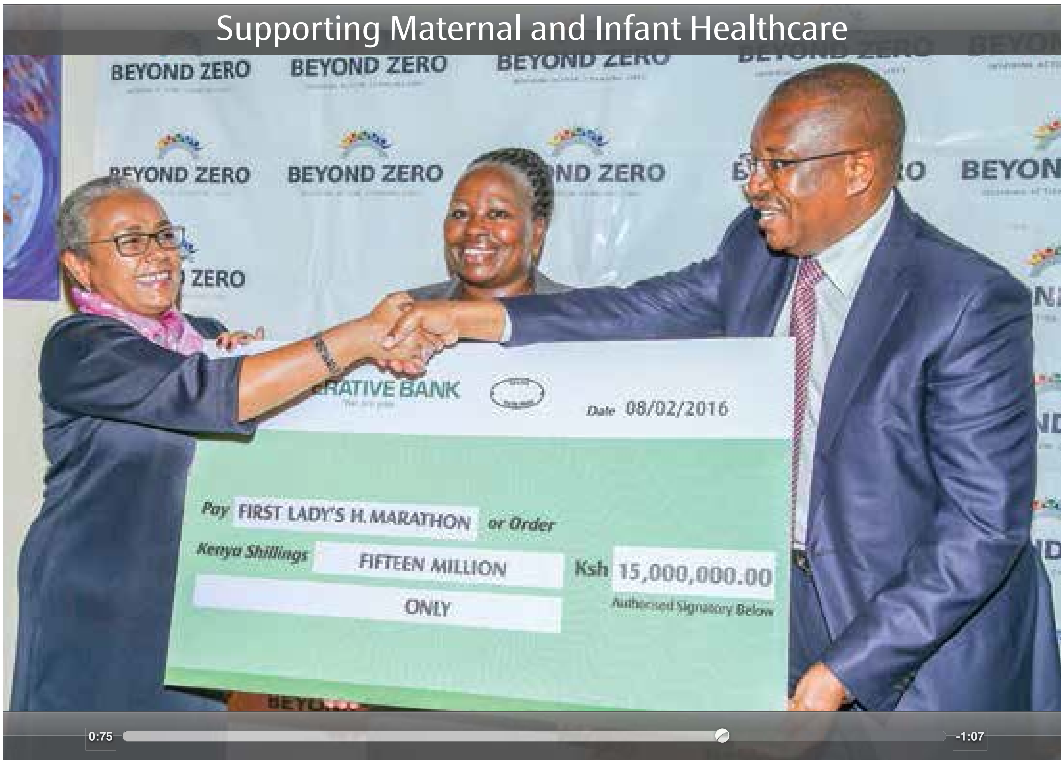
Accounts	Mcoop Cash	Internet	Sacco-Link	Diaspora	Face Book	Twitter	Instagram, You Tube, Telegram
6.22 Million	3.18 Million	69,000	992,000	11,000	1 Million	150,000	Customers

Our Channels

148 Branches	Mobile All Telco, All Product Mcoop Cash Channel	Over 8000 Coop Kwa Jirani Agents	Over 580 ATMs	Internet Co-opNet (Retail and Corporate)
24 Hour Contact Centre	Over 555 FOSA's	Dedicated Diaspora Banking Department	4 Subsidiaries 1 Associate Company	Social Media Banking

Other Key Numbers

Other Key Numbers	Total Assets	Core Capital	Net Loan Book	Customer Deposit Book	Market Capitalization	PBT	Staff Numbers
	352 Billion	51 Billion	232 Billion	260 Billion	65 Billion	17.7 Billion	3942



Her Excellency The First Lady, Mrs. Margaret Kenyatta, receives a donation from the Group Managing Director Dr. Gideon Muriuki in support of The First Lady's Beyond Zero campaign aimed at improving maternal health care of Kenyan Children. Looking on is Ms. Lydia Rono, Director Corporate and Institutional Banking.

Group Chairman's Statement

> "As regulatory and compliance environment become more rigorous, banks are expected to have the ability to adapt to regulatory changes in a very short space of time."

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

I am delighted to present to you the Annual Report and Audited Financial Statements of the Co-operative Bank Group for the year ended 31st December, 2016.

Performance Overview

The year 2016 was marked by challenging macroeconomic conditions, significant changes to regulation, and strong competitive pressures. The economy remained resilient to record a 5.8 per cent GDP growth rate in 2016 and is projected to grow at a slower pace in 2017, reflecting dampening effects of the prevailing drought, rising inflation and the uncertainty caused by the upcoming general elections.

The status of the global economy, including rising energy and commodity prices, UK's Brexit vote and the policy uncertainty of new US administration had an impact on our operating environment. Looking ahead, we anticipate that the local economy will continue to be influenced by these factors in 2017.

The banking sector recorded mixed performance. Bottom-line profitability showed a modest improvement and performance of most underlying indicators was weak; private sector credit grew by only 4 per cent from KShs. 2.22 Trillion in 2015 to KShs. 2.31 Trillion in 2016, much slower than the 18 percent growth reported the previous year. Money supply (extended broad money (M3)) and liquidity grew by only 3.9% and 9.3% respectively compared to 13.7% and 14.7% in the year 2015. This indicates underlying structural weaknesses in the financial sector which might manifest in declining profitability going forward.

Group Chairman's Statement (Continued)

It is therefore with great pride that I report to you that the Group made a Profit before Tax of KShs. 17.7 Billion for the period ended 31st December 2016, a commendable growth of 15.2 per cent compared to the KShs. 15.4 Billion posted in 2015. Our Balance Sheet continued to expand with Total assets growing by KShs. 9.4 billion (+2.7%) to KShs. 351.8 Billion, supported by a growing customer base now standing at over 6.2 Million account holders.

Dividend, Bonus Shares and the Annual General Meeting

The Board of Directors has recommended to the Annual General Meeting (AGM) a dividend of KShs. 0.8 (80 cents) per every ordinary share held subject to the approval by the Capital Markets Authority. The board has further recommended a Bonus Share Issue of one ordinary share of KShs. 1 each for every five ordinary shares held. The dividend payout ratio will enable the bank to reward shareholders and at the same time reserve funds to fuel growth as we continue with the bank's transformation agenda.

The ninth Annual General Meeting of the Co-operative Bank of Kenya Limited will be held at the Safari Park Hotel, Thika Road Nairobi on Friday, 26th May 2017 to transact the agenda as specified in the notice of the AGM.

Board and governance

To us, corporate governance implies far more than compliance with relevant legislation and best practice principles. It also involves a deep-rooted culture of accountability, transparency, ethical and a values-based approach to everything we do. As regulatory and compliance environment become more rigorous, banks are expected to have the ability to adapt to regulatory changes in a very short space of time. The board is committed to sound processes and procedures, which go beyond regulatory compliance and ensures sustainability long after the law has been implemented.

The application of best banking practices enables us to act in our clients' best interest and in our country's welfare. Our robust institutional frameworks also allow us to provide secure and stable banking services in markets where we operate. We are cognizant of the fact that we inspire trust and confidence when we implement processes that prohibit illegal banking practices.

Regulatory environment

There has been significant increase in supervision and oversight by the regulators as well as greater scrutiny by our stakeholders. Of particular note has been the need for enhanced classification and provision for bad debts as well as the need to boost our capital holding. In addition, insider lending and liquidity have also attracted significant attention of regulators. As a bank we hold optimum capital reserves and our liquidity ratios are sufficient to support and grow our lending activities.

We have stepped up our adherence and compliance to global compliance requirements, including anti-money laundering and combating the financing of terrorism, FATCA regulations and enhancements in IFRS reporting guidelines.

We welcome all these enhanced regulatory regime efforts which we recognize as necessary for financial sector stability, security, the protection of consumer interests and the building of confidence in our financial system.

Outlook

We expect year 2017 to be particularly challenging. Unfavorable weather that resulted in widespread drought is expected to constrain agricultural sector growth in the first half of the year. Rising global commodity prices may offer some reprieve. Manufacturing is expected to take a hit from increased costs of inputs; a weaker currency will push up costs of imports, energy costs will increase with rise in global oil prices and also higher thermal power costs in the wake of reduced hydro generation. Reduced private sector lending may further constrain cash flows. Tourism numbers are expected to be weak in the wake of the elections. Financial services sector growth may remain flat as lending to private sector shrinks.

Inflation rate is expected to stay elevated in 2017. Depressed rainfall is set to drive cost of food and electricity up in the first half of the year. More expensive thermal energy has been injected into the grid to complement the shrinking hydro power. Further, the rise in global crude oil prices will impact the transport index and add to inflationary pressures. However, owing to slowed uptake of private sector credit, the Monetary Policy Committee may not opt to increase the CBR, which may keep lending and deposit rates flat. That said, interest rates on government securities may stay high due to heightened domestic borrowing.

The Kenya shilling is expected to remain under pressure. The rising US interest rates coupled with the bullish prospects of the US economy will strengthen the US dollar against most other currencies.

In spite of all this, we expect our performance to remain resilient. We expect consumer credit uptake to grow substantially driven by low interest rates. We are also nearing completion of our transformation project from which we expect to fully accrue the envisaged benefits including significant enhancement in operating efficiencies and substantial growth in operating income.

Conclusion and appreciation

I take this opportunity to most sincerely thank all our stakeholders for their unwavering support and confidence in us. The board is aware and humbled by the immense responsibility bestowed on it and reiterates its commitment to provide oversight and leadership in the development and implementation of sound and sustainable business strategies.

In conclusion, the board deeply appreciates the great performance the Group achieved in the year under review notwithstanding the very challenging operating environment. We therefore ask all stakeholders to join the board in expressing our most sincere gratitude to the management team led by the Group Managing Director and CEO Dr. Gideon Muriuki for this most commendable performance.

Thank you all for your support as we pursue our vision of being the dominant Bank in Kenya and in the Region riding on the unique Co-operative Model.

Thank you all

Stanley Muchiri, EBS,

Group Chairman

Ripoti Ya Mwenyekiti

Ni furaha kubwa kwangu kuweza kuitoa ripoti ya Mwaka ya Co-operative Bank Group ambayo imeambatana na ile ya Muhasibu ya mapato na matumizi ya pesa katika mwaka uliomalizika Desemba 31 2016.

> "Mipangilio imara ya utenda kazi wetu pia inawezesha kuhakikisha kwamba mazingira ya soko tunapofanyia kazi ni salama kwa shughuli zetu zote."

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

Mazingira ya ki-uchumi 2016

Mwaka wa 2016 ulikuwa na changamoto nyingi kutokana na saizi ya uchumi, mabadiliko makubwa ya sera za usimamizi na uwezo wa kuweza kujizatiti. Uchumi uliendelea kuwa imara na kuweza kukuza kiwango cha GDP kwa asilimia 5.8 mwaka wa 2016 na unatarajiwa takua pole pole mwaka wa 2017 kwa sababu ya hali mbaya ya ukame, mfumuko wa bei na hali isiyoeleweka wakati kama huu Uchaguzi Mkuu unavyokaribia.

Hali ya kiuchumi duniani imekuwa ni shida kuibashiri kutokana na ongezeko za bei ya kawi na bei za bidhaa, kura ya Uingereza ya Brexit, na kutoidhinika kwa maongoozi ya Serikali mpya ya United States kumekuwa na msukumo katika mazingira ya utenda kazi wetu. Katika siku za usoni, inatarajiwa kwamba hali hii itaendela kuwa na mwelekeo fulani katika uchumi wetu mwaka wa 2017.

Hali ya Sekta ya Benki nchini Kenya

Utendakazi wa Sekta ya Benki ulikuwa wa kiwango ambacho hakiwezi kusemekana ni kizuri au kibaya. Faida ilikuwa ni ya wastani na viegezo vyake vilikuwa ni hafifu. Mikopo kwa Sekta ya Ubinafsi iliongezeka kwa kiwango cha asilimia 4 pekee yake kutoka shilingi trillioni 2.22 mwaka wa 2015 hadi shilingi trillion 2.31 mwaka wa 2016, kiwango cha chini sana kikilinganishwa na asilimia 18 iliyoripotiwa mwaka uliotangulia huu. Wingi wa pesa nchini na uwezo wake kuweza kutumika uliongezeka

Ripoti Ya Mwenyekiti (Continued)

kutoka kiwango cha chini cha asilimia 3.9 na 9.3 hadi asilimia 13.7 na 14.7 mtawalia mwaka wa 2015. Hiki ni kielelezo cha viundo msingi hafifu katika Sekta ya Pesa ambavyo vinaweza kuwa chanzo upungufu wa faida katika shughuli za kibiashara za Benki miaka ijayo. Ni jambo la kujivunia kuweza kutangaza kwamba mwaka uliomalizika Disemba 31, 2016, Benki yetu ilifanya faida ya shilingi billion 17.7, kabla ya kodi kuondolewa. Ongezeko kubwa la asilimia 15.2 ukilinganisha na Billioni 15.4 mwaka wa 2015. Balance Sheet yetu iliendelea kuwa kubwa na thamani ya Rasilimali yetu yote kuongezeka kwa kiwango cha shilingi Billioni 9.4 (2.7%) na kufikia shilingi Billioni 351.8 ambayo msingi wake ni idadi ya wateja wenye akaunti kwenye benki ambao wamezidi kuongezeka na sasa kufikia idadi ya Millioni 6 nukta 2.

Mgawo, Hisa za Bakishishi na Mkutano wa Mwaka

Halmashauri ya Wakurugenzi imependekeza kwa Mkutano wa Mwaka (AGM) mgawo wa Sh. 0.80 kwa kila hisa, ikiwa Capital Markets Authority itaidhinisha pendekezo hilo. Halimashauri pia imependekeza na Bonus Share Issue ya hisa moja ya kawaida ya Sh.1 kwa kila hisa tano alizo nazo mwenye hisa. Mpangilio uliowekwa wa kulipa Mgao/Dividend utawezesha benki yetu kuwatunukia wanahisa na wakati huo huo kubakiza kiwango cha faida ambacho kitatumika kuandeleza shughuli za ajenda yetu ya mageuzi ya kibiashara.

Mkutano wa Mwaka wa Co-operative Bank of Kenya Limited wa 9 utafanyika Safari Park Hotel, Thika Road Nairobi siku ya Ijumaa tarehe 26 Mei, 2017 kushughulikia ajenda kama ilivyowekwa katika mualiko wa Mkutano wa Mwaka.

Kazi ya uongozi wa Halimashauri ya Wakurugenzi

Kwetu sisi Halimashauri ya Wakurugenzi sio chombo tu cha kufuata sheria za nchi na mifano mizuri ya utendakazi ambayo imetumika na kuthibitishwa kuwa bora kwa biashara, lakini pia ni chombo ambacho kinaendesha shughuli zake kwa uwazi na uajibikaji katika mazingira ambayo mabadiliko yoyote ya sera na sheria ni lazima yaweze kutekelezwa kikamilifu na haraka iwezekanavyo baada ya kupasishwa. Kwa jumla Halimashauri yetu imejitolea kufuatilia maadili mema ya utenda kazi hata zaidi ya vile sheria zinavyopendekeza na hivyo kuweza kuiweka benki yetu katika msingi imara kwa miaka mingi ijayo.

Kwa kufuatilia mifano bora zaidi katika uendeshaji wa shughuli za benki imewezesha kuwahudumia wateja wetu kwa njia ambayo inawafaa zaidi wao binafsi na nchi nzima kwa jumla. Mipangilio imara ya utenda kazi wetu pia inawezesha kuhakikisha kwamba mazingira ya soko tunapofanyia kazi ni salama kwa shughuli zetu zote. Tunafamu umuhimu kwa kujenga imani katika shughuli zetu kwa kuwa na mikakati ambayo inazuia matumizi ya huduma za benki kinyume cha sheria. Lingine ambalo limeangaziwa sana ni mikopo ya ndani kwa ndani kati ya benki na maofisa wake. Kama benki, tumeweka pesa za kutosha mahitaji yetu yote ya utoaji mikopo sasa na wakati ujao.

Ukaguzi

Ukaguzi na uangalizi wa shughuli zetu kutoka kwa wahusika umeongezeka sana wakati huu wa sasa. Yanayoangaziwa zaidi ni mikopo ambayo hailipiki na mbinu za kuiorodhesha na kuithibiti mikopo hiyo na jinsi ya kuongeza uwezo wa kipesa wa benki yetu.

Tumeongeza juhudi zetu katika mikakati ya kimataifa ambayo imewekwa kuzuia uhamishaji wa pesa usio halali na matumizi yake kwa kugharimia kama vile ugaidi na uharamia.

Tunakaribisha yote yamewekwa katika juhudi za kuimarisha Sekta ya Pesa na usalama wake katika hali ya kuwalinda wateja wetu na kuongeza imani yao katika mfumo wetu wa pesa.

Matarajio

Inaonekana mwaka wa 2017 utakuwa na matatizo kwa njia kadhaa. Hali ya ukame ambayo imepunguza mazao ya kilimo kwa kiwango kikubwa katika nusu ya kwanza ya mwaka huu. Viwanda vitaadhirika kwa sababu ya kuongezeka bei kwa mali ghafi, kupunguka kwa thamani ya shilingi, gharama za kuleta bidhaa kutoka nje zitaongezeka kwa sababu ya kuongezeka kwa bei ya mafuta na kawi. Upungufu wa mikopo ya kibinafsi itapunguza hela katika mifuko ya watu na utalii utaasiriwa na uchaguzi.

Mfumuko wa bei unatarijiwa kuendelea mwaka wa 2017 na ukosefu wa mvua utafanya bei ya vyakula na stima kupanda. Thamani ya Shilingi ya Kenya inaendelea kuwa chini.

Hata ingawa haya yote yatakuwemo, hayatadhuuru utendakazi wetu. Tunatarajia kuchukuliwa kwa mikopo na wateja kuongezeka kwa sababu ya kiwango cha chini cha riba. Mradi wetu wa mabadiliko pia uko karibu kumalizika na tutaweza kufaidi manufaa yake kikamilifu na kuboresha huduma zetu na pato letu kuongezeka.

Shukurani

Nachukua nafasi hii kuwashukuru nyote kwa kutuunga mkono nakuwa na imani nasi. Halimashauri inatambua majukumu mazito walio nayo na wanafanya kila wanaloweza kuhakikisha wanayatekeleza ipasavyo kutoa uongozi ambao utawezesha benki yetu inatekeleza mikakati ya sera ambayo itaimarisha na kuikuza kibiashara.

Kumalizia, Halmashauri imetambua kazi nzuri iliyofanyika kupata matokeo bora kama haya mwaka wa 2016 chini ya mazingira magumu ya kibiashara. Kwa hivyo tunawaomba washikadau wote waungane na Halmashauri kuwashukuru sana, mameneja na wafanya kazi wetu wote wakiongozwa na Group Managing Director/CEO Dr. Gideon Muriuki kwa kazi nzuri waliyofanya.

Nawashukuru nyote kwa kutuunga mkono katika kufuatilia maono yetu ya kuwa benki inayofahamika zaidi Kenya na eneo nzima chini ya mfumo wa Co-operative.

Shukrani nyote

Stanley Muchiri, EBS,

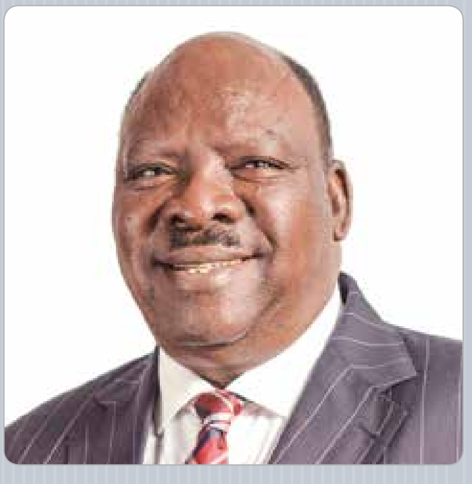
Group Chairman

The Board of Directors

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

Stanley C. Muchiri, EBS, Group Chairman (71)

Has served the Board as Director since 1986 and Chairman since 2002. He is the Chairman of Kingdom Securities Limited, Co-op Trust Investment Services Limited and Co-op Consultancy & Insurance Agency Limited, all subsidiaries of the bank. He is also the Chairman of Co-opholdings Co-operative Society Limited. He holds a Diploma in Co-operative Management from Turin, Italy, a Certificate in Co-operative Administration (CCA), and Banking course from the Co-operative College of Kenya. He has served Kenya's cooperative movement in various capacities for over 31 years. He is Chairman of the Co-operatives Alliance of Kenya (CAK), Vice-President of the International Cooperative Alliance (ICA) and President of the International Co-operative Alliance, Africa. He is a Director, Co-operative Bank of South Sudan, Director CIS (majority strategic shareholder CIC Insurance Ltd) and also the Chairman of the Co-operative Bank Foundation. He was decorated with the award of Elder of the Burning Spear (EBS) in the year 2005 for his outstanding service to the nation.



Julius Riungu, Vice Chairman (69)

A businessman and leading educationist with over 20 years' experience in the teaching profession. He has previously served as a Director in Coffee Board of Kenya and Coffee Research Foundation. He is Vice Chairman of Co-opholdings Co-operative Society Limited and has served the co-operative movement in various capacities for over 16 years. He is a Director, Co-operative Bank of South Sudan and in CIS (majority strategic shareholder CIC Insurance Ltd).

Dr. Gideon Muriuki, MBS, Group Managing Director & CEO (52)

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. 17.7 billion in 2016. 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 28 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) and in 2011 with the award of The Moran of the Order of the Burning Spear (MBS) in recognition of his successful turnaround of the Bank and exemplary service to the nation. He is also a recipient of a decoration of Chevalier de L'orde National du Burkina Faso by the President of Burkina Faso in recognition of his outstanding contribution to development of rural finance in Africa, 2016 Lion of Judah Award by Evangelical Alliance of Kenya and Mtumishi Bora 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)

John Murugu, Director, Independent (66)

Joined the Board of Directors on 27th May 2015. 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). He is the Chairman of The Board Credit Committee.

Rose Simani (Mrs), Director, Independent (58)

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 (61)

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 (62)

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. He holds a Bachelor of Business Administration degree in Human Resources Management.

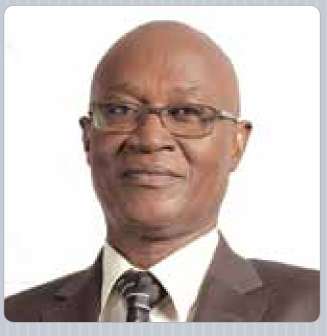
Macloud Malonza, Director (48)

Joined the Board of Directors in 2005. Holds a Bachelor of Arts degree, a Masters in Organizational Change and Development, Master of Business administration, Post-graduate Diploma in Management and Information Systems, Certificate in Strategic Planning and Management and CPS 1. He has also attended Senior Management and Strategic Leadership Development Courses. He has served in various positions in the Civil Service and is Chairman of Harambee Co-operative Society Limited that serves employees of the various Government departments under the Office of the President. He is a Director of Co-opholdings Co-operative Society Limited.

The Board of Directors (Continued)

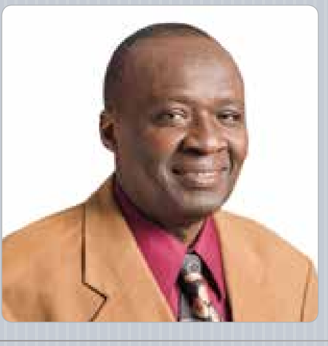
Benedict W. Simiyu, Director (55)

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.



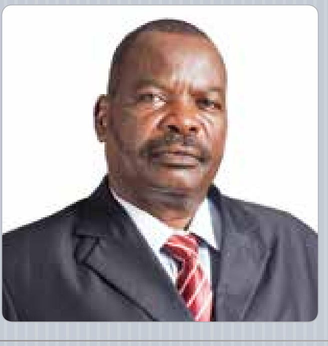
Richard L. Kimanthi, Director (60)

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 (61)

He was appointed a Director on 7th August 2013, as the alternate to the Principal Secretary - National Treasury. He is the Deputy Director Economic Affairs in charge of Tax and Administration and private Sector issues and holds a BA (Hons) in Economics and Sociology from the University of Nairobi and an MA in Development Economics from Dalhouse University Canada. He has had a successful career in the Civil service for a period of over 31 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, Director (61)

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-opholdings Co-operative Society Limited.

Samuel Mwaura Kibugi, Company Secretary (40)

Has over 14 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 Group Chairman, Stanley Muchiri, and the Group Managing Director & CEO, Dr. Gideon Muriuki, serve on the boards of the subsidiary companies. The other directors are:

Dr. James M. Kahunyo, Director (62)

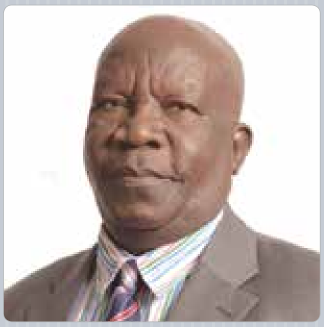
Joined the boards of the subsidiaries in 2005. He is a leading educationist and currently a Lecturer at the Kabete Campus of the University of Nairobi. He holds a Bachelor of Veterinary Medicine degree and a Master of Science degree, and is also involved in providing leadership at Chuna Co-operative Savings and Credit Society. He is a Director of Co-opholdings Co-operative Society Limited.

David Muthigani Muriuki, Director (48)

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.

Patrick K. Githendu, Director (63)

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



James N. Njiru, Director (49)

Joined the boards of the subsidiaries in May 2014. He is a business man 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.

speaker
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contacts

Board of Directors of Kenya Subsidiary Companies

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

Scholastica Odhiambo (Mrs), Director (57)

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 30 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.

Godfrey K. Mburia, Director (60)

Joined the boards of the subsidiaries in 2004. He is an Accountant by profession and served as Head of Finance, Meru Central Farmers Union. He is a Director of Co-opholdings Co-operative Society Limited.

Mary N. Mungai, Director (58)

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

William Mayar Wol, Chairman (54)

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.

Zachary Chianda, Managing Director (59)

He was appointed Managing Director of Co-operative Bank of South Sudan on 23rd June 2014. A career banker with over 33 years experience in banking and has worked in various senior positions in the Co-operative Bank of Kenya including Director Co-operatives Banking, Director - Operations and Director Corporate & Institutional Banking. He holds a Bachelor of Science Degree in Financial Services from the University of Manchester Institute of Science and Technology (UMIST) and is an Associate of Chartered Institute of Bankers (ACIB) of UK. He also holds a Diploma in General Management from Jutland Technology Institute Aarhus (Denmark) and a Certificate in Bank Management from Odense Business School (Denmark). He has served in other capacities in the Bank in the past including as a Trustee of the Bank's Pension Fund.

Prof. Mathew Gordon Udo, Director (58)

He was appointed a director of Co-operative Bank of South Sudan on 23rd August 2012. He is South Sudanese citizen by birth and currently is Under Secretary in the Ministry of Agriculture, Forestry, Co-operatives and Rural Development in charge of Administrative Affairs, Planning and Forestry Development. He has a strong base and wide knowledge in different fields of agriculture and natural resource management and has served in various capacities in both the academic field and Civil service in South Sudan spanning a period of over 29 years. He holds 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.

Wani Buyu Dyori, Director (71)

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 Majala Githaiga, (Mrs), Director (53)

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.

Group Managing Director & CEO's Report

> "We have an innovative strategy for regional expansion to new frontiers such as Rwanda, Uganda, Ethiopia and Tanzania riding on the unique co-operative model."

Dr. Gideon Muriuki, MBS
Group Managing Director & CEO

I am greatly delighted to present to you the Annual Report & Financial Statements of the Co-operative Bank of Kenya Group for the year ended 31st December 2016.

Introduction

The Co-operative Bank was established in 1965 being the formative period following Kenya's independence, with a bold mission of financial inclusion and has since grown to become one of the most successful financial institutions in the region. We are presently executing our 2015-2019 five-year strategy that underpins the commendable performance that the business continues to register. We are confident that our unique business model will continue to enable us to deliver sustainable value for all our stakeholders both in the current period and also in the long term.

Operating environment

The operating environment in year 2016 was unusually challenging on many fronts. Key among the challenges was adverse regulation following the enactment of a law capping interest rates that banks are obligated to comply with. As a Kenyan bank predominantly owned by the over 15 million-member Co-operative sector that desires affordable credit, we provided early leadership to the industry on the need to fully comply with the law. To mitigate the huge potential loss of income that interest capping may cause, we are pushing higher loan volumes, sustaining the growth of non-funded commissions income while ensuring we retain a quality loan book and on the overall enhance operational efficiency of the business.

Group Managing Director & CEO's Report (Continued)

"Soaring Eagle" transformation project

The eagle has a legendary reputation for its amazing power of self-renewal. The Bank started the Bold Transformation agenda in August 2014 to review our growth and efficiencies in order to sustainably create value for our stakeholders. We are glad we did it.

The 'Soaring Eagle' Transformation Project enabled us to achieve impressive financial performance despite the severe headwinds that challenged our business in year 2016. We enhanced customer delivery platforms and achieved remarkable branch transformation with 83 per cent of bank transactions migrated to alternative channels. We continued to entrench a performance-based reward culture that boosted staff productivity ratio from 18 per cent in 2015 to 17 per cent in 2016 based on staff cost to operating income. Sales force effectiveness riding on our strong customer base of over 6.2 million account-holders helped us boost cross-selling with customers holding a single account falling from 71.08 per cent in 2015 to 68.98% as at 2016 close. Our risk management framework remained robust, keeping our non-performing loan ratio at 4.3 per cent, among the best in the industry. Digitization and automation of the key processes to enhance efficiencies saw our cost to income ratio improve from a high of 59 per cent in 2014 to 52.1 per cent in 2016. Investment in data analytics to enrich customer relationships and enhance management reporting is bearing fruit.

Value creation

Our model allows us to create value in the short, medium and long term by employing our key capital stocks into value-adding activities as informed by our corporate strategic plan while carrying out proactive risk management. The value created is then distributed to all our stakeholders. We distributed over KShs. 29.7B financial value in 2016 up from KShs. 26.7 Billion in 2015. This allowed us to distribute more economic, social and environmental value to all our stakeholders.

Performance overview

The group delivered a Profit before Tax of KShs. 17.7 Billion for the year ended 31 December 2016, a remarkable growth of 15.2 per cent compared to KShs. 15.4 Billion recorded in 2015.

Our customer deposits retreated marginally to stand at KShs. 260.2 Billion in 2016 as we released some expensive wholesale deposits in the post-interest cap environment in order to protect our interest margins. Loans and advances grew by KShs. 23.7 billion from KShs. 208.6 billion in 2015 to KShs. 232.3 billion in 2016, an 11.4 per cent growth that supported a 24.2 per cent rise in net interest income from KShs. 19.8 billion in 2015 to KShs. 24.6 billion in 2016. Total operating income increased from KShs. 36.4 billion to KShs. 42.3 billion, a 16.2 per cent jump.

Risk management

Integrated Enterprise Risk Management continues to play an important role in our operations by ensuring there is enterprise-wide appreciation of risk, proactive risk mitigation and strategic uptake of optimum risk to create value for our stakeholders. We have in place a dynamic Internal Capital Adequacy Assessment Process that ensures that we take optimum level of risk. Our approach has enabled us move beyond regulatory compliance to strategic risk management throughout the organization.

Sustainability

Our approach to sustainability is three pronged; Financial, Social and Environmental. We have delivered positive financial impact through sustained financial performance, delivery of economic benefit through lending that has led to employment and economic development towards the realization of the country's Vision 2030, and we engage in responsible business practices by complying with all established rules and regulations.

We have invested in the communities around us by offering capacity-building in the Co-operative movement through our wholly-owned subsidiary Coop Consultancy and Insurance Agency. We offer significant social investment in form of education scholarships through the Co-operative Bank Foundation to gifted but needy students selected from all regions of the country. We have so far supported a total of 5089 students with full scholarships for secondary, college and university courses of their choice.

Over the years, we have maintained strong employee engagement, making us an employer of choice by ensuring balanced reward, gender parity, skilling and upskilling, optimal resourcing and performance management platform. We have keenly supported worthy causes including the First Lady half Marathon "Beyond Zero Campaign" that raises funds to support child and maternal health in Kenya. Our staff teams also take part in and contribute resources to support social causes of their own choosing.

Our environmental sustainability approach is achieved through green lending and direct involvement in environmental management such as tree planting, energy saving initiatives and wildlife conservation.

New Frontiers

We have an innovative strategy for regional expansion to new frontiers such as Rwanda, Uganda, Ethiopia, and Tanzania riding on the unique co-operative model. Our strategic partnership with the Government of South Sudan (Co-op Bank 51% and GOSS 49%) has enabled us to offer banking solutions to the Country.

The Outlook

Our outlook is optimistic, on account of the successful execution of the Soaring Eagle Transformation project. We remain confident we shall continue creating value for all our stakeholders in the short, medium and long term.

Acknowledgment

I would also like to most sincerely thank all our customers for believing in us, our business partners for supporting us, enabling our business to succeed. I wish to most sincerely thank the Group Chairman, Mr. Stanley Muchiri and the entire Group Board of Directors for their steadfast support and guidance to the 'Kingdom Bank'.

I thank you and may God richly bless you.

Yours faithfully,

Dr. Gideon Muriuki, MBS
Group Managing Director & CEO

Ripoti ya Mkurugenzi Mtendaji

> "Tumejipanga kupanua biashara zetu katika nchi za Rwanda, Uganda, Ethiopia na Tanzania kupitia kwa Vyama vya Ushirika."

Dr. Gideon Muriuki, MBS
Group Managing Director & CEO

Ninayo furaha kutoa Ripoti ya Mwaka ya Co-operative Bank ikiambatana na ile ya Muhasibu ya Mapato na Matumizi ya pesa mwaka uliomalizika tarehe 31 Disemba 2016.

Utangulizi

Co-operative Bank ilianzishwa mwaka wa 1965 wakati tu Kenya ilikuwa imepata Uhuru wake lengo lake kuu likiwa ni kuwa benki ambayo inatoa huduma zote za pesa na haibagui mtu. Sasa imekuwa ndiyo benki ambayo imefaulu sana katika kanda hii. Kwa wakati huu tunaendelea na kutekeleza mpango wetu wa Maendeleo wa Miaka mitano (2015 – 2019) ikiwa kwa sasa ndiyo nguzo ya utendakazi bora ambao tumezidi kuushuhudia katika benki yetu. Tuna hakika kwamba muundo wetu wa biashara utatuwezesha kudumisha huduma zenye manufaa mengi kwa wahusika wetu wote sasa na kwa miaka mingi ijayo.

Mazingira ya kibiashara

Mazingira ya kibiashara yalikuwa na changamoto nyingi kutoka kila upande. Kubwa kati ya hizi ilitokana na kupitishwa kwa sheria ambayo iliweka kiwango cha juu zaidi cha riba ambacho benki ziliruhusiwa kutoza wateja wao. Sisi kama benki ya Kenya inayomilikiwa na wanachama milioni 15 wa Vyama vya Ushurika na ambavyo vinapendelea mikopo isiyo na gharama kubwa, tumekuwa msitari wa mbele kuongoza benki zingine humu nchini pia zikikubali kutekeleza sheria hii. Kukabiliana na uwezekano mkubwa wa kupoteza biashara kwa sababu ya kukatazwa kutozwa riba kiwango kikubwa zaidi ya kile kimewekwa na sheria, tumeamua kwamba kuongeza idadi ya wateja wanaochukua mikopo,

Ripoti ya Mkurugenzi Mtendaji (Continued)

wingi wa huduma zinazolipiwa ada na kuboreshwa kwa huduma za wateja kwa jumla kutaweza kukabiliana na upungufu wa pesa kwa benki yetu inazopata kutoka kwa riba.

Mradi wa Mabadiliko - 'Soaring Eagle'

Tai ni ndege anayefahamika kuwa na uwezo wa kiajabu wa kurekebisha mwili wake kimaumbile na kuufanya kuwa mpya. Na kwa mfano huo huo wa Tai, Co-operative ilizindua mradi wake wa Mabadilisho mwaka wa 2014 kwa kuziangalia kwa ndani shughuli zake zote kwa lengo la kuzibadilisha na kuzijaza upya ambao ungeboresha ukuaji na utendakazi ili washiriki wetu wazidi kufurahia benki hii sasa na kwa miaka mingi ijayo. Tunafurahi tulichukua hatua hii ya kuanzisha Mradi huu wa Mabadiliko.

Mradi huu ndio ulituwezesha kufanya vyema kibiashara mwaka wa 2016 ingawa kulikuwa na changamoto nyingi zilizotukabili. Tuliweka mikakati mingi ya kuwahudumia wateja wetu na tukafanya mabadiliko kwa asili mia 83 ya huduma wanazopata kutoka kwa benki yetu sasa waweze kuzipokea kwa njia mubadala. Tumeendelea kuwatunikia wafanya kazi kulingana na utendakazi wao na hii imewafanya kuongeza juhudi zao kazini kwa kiwango cha asili mia 18 mwaka wa 2015 hadi kiwango cha asili mia 17 mwaka wa 2016. Wateja wenye akaunti moja walipungua kwa kiwango cha kutoka asili mia 71.08 mwaka wa 2015 hadi asili mia 68.98 mwaka wa 2016. Ni pongezi kwa wauzaji wa huduma zetu. Mikopo ambayo hailipiki ni asili mia 4.3 ya mikopo yote – kiwango ambacho ni cha chini zaidi nchini. Pesa zilizotumika kuzalisha pato la mwaka zilipungua kutoka asili mia 59 mwaka wa 2014 hadi asili mia 52.1 mwaka wa 2016. Kuonyesha kwamba utendakazi ulikuwa umeboreka.

Mbinu ya kuongeza thamani ya rasilmali yetu

Muundo wetu wa biashara unatupatia nafasi ya kuweza kuongeza thamani ya rasilmali yetu kwa kuziwekeza pesa hizo katika shughuli za kibiashara kama inavyopendekezwa na idara zetu zinazohusika na shughuli hizi za uwekezaji kuhakikisha hakuna hatari yoyote ya kuweza kupotea. Thamani inayopatikana inagawanywa kwa washiriki wetu wote. Mwaka wa 2016 tuligawa shilingi billioni 29.7 ukulinganisha na shilingi billioni 26.7 mwaka wa 2015.

Maelezo ya pato letu

Benki yetu ilipata faida ya kiwango cha Billioni 17.7 kabla ya kutozwa kodi katika mwaka uliomalizika tarehe 31 Disemba, 2016. Ni ongezeko nzuri la asili mia 15.2 ukilinganisha na shillingi billioni 15.4 mwaka wa 2015.

Pesa za wateja zilizomo katika akaunti zao zilipunguzwa makusudi kiwango kidogo hadi shillingi billioni 260.2 mwaka wa 2016. Hii ikiwa ni mbinu ya benki ya kulinda kiwango cha riba inayotarajiwa kulipwa wateja baada ya sheria ya riba kuanza kutekelezwa.

Mikopo na ma-advance vilikua kwa kiwango cha shilingi billioni 23.7 kutoka shilingi billioni 208.6 mwaka wa 2015 hadi shillingi billioni 232.3 mwaka wa 2016 – ukuaji wa asili mia 11.4.

Mapato ya uendeshaji yaliongezeka kwa kiwango cha asili mia 16.2 kutoka shilingi billioni 36.4 hadi shillingi billioni 42.3.

Mpangilio wa kuchunga hasara katika biashara

Mpangilio wa Intergrated Enterprise Risk Management ni sera ya kibiashara yenye majukumu muhimu katika shughuli zetu za benki kuhakikisha kuna ufahamu wa kuchunga hasara katika kila sehemu ya biashara yetu na kujua kwamba katika biashara jambo moja linaweza kuwa la hasara likitekelezwa kwa njia fulani na la faida likitekelewa kwa njia nyingine. Muhimu, ni kuweza kutambua ni vipi unaweza kulifanya liwe la faida na ni vipi unaweza kulizuia lisifanyike ili kuepuka hasara. Katika sera hii tunacho chombo kingine kinachojulikana kama Internal Capital Adequacy Assessment Process ambacho kinatusaidia kuamua ni vipi tutafanya jambo fulani kuhakikisha kwamba halitakuwa la kuingiza hasara katika biashara yetu. Kama benki, tunafanya hivyo kila mara tunapojishughulisha na sheria za usimamizi wa benki na imetuwezesha kufaulu katika kila sehemu ya biashara yetu.

Biashara endelevu

Mwelekeo wetu katika biashara endelevu una sehemu tatu – ya kipesa, ya kijamii na ya kimazingira. Kipesa, tayari tunafahamika kama benki ambayo haiyumbi-yumbi kipesa na huduma zake za pesa ni pamoja na kuchangia ukuaji wa uchumi wa nchi kwa kupeana mikopo ambayo inawezesha watu wengi kuajiriwa kazi na nchi kufikiwa malengo yake ya Vision 2030. Tunafanya biashara halali kwa kutekeleza sheria za usimamizi wa benki ambazo zimewekwa na serikali.

Tumewekeza katika jamii za sehemu tunazofanyia biashara kwa kutoa mafunzo yanayohusiana na shughuli za Co-operative kupitia Kampuni yetu inayojulikana kama Co-op Consultancy and Insurance Agency. Katika jamii zote Kenya, tunapeana 'scholarship' kupitia Co-operative Bank Foundation kwa wanafunzi wenye bidii za masomo na wanaohitaji msaada. Wanachaguliwa kutoka sehemu zote za nchi. Hadi sasa tayari tumewasaidia wanafunzi 5089 kwa kuwalipia fees zote katika Shule za Upili, Colleges na Universities kusomea shahada na masomo waliochagua.

Katika kudumisha mazingira bora, lengo letu ni kutoa mikopo kwa wanaohusika na miradi ya Green Growth na pia kujihusisha ndani kwa ndani na miradi ya mazingira kama vile kupanda miti, kupunguza matumizi ya kawi na shughuli za kuwalinda wanyama wa pori.

Soko mpya

Tumejipanga kupanua biashara zetu katika nchi za Rwanda, Uganda, Ethiopia na Tanzania kupitia kwa Vyama vya Ushirika. Uhusiano wetu wa kibiashara na Serikali ya South Sudan (Co-op Bank 51% na GOSS 49%) imetuwezesha kutoa huduma za benki kwa nchi hiyo.

Matarajio yetu

Matarajio yetu ni mazuri, sana kwa sababu tumeweza kutekeleza kikamilifu mradi wetu wa mabadiliko wa 'Soaring Eagle'. Tuna imani tutazidi kuongeza thamani ya biashara yetu kwa niaba ya Washikadau wetu wote - sasa na kwa miaka mingi ijayo.

Shukrani

Ningependa kuwashukuru sana wateja wetu kwa kutuamini, washiriki wetu kwa kutuunga mkono na kuifanya biashara yetu kufaulu. Napenda pia kumshukuru kwa moyo wote Mwenyekiti Bwana Stanley Muchiri na Wakurugenzi wote kwa kuwa pamoja nami na kunipatia ushauri bora na kuunga mkono kikamilifu 'Kingdom Bank'.

Asanteni na Mungu awabariki.

Wenu,

Dr. Gideon Muriuki, MBS
Group Managing Director & CEO

Top Management Team

Dr. Gideon Muriuki, MBS, Group Managing Director & CEO (52)

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 28 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 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 Mwaura Kibugi, Company Secretary (40)

Has over 14 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 (53)

He joined the bank in 2002. Sam was appointed Chief Operating Officer in December 2014 and is a career banker with over 21 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 (51)

A leading credit specialist in the banking industry with over 23 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.

Top Management Team (Continued)

Patrick Nyaga, Director, Finance & Strategy Division (49)

Has over 23 years experience mainly in auditing and banking. Previously served at KPMG (EA), with the main focus being audit of financial institutions and especially banks in Kenya and the region. He then joined main-line banking where he has worked for over 14 years. He holds an MBA from Strathmore Business School, a Bachelor of Commerce degree in Accounting, is a Certified Public Accountant (K) and a member of ICPAK. He is also a Director of CIC General Insurance Limited.

Lydia Rono, Director, Corporate & Institutional Banking Division (51)

She has held many senior positions at the Bank in over 30 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.

Maurice Matumo, Director, Retail & Business Banking Division (42)

He joined the bank in 2006. He is in charge of the Retail and Business Banking Division of the Bank, responsible for network and business growth with special focus on consumer and SME value creation. He is an experienced banker with over 18 years experience in Kenya and abroad with a rich and extensive experience in business development, Human capital management and strategic channel development. He holds a Bachelor of Arts degree in Business Management from Moi University and has attended various local and international courses.

William Ndumia, Director, Transformation (43)

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 11 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 (45)

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 20 years experience in HR with six 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).

Top Management Team (Continued)

Vincent Marangu, Head, Co-operatives Banking Division (37)

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 Ndonye, Managing Director, Kingdom Securities Ltd (38)

(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 11 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.

Robert Morris Aloo, Treasurer (38)

He joined the bank in 2013. He has over 11 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 (40)

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 (43)

He joined the Bank in January 2016. He has over 18 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.

Top Management Team (Continued)

Nicholas Kamonye, Head, Co-op Consultancy and Insurance Agency (37)

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.

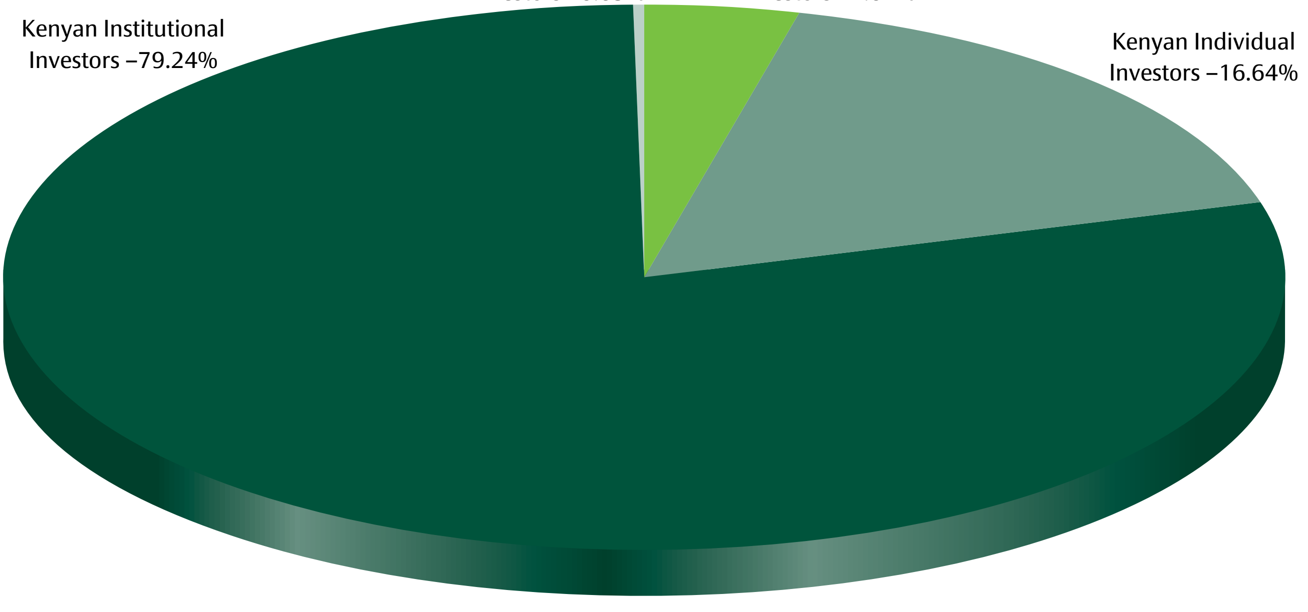
Nicholas Ithondeka, Managing Director, Co-op Trust Investments Services Ltd (34)

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 10 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)). 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 (45)

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.

Our Shareholders



	Top ten shareholders as at 31st December 2016	No. of Shares	%
1	Co-opholdings Co-operative Society Limited	3,156,429,504	64.56
2	Dr. Gideon Maina Muriuki	100,069,750	2.05
3	NIC Custodial Services A/C 077	30,927,453	0.63
4	Stanbic Nominees Ltd A/C Nr1030682	26,554,728	0.54
5	Standard Chartered Nominees A/C 9230	25,519,137	0.52
6	Kenya Commercial Bank Nominees Limited A/C 915B	23,208,866	0.47
7	Aunali Fidahussein Rajabali and Sajjad Fidahussein Rajabali	18,611,700	0.38
8	Kenya Commercial Bank Nominees Limited A/C 771A	16,612,933	0.34
9	Kenya Reinsurance Corporation Limited	15,336,687	0.31
10	Standard Chartered Kenya Nominees Ltd A/C Ke002511	15,220,000	0.31
	TOTAL	**3,428,490,758**	**70.12**

	Shareholding Range	No. of Shareholders	No. of Shares	%
	1 - 500	11721	2,296,062	0.05
	501 - 5,000	38895	75,121,494	1.54
	5,001 - 10,000	30981	218,383,274	4.47
	10,001 - 100,000	13615	276,911,283	5.66
	100,001 - 1,000,000	659	190,949,171	3.91
	1,000,001 - over	217	4,125,655,011	84.38

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.

After the Bank went public and was listed on the Nairobi Securities Exchange in December 2008, 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 2016, Co-opholdings had 3,832 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.

Co-opHoldings top Shareholders

Co-opHoldings Shareholding Structure	
Afya CS&CS	2.94%
Co-op Bank CS&CS	1.98%
Harambee CS&CS	3.82%
H&M CS&CS	3.31%
K-Unity CS&CS	2.38%
Kipsigis Teachers CS&CS	2.68%
Masaku Teachers CS&CS	2.91%
Telepost CS&CS	2.40%
Nawiri CS&CS	1.83%
Kenya Police CS&CS	3.17%
Others (3822 Saccos)	72.58%

Shareholder Information

In KSHS	2016	2015	2014	2013	2012
Total Shareholder Funds	60.6	49.3	42.88	36.58	29.37
Return on equity (%)	22.7	25.0	20.0	25.0	21.4
Earnings per share	2.64	2.31	1.69	2.20	1.84
Price earning ratio	5.1	7.5	12.2	8.2	6.8
Dividend per share	0.8	0.8	0.5	0.5	0.5
Pay out ratio	0.31	0.33	0.31	0.85	0.27
Share price - High	23.00	23.00	25.00	19.00	15.00
Share price - Low	9.75	15.85	17.00	12.20	10.15
Share price - Year End	13.20	18.00	20.00	17.75	12.60

Key pillars of Sustainability in Co-op Bank

Co-op Bank's sustainability strategy is based on the bank's vision, values and purpose. We enable people, businesses and society to grow in a way that is sustainable in the long-term. Sustainability is integrated in our business model and consists of three main areas:

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

We assure the bank's fundamental capacity to contribute to economically, socially and environmentally sustainable development in markets where we operate and in society as a whole.

Our approach to Sustainability

SOCIO-ECONOMIC	ECONOMIC	ECO-EFFICIENCY
We impact the local economy through an all inclusive banking model and a range of innovative financial solutions. We pay direct and indirect taxes and also act as KRA's tax collection agent country-wide. We train and foster strong business practices and ethics in our people. We engage a large number of employees from all backgrounds with a diverse mix of skills and capabilities. We offer continuous skills development and diverse career progression paths to our people. We contribute to social investments in the country directly and also through Coop Consultancy and Insurance Agency and Co-op Foundation.	Through our transformation project, we aim to increase the economic benefits that accrue to all our stakeholders. We have a broad Balance Sheet that acts as a strong foundation to our vision and all our activities. Over the years we have evidenced an upward projectile in our profitability growth curve that indicates increased value to all our stakeholders. We have an all inclusive, universal Banking model that accommodates people from all walks of life and of all economic abilities. We have a wide range of innovative products that match our clientele needs. We use a variety of innovative channels that foster deep financial inclusion to reach and serve our clients.	We promote eco efficiency though efficient management of our company resources, financing projects that enhance efficient use of natural resources and also creating awareness among our employees on energy and water conservation approaches and solid waste recycling. We are directly involved in restoring Kenya's forest cover through tree planting initiatives and also support our employees' CSR activities that positively impact the environment. We subject our processes, products and services through a Life Cycle Analysis to ensure their sustainability in the short, medium and long term.

SOCIAL	SOCIO-ENVIRONMENTAL	ENVIRONMENTAL
The bank endeavours to promote and preserve gender and cultural diversity among our employee ranks through transparent recruitment practices and being a renown equal opportunity employer. We approach employee welfare by viewing each other as part of one big family where each member's welfare is our collective responsibility. We invest in out-of-office activities like sports and team buildings in order not to lose focus of our peoples individual needs and well being. We have published and implemented conclusive policies within our organization that guide our engagement with special needs categories such as People with disabilities policy, HIV/Aids Policy towards positive living etc. We maintain constant Community dialogue and comply with industry code of conduct and regulations.	We facilitate our staff access to professional advisors and counsellors on matters relating to work, health, relationships and general social wellbeing. Appropriate dressing and equipment arrangements are in place for employees whose work necessitates this, thus facilitating high staff productivity. On climate change, we are cognizant of our role in facilitating the decarburization of the environment and enabling renewable-energy scale up. On environmental impact, we seek to establish partnerships with industry members, government agencies, relevant environmental bodies, suppliers, customers and the general public to promote and achieve a high standard of environmental care. On resource use, our bank's environmental policy is to conduct business in a responsible manner through conservation, optimal use of resources, energy saving mechanisms and reduction of waste.	On Waste Minimization, we've adopted a 3R Model of Reduce, Recycle and Re-use. To translate to a low carbon economy we help our customers mitigate their emissions, save energy and reduce costs by providing funding for energy efficiency and renewable energy. We maintain an open, honest and transparent relationships with the regulators and ensure compliance at all times. Eco-system services and Bio-Diversity: The bank has fully shifted to the use of green gases on air conditioning equipment to be in compliance with the Kyoto protocol and the green environment envisaged in the future. We require our customers to provide requisite approvals from authorities tasked with environmental protection.

Investing in the moral future of our youth

The Presiding Bishop, Christ is the Answer Ministries (CITAM), Dr. David Oginde, exchanges contract documents with the Group Managing Director Co-operative Bank Dr. Gideon Muriuki, upon signing of an agreement to Sponsor a Nationwide Youth Empowerment program. Looking on is CITAM head of Ministries Rev. Patrick Kuchio.

Contributing to our national sports heritage

Co-operative Bank provides strong support to our athletics teams particularly those in our armed forces. Kenya is a world leader in world athletics and our armed forces make the bulk of our National teams.

Operating Environment

Macro-Economic Overview

- Kenya's GDP growth was resilient recording a 5.8% growth in 2016. All sectors of the economy posted positive growth.
- Overall inflation averaged 6.3% in 2016 as compared to 6.6% in 2015.
- The KShs. exchange rate against the USD has generally remained stable, trading at an average of 101.5 in 2016.
- The outlook in 2017 is however bearish owing to reduced uptake of credit by the private sector, unfavorable weather conditions, higher cost of inputs and a weakening currency.
- The General Elections slated for August 2017 are further expected to slow down economic growth.
- Financial services sector growth may remain flat as lending to private sector shrinks.
- Depressed rainfall is expected to drive cost of food and electricity up in the first half of 2017 causing a spike in food and energy inflation.

Our Response

We keep updated on macro-economic indicators through research which enables us to adopt strategic responses on where to invest for an optimum risk weighted return. We have a dedicated Economic Research Unit

The onset of long rains, March-May 2017 is expected to offer Relief on food and energy prices hence inflation is expected to ease starting in 2nd half of the year 2017. The central bank has managed to establish stability of the Kenya shilling and interest rates are expected to remain stable. After the election cycle, high economic growth is projected into the year 2018, assuming weather conditions will be favorable.

Regulatory/Compliance Environment

The regulatory environment has been quite dynamic with increased active supervision. Key regulatory issues include Interest rate Capping, Kenyan Companies Act 2015 and proposed changes in accounting standards including IFRS 9 and IFRS 4

These regulatory changes have been necessitated by increased need for consumer protection and have put some pressure on cost and time expensed on enhanced compliance measures. Sustained client experience also remains an on-going consideration in a fast changing regulatory environment.

Processes reviewed	Trainings carried out	Staff trained on AML	Policies reviewed
46	48	2809	AML & CTF

Our Response

The bank has taken steps to train and sensitize all staff on key and emerging policy guidelines. The bank's training manuals and policy documents have been updated with emphasis on the emerging areas of most concern being anti-money laundering and countering Terrorism financing. Our staff are well versed with the new requirements on reporting and compliance

On interest rate capping we have strategic responses to take advantage of the emerging opportunities due to the increase of credit demand

Entrenching Digital banking

New technologies in financial services sector bring with them immense opportunities as well as challenges. They enable us to compete more efficiently and meet rapidly changing customer needs at reasonably low costs. They avail immense opportunities to deepen financial inclusion at fractional costs. They also enhance competition especially where non-traditional players like Telco and fin-techs vend banking services.

Adopting quickly to fast evolving technological capabilities without compromising on security, usability and stability though challenging is a must do.

We understand that harnessing the digital opportunity cannot only help us protect our position in our core markets, but it can also be a game changer in broadening our reach.

Our Response

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

a. Enhanced digitization and automation of processes to improve efficiency;

b. Leveraging on data & analytics in making decisions;

c. Continuous innovations to meet our existing and prospective customers' needs and changing expectations

d. Improved connectivity with our stakeholders to create best in class user experience for our customers.

Customer Experience and Expectations

The modern customer is very discerning and quite demanding at the same time. The customer is well knowledgeable and informed of the efficient new technologies; The customer exceedingly expects well-tailored products and services which are convenient and they should be reasonably and competitively priced.

Technology also means customers can fast change banks including moving to non-traditional competitors. Social media ensures that negative experiences can fast be shared across the globe.

This calls for unwavering focus on customer care and experience.

Our Response

One of our values is 'we value our customer'. This emanates from our understanding that as an institution, we exist because of the customers who patronize our products and services. As such we offer exceptional service from all our channels. We endeavor to get our customers views and strive to exceed their expectations with uniquely tailored products and services

Social-political Issues

Social, political and environmental issues of the day are a key consideration in our current operating environment

The prevailing drought conditions in the country have increased the risk of rising food prices and food shortages which will feed to elevated inflationary pressures.

Higher inflation and currency depreciation will increase cost of imported inputs and particularly affect output in the manufacturing sectors.

General election uncertainties and terrorism threats remain a concern.

Our Response

We exist as part of a larger environment hence we are always fast and agile to adopt to our surrounding. In light of the challenging environment we are facing, the bank's management has put in place sufficient measures to ensure our business mitigates any revenue losses and all our teams have been sensitized on growth areas where they can maximize risk weighted returns.

People and Skills

Technological changes have brought about competition for specialized skills. This together with the increasing cost of living have put pressure on demand for higher wages. Automation and evolving technologies have created a disconnect between current and future skill sets of the workforce. Inclusion and diversity of human resource remains a pertinent issue.

Employees are increasingly seeking flexible and dynamic working conditions and specially tailored value proposition

Our Response

In the labor market, Co-op bank brand is well known and cherished and always attracts the best talent in the 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

Competitive Banking Environment

Competition in the Kenyan banking industry is stiff, products and services are non-differentiated, margins are shrinking and many non-traditional players like Telcos, Technos and Micro-finance institutions are increasingly invading the financial services sector.

Our Response

The bank has invested heavily in innovative products and services. We understand that to remain ahead and grow our market share, discerning and exceptional customer experience will carry the day. This is the ultimate goal that all our staff strive to achieve every time they are engaging a customer.

We have also put in place strategies that will ensure our continued competitiveness:

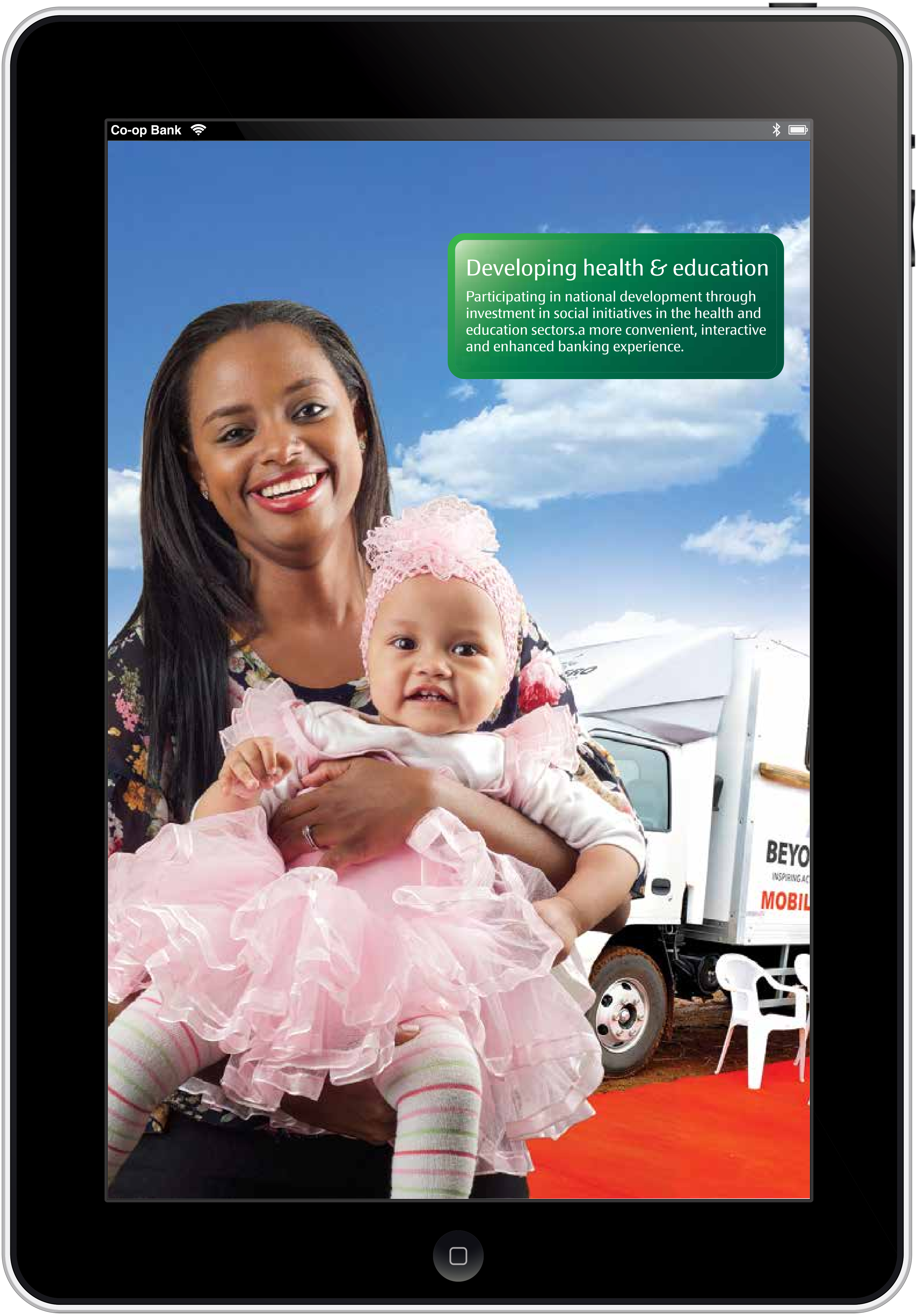
To grow our market share we have strategies to enhance:

- Product penetration,
- Channel penetration,
- Our Unique Co-operative value chain model
- Customer centricity
- Innovation and Technology
- Regional and business diversification

To grow our revenues:

- Digitization
- Enhance focus on NFIs
- Cost management & Operational efficiency
- Data driven strategies.

Director Retail Banking Mr. Maurice Matumo and Head Retail Banking, Ms. Nancy Gathuku joins Kenyans in the Diaspora to celebrate the opening of a dedicated Diaspora Banking outlet in Nairobi. This is the first such outlet in Kenya.


Co-op Bank
Developing health & education
Participating in national development through investment in social initiatives in the health and education sectors.a more convenient, interactive and enhanced banking experience.

Strategic Focus

Co-operative Bank has grown tremendously since its formation and this can be attributed to our clear strategic focus which is spearheaded by our GMD & CEO. 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.

The Eagle Soars On! : Our Transformation Journey

Our transformation journey was first and foremost focused on Organizational design and the entrenchment of the Transformation function that would ensure seamless integration of all transformation activities. This was successfully completed with the release of 160 senior management staff and the establishment of Transformation office headed by Director Transformation.

The other pillars of our transformation which we continue to pursue to date with several levels successfully completed are;

Branch Transformation & Channel migration. 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 re-engineered processes and increase optimum-priced and stable deposits. We have successfully finished Branch Transformation 1.0 and embarked on Branch Transformation 2.0.

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 1.0 and embarked on SFE 2.0.

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

Staff productivity. This involved effective performance management. To this end, we successfully introduced the Key Performance Indicator (KPI) based performance management system which 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 and we are also ensuring a dynamic human capital that is empowered through training, motivation and performance linked rewards.

Enhanced Credit management framework. The focus has been to maintain a robust credit management system which 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.

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'.

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.

Digital Bank. This initiative is geared towards optimizing agility to market dynamics, innovation and digitization for value creation.

In 2017 and beyond; The following 'Soaring Eagle' Transformation initiatives are aimed at achieving the Bank's growth and profitability objectives for year 2017 and beyond for the benefit of all our stakeholders into the long term.

1. 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
6. Data analytics

2014	2015	2016	2017 & Beyond
PBT 10.9B +0.4%	PBT 15.4B +41%	PBT 17.7B +15%	
87% of our Transactions are on alternative Channels	Conversion rate (Deal Closed) from 8% to 49% in Q4 2016	Competitive NPL Ratio of 4.3%	Increased Staff Productivity
Increase of frontline staff to 62% from 55%	Higher Efficiency due to Digitization. Cost to Income 52.1 from 59%	Enhanced Data Management	

Our strategic focus

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

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"

OUR STRATEGIC FOCUS

- To be the dominant Bank in the Region
- To enhance our overall customer experience
- To be the employer of choice
- To ensure that our internal capabilities enable optimum value creation for all our stakeholders
- To ensure that the group operates as a responsible corporate citizen

Strategic Performance Summary

Our Shareholders

Strategic Focus:

To be the dominant Bank in the Region

Key Output

- Total Assets +2.7%
- Net Loan Book +11%
- Profitability + 15%
- Return on Assets +3.7%
- Return on Equity +22.7%

Key Outcome

- Dividends Kshs 0.8 per share
- Bonus share issue. One for every 5 shares
- Informative quarterly investor briefings
- A dedicated division serving the co-operative movement
- Consultancy to the co-operative movement for better performance
- We offer financial inclusion to our customers in South Sudan

The Outlook

- Sustainable profitability and financial position growth in 2017 and beyond
- Ongoing transformation will continue to unlock more potential to maintain the growth trajectory
- Continue with the Co-operative model across our new frontiers; Rwanda, Uganda, Ethiopia, DRC & Tanzania over the next 5 years

Our Customer

Strategic Focus:

To enhance our overall customer experience

Key Output

- Successful implementation of a customer centric model
- Successful completion of branch transformation 1.0 that focused on; Physical re-organization of the branch, Queue Management systems, Increase of frontline staff to 62% from 55% against a 70% target, Dropbox, ATM kiosks, Toll free lines to contact center, Internet Banking at the branch, Queue time improvement to 9 minutes
- Successful self service channel enhancements. 83% of our transactions are carried out in these channels

Key Outcome

- 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

Strategic Performance Summary (Continued)

Our Teams

Strategic Focus:

To be the employer of choice: Attract and retain the best

Key Output

- Reviewed our team structures for better efficiency and synergy
- All staff wellness program launched
- Workforce stability initiatives were carried out to ensure retention
- Engagement of HRBP (Human resource business partners)
- We successfully developed a Talent Management framework & policy
- Supported focused and enhanced learning interventions across teams at our Learning and Management Centre and London Business School
- Supported a high-performance culture underscored by KPI-focused and improved reward structures

Key Outcome

- Effective Performance management tool that encourages high performance and motivates staff
- Wellness program that encourages a balanced life for our employees
- 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

In the short, medium and long term we will continue to;

- Support Employee wellness and diversity
- Support a high-performance culture underscored by KPI-focused performance management process with clear linkages to rewards and better accountability mechanisms
- Support career progression, acceleration and growth opportunities for the young and energetic team with 92% being under 40 years – enhanced internal mobility of talent

Our Enterprise

Strategic Focus:

Internal capabilities enable optimum value creation for all our stakeholders

Key Output

- Sales Force Effectiveness initiatives that encourage collaboration, comprehensiveness and leads conversion to sales to drive volumes, Non-funded income and quality loan book
- Successful implementation of a shared service Centre/hub optimizing all possible opportunities on digitization maximizing on efficiency and systems uptime
- Entrenchment of a robust Enterprise Risk Management(ERM)
- Cost optimization
- Robust data analytics
- Entrenchment of professionalism and compliance to all the laws, rules and regulations

Key Outcome

- Operational efficiency has led to cost management and revenue generation which have in turn led to higher value creation for all our stakeholders;
  - ✓ Shareholders- More value for their investment in Coop Bank
  - ✓ Customers- Better, faster products and services
  - ✓ Teams- Better rewards, 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

Strategic Performance Summary (Continued)

Our Community

Strategic Focus:
To ensure that the group operates as a responsible corporate citizen

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 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 2000 consultancies carried out by our subsidiary; Co-op Consultancy and insurance agency
- 5089 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
- 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

Catalyst Awards 2016

Co-operative Bank of Kenya won 1st Position in the Commercial Client and in the Micro and Small and Medium categories case studies in the Kenya Bankers Catalyst Awards in October 2016.

From Left: Mrs. Veronica Njore; Corporate Strategy & Investor Relations, Mr James Kaburu, Head Investor relations and Strategy and Mr Habil Olaka, CEO Kenya bankers association.

Our Capitals

		OUR CAPITAL STOCKS: Focus Areas
Financial Capital	This is our financial capital that enables us to deliver sustainable funding of our business activities and our loan book	• Total Financial Capital • Liquidity optimization • Optimum Cost management • Balanced funding • Investments management • Shareholder value • Tax contributions • Internal Capital Adequacy Assessment Process (ICAAP)
Human Capital	The selection, management and development of our teams	• Our Values • Competent staff members • Effective leadership • Effective governance • KPI performance management • Optimal reward structures • Staff Leadership and management development • Our culture • Specialized skills • Ethical standards and good conduct policies • Diversified workforce
Manufactured Capital	This comprises of our tangible and intangible infrastructure that is used in the activities that lead to value creation	• Wide branch network • Presence in counties • Electronic channels • ICT infrastructure
Intellectual Capital	The knowledge of our staff, our brand positioning, our reputation, our enterprise risk management policy and intellectual property	• Dynamic IT capabilities • Brand position • Customer experience excellence • Enterprise Risk Management • Compliance to regulations • Specialized talent • Lending practices • Investing practices • Procurement practices
Social & Relationship Capital	The relationship we have with all our stakeholders to ensure long term sustainability of the value we add	• Our engagement with all our stakeholders • Strategic partnerships • Supply value proposition • Socio-economic sustainability initiatives • Financial inclusion • Community investment • Staff socio-economic-environmental engagements
Natural Capital	The natural resources that we employ in our value creation to our stakeholders. This is done in a way that will minimize negative impact on the resources	• Energy consumption • Water consumption • Eco-social and eco-environmental lending • Paper usage

Financial Capital

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. 351.8 Billion as at end of year 2016. The group has pursued a balanced funding strategy with an attractive dividend payout ratio 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. 60.6 Billion.

Apart from the retained earnings most of the banks funding comes from customer deposits which make up approx. 92% of our funding liabilities. Borrowed funds comprise only 7% of our funding liabilities mainly from our development partners.

The group has a robust internal capital and liquidity management policy that not only meets 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. While making these investments appropriate risks analysis is done and investments are done in accordance with the board's prescribed risk guidelines.

On our transformation project the bank has pursued various strategies aimed at cost optimization. This has seen our cost to income ratio drop to 52.1% in 2016 from 59% in 2014 when our Transformation Project started.

Human Capital

Attracting and Retaining Talent

At Co-op Bank, we have made it a priority to continuously 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. 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.

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.

Our Leadership and Management Centre (LMC) is tasked with up skilling, re-skilling and developing our people. In 2016 our staff took a total of 11,458 trainings in LMC and other offsite regional centers including in South Sudan. In 2015 the bank introduced a robust Key Performance Indicators (KPI) focused performance management process with clear linkages to rewards and better accountability mechanisms. The introduction of fewer KPI's 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. Staff productivity has increased 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 over 92% being under 40 years. This has further enhanced internal mobility of talent.

Employee Diversity

The bank endeavors to preserve gender and cultural diversity in our employee mix and takes pride as an equal opportunity employer for all qualified persons. 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.

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 well-being. In 2016, the Bank sponsored three teams in National leagues (Basketball men, Basketball ladies and volleyball men), all annual interbank events and marathon events (First lady half marathon, Sasamua Dam run among others) and several golf tournaments. The bank was ranked position 4 overall out of 29 in the 32nd annual KIB inter-banks games for Nairobi region. The bank emerged winners in Table Tennis, Athletics men and Athletics women. In the KIB Inter-Bank Quiz our team emerged 1st Runners up.

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, play an important role in our society and contribute to the bank's success as well as the wider success of the society.

HIV/Aids Policy towards Positive Living

The bank has developed a HIV/AIDS policy based on the understanding that we are a caring institution with staff welfare at heart. As a policy, the bank does not screen for HIV during employee recruitment nor does it discriminate in any way against HIV positive staff and such cases are treated like any other health condition for purposes of medical cover. Our HIV/AIDS policy ensures that staff living with HIV/AIDS enjoy equal health and social discretion, including confidentiality, prevention of stigmatisation and discrimination. Further, emphasis is made to provide information on preventive measures through external professional counsellors and trainers. Structured informal discussions at office level are also managed through the Peer Education Programme to promote sharing of awareness information and material.

Manufactured Capital

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.

Agency Banking & Point of Sale (POS) Terminus

The Bank is at the forefront in implementation of agency banking model, currently working with over 8000 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.

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 licenced Saccos have over 555 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 992,000 ATM cards have been issued to co-operative members.

Internet Banking:

This is the bank's internet-banking solution, Co-opNet. With its high internet speeds and enhanced security features, it has contributed to growth in customer base especially for Kenyans in the Diaspora and already serves over 69,000 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 148-Branch Network and 580 ATMs:

This is our footprint across the region consisting 148 branches. In our branches our customers can access much more than banking services to include those offered by our subsidiaries. In Kenya we have 144 branches spread in over 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 ATM includes cash withdraws and deposits, Balance inquiry, utility bill payment and Mco-opcash registration and withdrawal.

Intellectual Capital

We have dynamic IT capabilities that are able to support us in this period of transformation and also 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, trained our teams on positive customer experience delivery 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 Manager, and Business Intelligence.

We have clearly defined lending practices that are geared towards ensuring economic, social and environmental value creation.

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. This is primarily because of different legal requirements in different countries especially on procurement.
- 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 actualising 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 shall focus on integrating effective ICT Governance and fostering an environment that facilitates for innovation in delivering quality solutions and functionalities that the business appreciates.

Social and Relationship Capital

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. The bank takes part in activities of national importance and we supported the Kenya National Assembly Prayer Day.

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 labor laws and best practice for enhanced productivity and employee engagement. Our bank maintains cordial relations with the staff union and we continue to foster partnership to ensure that staff interests are addressed timeously. On a continuous basis we create an inspiring experience for our people by improving the employee engagement incrementally as a key success factor to great business results as well as staff productivity.

Social Investments

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

Co-op Bank foundation

In 2007, in recognition of the need to enhance the existing Corporate Social Investment (CSI) initiatives by the bank, the Co-operative Bank foundation was established to complement public effort 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 5 students per county for the 47 counties in Kenya. Since inception the foundation has spent approx. KShs. 776 Million to sponsor 5089 students; 4902 to secondary schools, 168 to universities and 19 to co-operative college. In 2016 alone, the foundation spent KShs. 183 Million to sponsor 2283 and 140 students in Secondary and university institutions respectively and 4 students in co-operative college.

Co-op Consultancy & Insurance Agency Ltd

CCIA was formed in 2002 as a specialist subsidiary of the Bank to provide capacity building through 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, professionalism and profitability in the management of the Co-operative affairs through provision of affordable solutions in areas of:

- Business planning
- Business Process Improvement
- Training and development.
- FOSA advisory services
- ICT Advisory
- Market research and product development.
- Human Resources Advisory
- Forensic Audits
- Insurance agency

Since inception CCIA has conducted over 2000 training mandates for various organisation mainly societies. In 2016 alone, they successfully conducted 131 business advisory mandates with over 7009 individuals trained of whom 3134 (44.7%) were women. In the year approximately Kes.2 Million benefit was passed on to the beneficiaries as a result of the concession rate offered.

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.

Natural capital

As a bank, we are cognizant of our role to address urgent human development needs without breaching crucial ecological and environmental limits. Our environmental sustainability agenda has been integrated into our corporate strategy and is aimed at enhancing our financial, economic, social and environmental growth in line with our corporate values. Our bank's environmental policy is aimed at conducting business in a responsible manner through conservation, optimal use of resources, energy saving mechanisms and reduction of waste.

We 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 conservation 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 general cleanup
- Creating awareness of the benefits of energy and water conservation/efficiency and solid waste recycling amongst our staff

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

- ➢ A 600kW project at Strathmore University financed by us demonstrated that the sustainable initiatives in institutions of higher learning can result in reduced operational cost
- ➢ 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 labour to the project and expected to supply the power to the national grid

All ongoing projects have solar power as an alternative source of power.

The bank has contributed millions of shillings to alleviate the effects of Hunger to disadvantaged Kenyans in northern Kenya where rains have failed for a long time. Here the bank provided KShs. 5 Million to the Bread of Life Campaign to alleviate the effects of hunger in the most afflicted parts of Kenya.

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

Mrs. Rosemary Githaiga the banks' company Secretary receives a farewell gift from the Banks' Chairman and the Group Managing Director. Mrs. Githaiga served the bank with impeccable dedication for 21 years and has retired in 2017. Also to present the award is the bank's Vice Chairman, Mr. Julius Riungu.

Material Matters (Continued)

Shareholder	Material Matters	Risks	Opportunities	Our Response
Strategic Focus: To be the dominant Bank in the Region 	• Interest rate capping • Growth and sustainability of shareholder returns • Partnership with the Co-operative movement • Operating environment in South Sudan	• Suppressed interest margins may result in reduced profitability • Hyperinflation environment and currency depreciation in south Sudan may lead to monetary loss	• Growth in volume business due to high uptake of loans resulting from the reduced interest rates • Increased non-funded income from the increased volume of business	We have strategically responded to these risks and opportunities by; • Ensuring our business model is in line with this strategic objective • Employing growth initiatives within our transformation project • We have a dedicated Co-operatives division
Customer				
Strategic Focus: To enhance our overall customer experience 	• High expectations on service • Demand for Innovative, convenient and affordable digital solutions • Confidentiality and safety	• Increased penetration of digital banking comes with its own challenges of information security'	• Ensuring data integrity, safety and high levels of customer experience is an opportunity to attract and retain customers'	• We have invested in customer experience infrastructure such as CRM, 24 hour contact centre, a customer centric business model, secure systems • Optimum systems availability • 148 branches and a range of alternative channels • Proactive resolution of service exceptions

Banking women at the grassroot

Her Excellency Mrs. Rachel Ruto receiving the banks contribution from Director Corporate Banking Ms. Lydia Rono towards the Table Banking program to help women across the country in financial management planning.

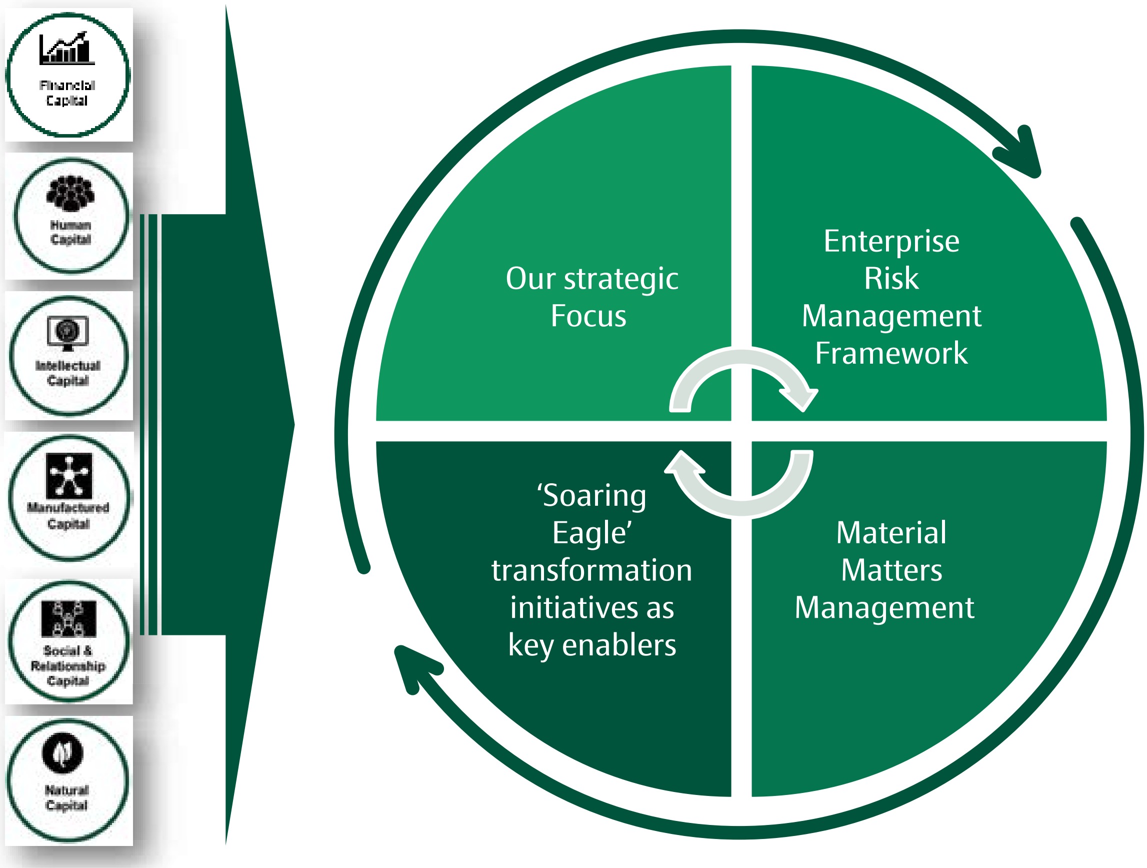
Material Matters (Continued)

Team	Material Matters	Risks	Opportunities	Our Response
Strategic Focus: To be the employer of choice 	• Demand for specialized skill set in some areas • Staff retention • Staff training • Staff productivity	• Competition for skill especially with the increase in industry players	Increased staff productivity due to • Proper training and retention strategies • KPI based performance management and reward system	• Performance Rigor & Rhythms • High Performing Teams (HPT) Culture & Manager enablement • Performance-linked Rewards & Recognition • Talent Acquisition – deepening capabilities • Workforce stabilization
Enterprise				
Strategic Focus: To ensure that our internal capabilities enable optimum value creation	• Interest rate capping • Growth of income • Efficiency • Enhanced regulatory & compliance environment • Digital disruption • Fintech competition • Electoral and political environment	• Interest rate capping may affect the margins • Rapid technological changes are costly • Increased competition by Fintechs, telcos • Effect of electoral environment on the macro economic elements	• More innovative products • Lower costs due to efficiency • Better regulatory/ compliance stakeholder engagement	• Transformation project led initiatives around; • 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
Community				
Strategic Focus: To ensure that the group operates as a responsible corporate citizen 	Economical, social and environmental concerns; • Economic value adding solutions • Socially responsible citizenry • Positive environmental impact	• Tough economic environment may lead to reduced margins	• Partnerships gained in the process will lead to long term value creation	• Capacity building of the Co-operatives • Co-op foundation support to bright and needy students • Products and services available to all • Recycle, reuse, reduce model • Green lending • We pay taxes

Integration of our 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.



Chief Operating officer, Mr. Sam Birech, first right, Director Transformation, Mr. William Ndumia second right and Chief Information Officer, Mr. Charles Washika left, attending a digital banking strategic workshop in California, United States recently. The Bank is investing heavily towards the development of a Digital Bank.

The Co-op Bank Model

Our stakeholders

- **Shareholders**
- **Customers**
- **Co-op Bank Team**
- **Co-operative Movement**
- **Regulators and Policy Makers**
- **Community**

OUR STAKEHOLDER MAP		2016	2015
Customer (% of Total loan book)			
	Corporate	28%	29%
	Mortgage	16%	14%
	Asset Finance	6%	6%
	SME	8%	9%
	MCU	2%	3%
	Personal banking	29%	29%
	Agri-business	2%	2%
	Saccos	8%	8%
Team	Permanent staff	3252	2828
	Contract staff	690	1061
	Male Employees	57%	57%
	Female Employees	43%	43%
	Average Hours of Training per staff	48	72
	Sick off days	12001	15571

		2016	2015
Shareholder			
	Ordinary shares ('000)	4,889,316	4,889,316
	Par value	1	1
	Return on Equity (%)	22.7	25
	Shareholders' funds (KShs. Billions)	61.3	50.2
	Dividend per share	0.8	0.8
	Shareholder's meeting	1	1
Co-operative Movement and the Community			
	Charitable and other Donations (KShs. Millions)	227	188
	Co-op Foundation Spend (KShs. Millions)	183	153
	No. of students under sponsorship (since inception)	5089	4432
	No. of mandates conducted by CCIA	131	147
	No. of people trained by CCIA	7009	6945
	Number of FOSAs under engagement	555	555
	Number of Sacco link cards	992,000	888,487
Regulators and Policy makers			
	Reviewed compliance processes	46	16
	Number of trainings on AML	48	45
	No. of Staff trained on AML	1439	652
	No. of Compliance reports to BOD	4	4

Our stakeholder Engagement

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 6.22 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, 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 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;

Innovative Customer Delivery Platforms

Our channels

- 148 Branches
- Mco-op cash mobile banking (All telco, all products)
- Co-op Kwa Jirani-Over 8000 agents
- Over 580 ATMs, leading debit card issuer
- CoopNet- Internet Banking (Corporate & Retail)
- 24 Hour Contact Centre
- Self service Kiosks in all our branches
- Dedicated Diaspora Banking Department
- Over 555 FOSAs
- Subsidiaries offering advisory and investment services
- Social Media Banking

Our customers

- Over 6.2 Million growing direct account holders
- Over 3.18 Million Mcoop Cash Customers
- Over 69,000 Internet banking Customers
- Over 992,000 Saccolink Customers
- Over 11,000 Diaspora Banking Customers
- Over 1 million Facebook followers
- Over 150,000 Twitter followers
- Instagram followers, You Tube subscribers
- Telegram self service customers

2. To ensure all our customers have been well engaged and financially included, our product and service offering includes deposit/access accounts, Savings accounts, Current accounts, loans(Personal, SME, MCU, Corporate, Co-operatives), Investment, forex, payment solutions, bancassurance, trade finance, custodial and consultancy services.
3. We are currently implementing branch transformation 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 for staff to engage in frontline activities and hence engage our customers more.
5. We are also engaging in Processes improvement for increased efficiency and hence enhanced customer experience.

The following are the key milestones achieved in the branch transformation pillar of our transformation;

- We have Physically re-organized our branches to have spacious sitting areas
- We have implemented queue Management systems to ensure enhanced customer experience
- Our frontline staff have increased to 62% hence more staff engaging our customers
- 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
- We have so far successfully migrated 83% of our transactions to self-service/ alternative channels
- A key milestone is the achievement of 9 minutes Queue time which has brought a lot of relief to our customers as they do not have to spend a lot of time in our banking halls

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. Two international roadshows where we met various existing and potential shareholders
3. Four local conferences with our investment professionals
4. Quarterly investor briefings
5. Over 300 local and foreign investors engaged
6. Over 150 one on one meetings with the investment professionals
7. Information on our website in regards to our performance and strategy
8. Press briefings released every quarter

Co-op Bank Team

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 measure 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
   - Trainning sessions, conferences and summits
   - Online surveys
   - Circulars on key issues

Key Expectations

Our staff have the following expectations;

1. An effective performance management and reward system
2. A conducive 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

We ensure that we;

1. Enhance 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. Implement customer centric organizational structures that support strategy execution
6. Achieve coaching and learning excellence to build our strategic capabilities
7. Deploy talent management strategies and implement appropriate career development interventions
8. Strengthen the Coop Bank Employer Brand by ensuring we drive a compelling employer value proposition internally and externally
9. Inspire employee experience journeys and employee engagement
10. Reward differentiated performance and recognition
11. Promote diversity, inclusivity and corporate wellness
12. Promote an innovative, positive and inspiring work environment

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:

a. Provide avenues for staff to raise concerns and receive feedback on any action taken.
b. Reassure staff that they will be protected from reprisals or victimisation 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, recruitment and selection policies and procedures.

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 Co-operatives, Transport, Housing and Investment Co-operatives), State Department of Co-operatives, County Co-operatives offices, Sacco Societies Regulatory Authority (SASRA), Agriculture and Food Authority (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 148 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.

How we respond to the key expectations

We have shifted our approach from product centric to customer centric in order to effectively 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

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.

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 relationship 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.

The Community

How we engage the community

We are determined to do the right thing by our communities and the planet: that's 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

Our specific engagement with the community is through;

1. Our sustainability undertaking and reporting
2. Our Co-op foundation office
3. Discussions with our staff who deal with green lending, Micro and SME lending
4. 24 Hour contact center and all our channel engagement where we promote financial inclusion
5. Discussions with various partners on matters that affect 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 2000 consultancies done at concessionary rates
3. Over 5000 bright and needy students supported through our fully funded co-op foundation
4. Renewable energy lending
5. Efficiently Managing company resources both financial and non-financial
6. Financing green initiatives
7. Protecting Kenya's forest cover through tree planting initiatives
8. Supporting employee CSR activities that positively impact the environment
9. Credit is the fuel of economic engine; over the last 5 years our net loans and advances to customers has grown to over 200 Billion
10. We contribute to the creation of prosperity and to the stability of our country through paying taxes. In 2016 the Group paid over 5 Billion Kenya Shillings in corporate taxes
11. 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.
12. 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.

Co-operative Bank staff participating with other Kenyans in the Beyond Zero Campaign marathon organized to raise funds for maternal healthcare and anti-infant deaths national program.

Our Group Structure

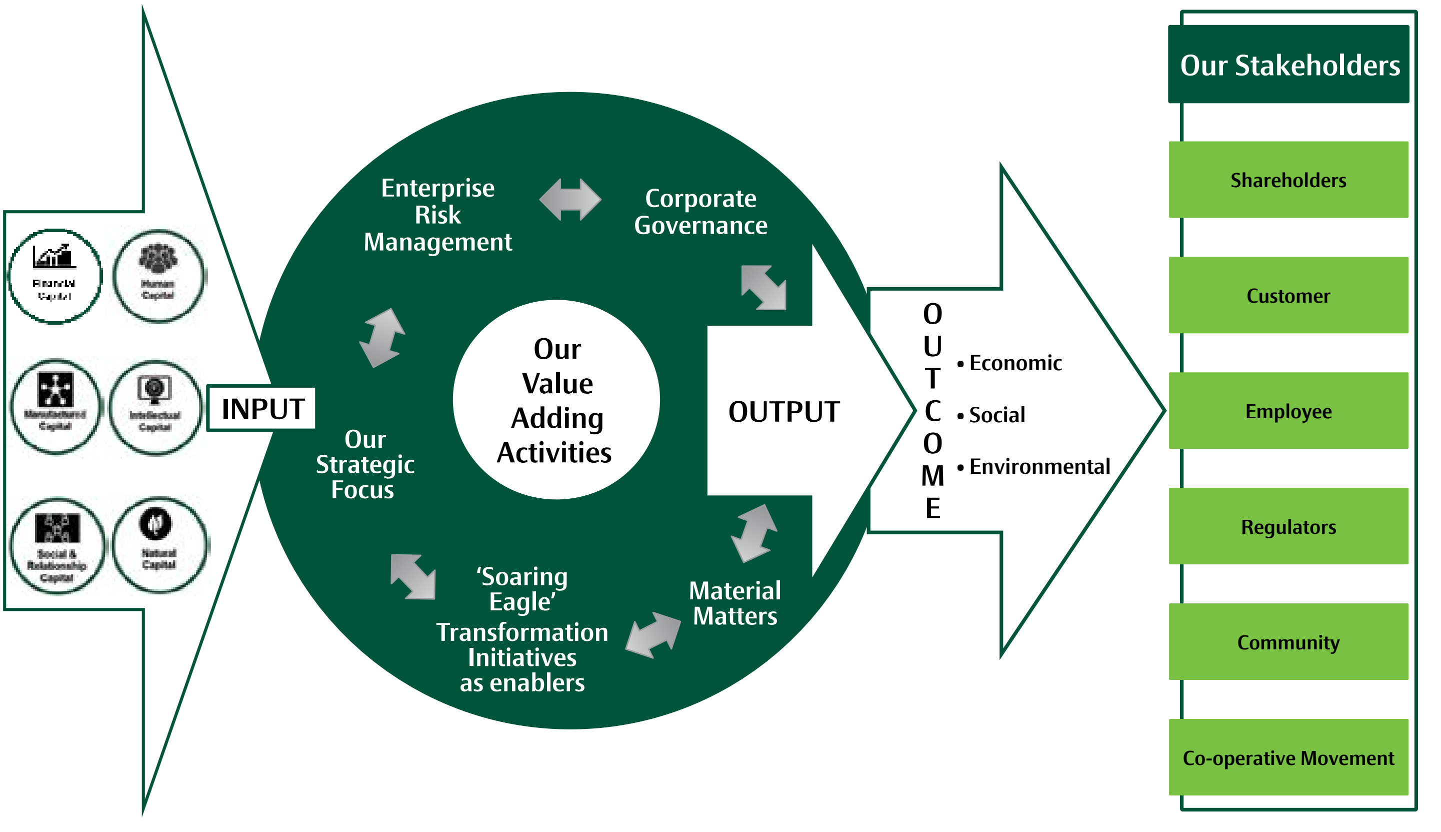
- **CO-OPERATIVE BANK GROUP**
  - CO-OPERATIVE BANK OF KENYA LTD
  - CO-OPERATIVE BANK OF SOUTH SUDAN LTD
    - RETAIL AND BUSINESS BANKING DIVISION
    - CORPORATE AND INSTITUTION BANKING DIVISION
    - CO-OPERATIVES BANKING DIVISION
    - CREDIT MANAGEMENT DIVISION
    - SHARED SERVICES DIVISION
    - HUMAN RESOURCE DIVISION
    - TRANSFORMATION DIVISION
    - FINANCE AND STRATEGY DIVISION
    - COMPANY SECRETARY DIVISION
  - CO-OP CONSULTANCY AND INSURANCE AGENCY LTD — Consultancy and capacity building for the Co-operative movement
  - CO-OP TRUST INVESTMENT SERVICES LTD — Fund management services
  - KINGDOM SECURITIES LTD — Stock brokerage services

Co-operative Bank staff celebrating an excellent performance at the Kenya Bankers Sports Championship. The bank won top honours in the one week event held at the Kenya School of Monetary Studies.


Co-op Bank
Financing growth
Unequaled lending expertise for development of commercial and residential properties for groups individuals, institutions and companies.

Our Business Model

Our unique model is geared towards value creation for all our stakeholders. In this model we incorporate our 6 capitals as input and enable our business activities to be done optimally. In the model, the business activities and the 6 capitals employement must be in line with our strategic focus, our enterprise risk management and corporate governance requirements. All material matters are considered and managed in the material matters management process described earlier. The soaring eagle transformation initiatives are key to our model as they are enablers in the process of optimal value creation to our stakeholders.



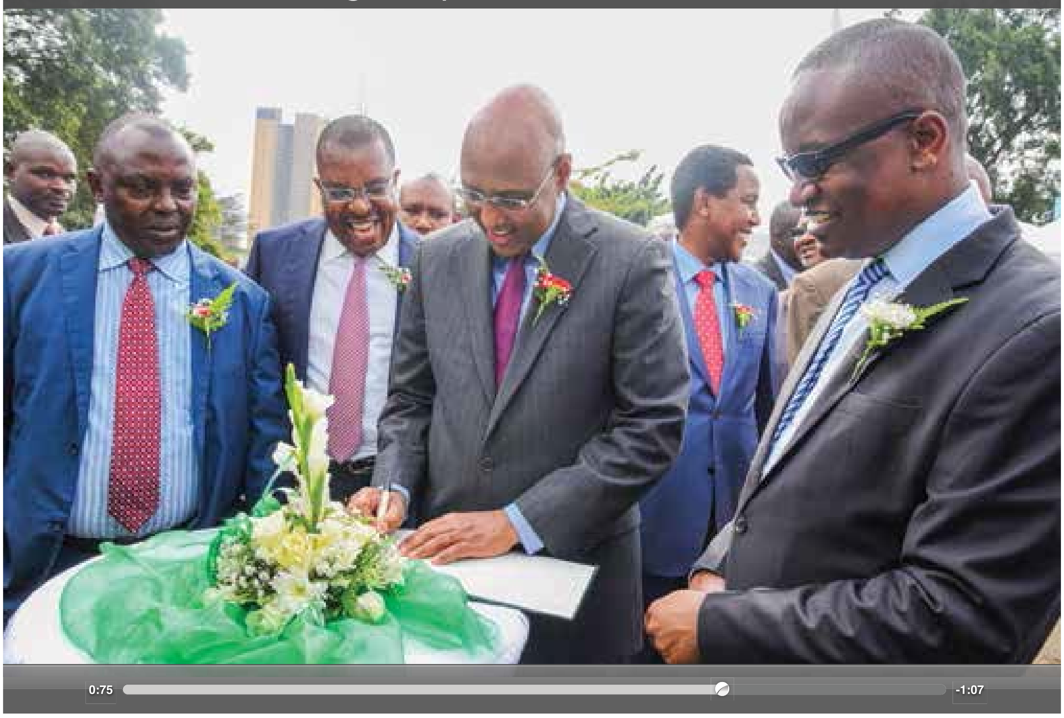
Rewarding Strategic Shareholders contribution to the business

The Vice Chairman Kisumu Teachers Sacco (KITE) Mr. Paul Onyinge, extreme right, and Mr. Joshua Osawa, second right, the Hon. Secretary, receive the trophy from the Co-operative Bank Chairman Mr. Stanley Muchiri and the bank Group Managing Director Dr. Gideon Muriuki. KITE Sacco were awarded for their contribution to the bank shareholding and deposits.

Providing advantage to the disadvantaged

Co-op Foundation interns participating in a planning meeting at the bank. The bank has sponsored over 5,000 bright but disadvantage children to go through secondary education, the most academically successful are further educated to University level.

Celebrating Co-operative Movement successes



The Cabinet Secretary, Ministry of Industry, Trade and Cooperatives, Hon. Adan Mohamed, signs the visitors book after touring the Co-operative Bank Stand at the Ushirika Day Celebrations. Looking on is the bank's Group Managing Director Dr. Gideon Muriuki and Vincent Marangu, Head Co-oporatives Banking Division.

How we create value using the model

OUR INPUTS

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

Our Capital Stocks

OUR VALUE ADDING ACTIVITIES

- Lending
- Deposit taking
- Customer experience
- Transaction services
- Payment solutions
- Foreign Exchange
- Banc assurance
- Trade finance
- Investment services
- Custodial services
- Advisory services
- Investment in our staff reward
- Staff Performance management
- Staff training
- Regulatory engagement
- Compliance and risk management
- Supplier engagement
- Investor relations
- Corporate strategy processes
- Shared and other support services

"Soaring Eagle" Transformation initiatives

ENTERPRISE RISK MANAGEMENT

Effective 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 stakeholders.

We seek to achieve an appropriate balance between risk and reward

Risk categories include;

- Credit Risk
- Market Risk
- Operational Risk
- Fraud Risk
- Liquidity Risk
- Interest rate risk in Banking book
- Reputational Risk
- Strategic/Governance Risk
- Compliance/Regulatory Risk
- Business Continuity Risk
- ICT Risks
- Agency Banking Risks
- Mobile Banking Risks
- Derivative trading risk
- Country & Transfer Risks

Risk Management

Material Matters Management

OUR OUTPUTS

Products & services
Access/Transactional accounts
Savings accounts
Current accounts
Forex accounts
Advisory/ consultancy engagements
Investments
Trade finance products
Sourcing engagement
Payment Solutions
Custodial products
Call & Fixed deposit accounts

Financial Outputs
Loan book growth
Deposit book growth
Net interest income
Non- funded income
Operating expense
Staff expense
Training expense
ICT expense
Tax expense

Other outputs
CSR spend
Water usage
Electricity usage
Diesel usage
Carbon emission

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

KEY OUTCOMES

Customer
Deposit taken – Over KShs. 260 Billion
Loans extended – Over KShs. 230 Billion
Increased Channel transactions – Over 100 Million
Digitalized processes and products

Our Team
Salary paid
Bonus paid
Jobs created
Training spend

Shareholders & Investment Community
Dividend of KShs. 0.8 per share held
Bonus issue of 1 for every 5 shares
Strong balance sheet
Quarterly investor briefing

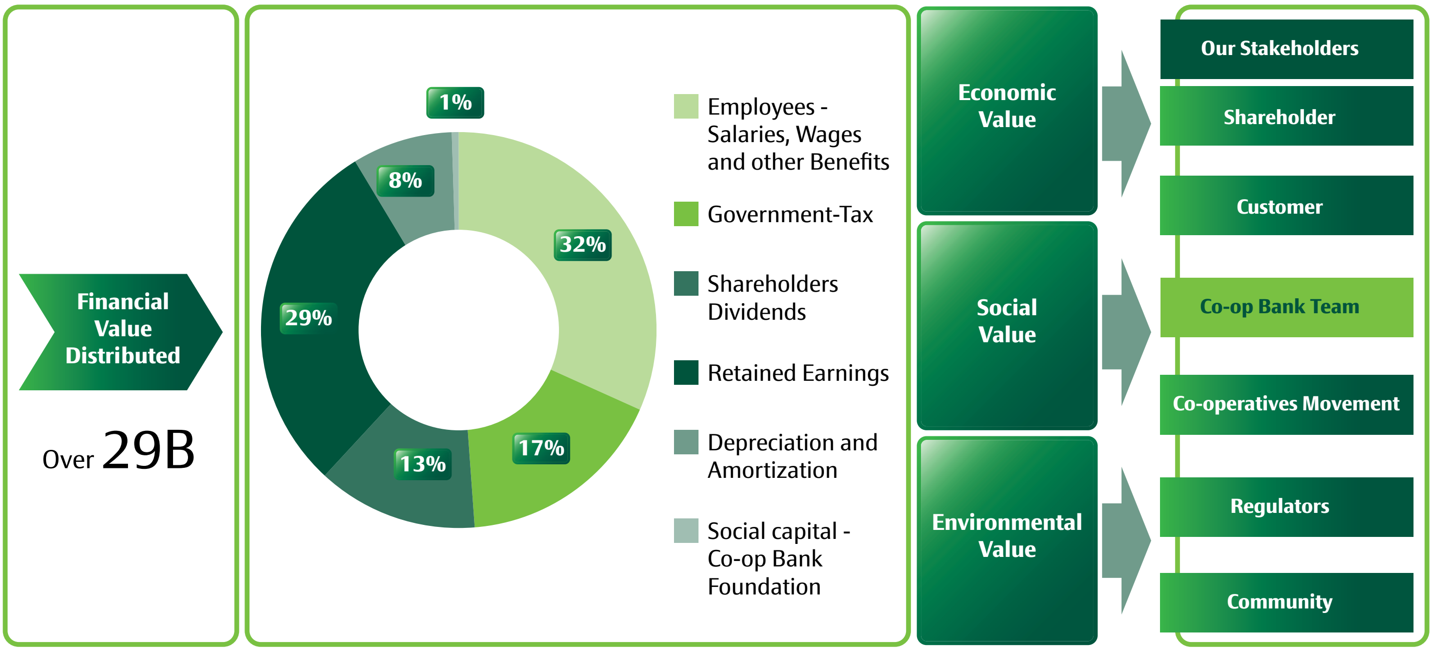
Regulators & Policy Makers
Compliance to all laws
Taxes paid – Over KShs. 5 Billion
AML/KYC compliance
Interest rates capping compliance

Community
Over 2000 Co-op consultancies done
5089 Students supported by Co-op foundation
CSR investment

Co-operative Movement
Dedicated co-operative banking division
Specialized Co-operatives products
13 dedicated consultants
Over 2000 consultancies since inception

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

Value Distribution



Value Added Statement 2016

Value Added:	2016 KShs'000	2015 KShs'000	% Change
Interest Income, Fees, Commission and Other Revenues	55,039,231	49,976,690	10%
Net impairment losses on loans and advances	(2,599,671)	(2,019,295)	29%
Interest Paid to Depositors and Cost of Other Services	(21,812,410)	(20,577,100)	6%
Interest paid on borrowings	(991,905)	(1,076,303)	(8%)
Share of profit in associate	97,546	384,991	(75%)
Wealth Created	**29,732,791**	**26,688,983**	**11%**

Distribution of Wealth:			
Employees - Salaries, Wages and other Benefits	9,403,441	8,927,128	5%
Government -Taxes	5,047,322	3,677,533	37%
Shareholders Dividends	3,911,453	3,911,453	0%
Retention to support future Business Growth:			
Retained Earnings	8,764,758	7,794,106	12%
Depreciation and Amortization	2,422,816	2,226,000	9%
Social capital - Co-op Bank Foundation	183,001	152,763	20%
Wealth Distributed	**29,732,791**	**26,688,983**	**11%**

Our Integrated Risk Management Approach

At the heart of our Group Business activities is our approach to effective and integrated enterprise risk management. Enterprise risk management is a very important pillar of our business Strategy and operations, therefore our commitment and resolve in moving beyond compliance with minimum regulatory requirements cannot be over-emphasized.

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) works closely with the Board of Management, Asset and liability Committee, Board of Management Credit and the Operations & Innovations 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 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. Also includes implementing 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 policy, 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 risks management framework and policy 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 and risk governance structures and reports to the Board through the group Board Audit Committee.

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;

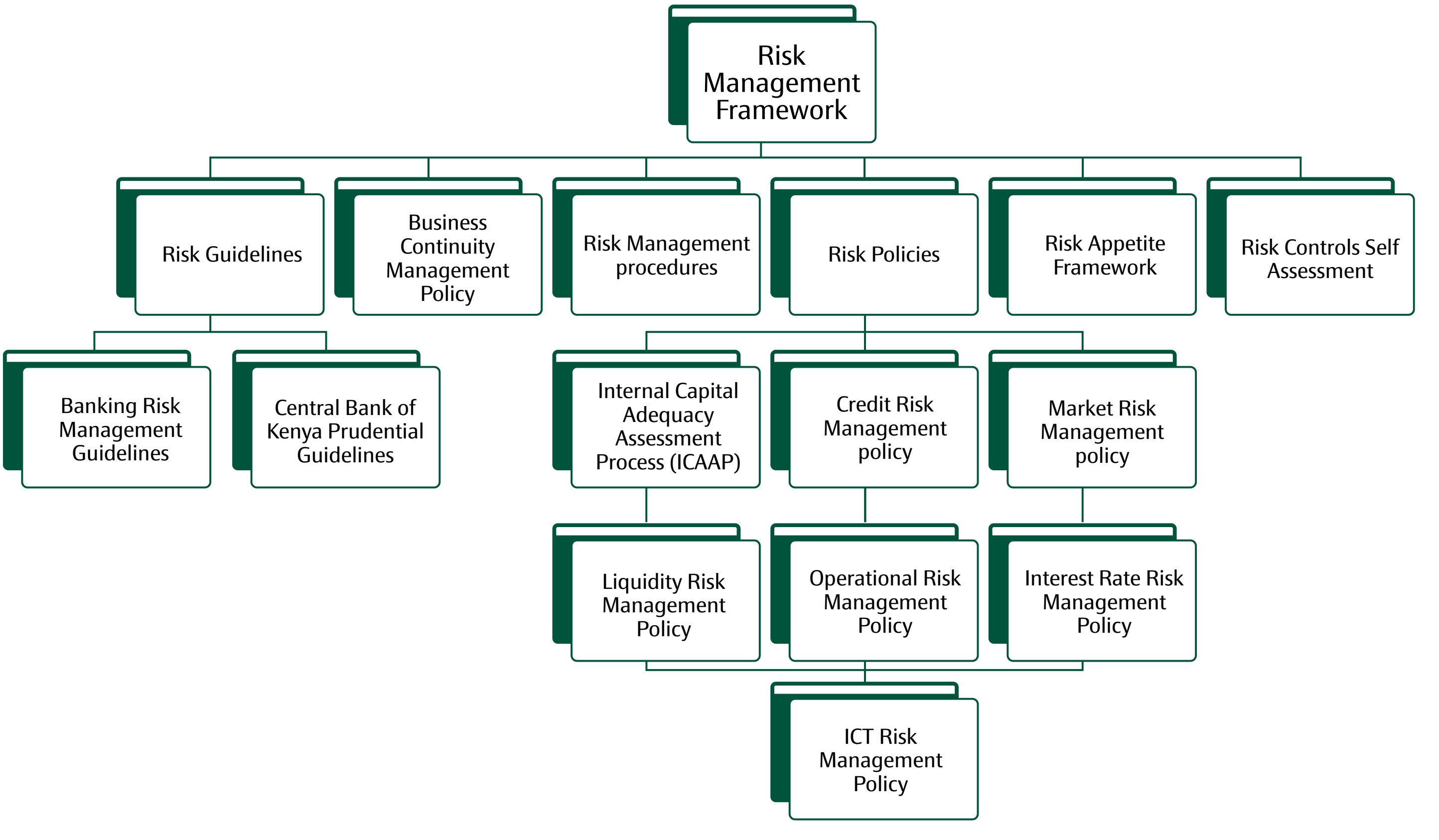
1. Establish our risk universe- all the risks to our strategy and operations that we face as a group
2. Through our risk management processes we have been able to establish our risk appetite- the quantity and nature of risks that we are willing to take in order to achieve our strategic objectives
3. Put in place governance structures and effective policies that enable us to oversee risk taking in the group
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 ensuring optimum risk- return tradeoff
8. Proactively manage risk through our self risk stress testing processes

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

Enterprise Risk Management Framework (continued)

At Co-op Bank we appreciate that risk culture is key to a successful risk management framework and to this end we have involved all our teams and communicate often to ensure all teams are at par in regards to matters risk. We have a risk champion in every department to ensure timely and accurate risk information dissemination. We also have regular communication from our Group Chief Risk Officer which has enabled risk management communications through the 'CRO Corner' to sensitize staff on their individual risk exposures and overall improvement of our enterprise risk management culture. Risk management has also been entrenched in our performance management system as a key deliverable for all the departments in the group.

The figure below depicts the key aspects of our enterprise risk management framework;



At the center of this approach to enterprise risk management, is a well-articulated, laid out and documented enterprise risk management framework with proactive policies and procedures. These policy documents together embody the core of the Group enterprise risk management programs. The framework is a document that lays out in broad terms the expectations of a sound enterprise risk management program within the Group while the different antecedent policies lay out the specific processes, procedures and systems for effective management of risks within the Group.

The policies include among others – Enterprise Risk Management Policy, Risk Appetite Policy, Credit Risk Policy, Market Risk Policy, Investments Policy, ICT Risk Management Policy, Operational Risk Policy, Liquidity & Contingency Funding Risk Policy, Interest Rate Risk Policy, Reputational Risk Policy and Country & Transfer Risk Policy.

Key Risk categories that are included in our risk framework are group risks relating to credit, market, operations, fraud, liquidity, interest rate risk in banking book, reputational, strategic, regulatory/compliance; business continuity, ICT, mobile banking, agency banking, derivative trading, country and transfer risk.

Leveraging Best Practice Standards

Our enterprise risk management framework leverages a number of regulatory and best practice standards. These include the risk management regulations as released by the Central Bank of Kenya, global banking guidelines released by the Basel Committee on Banking Supervision (BCBS) and ISO standards. We have therefore tailored our frameworks and policy documents including our risk management activities to align to the requirements of these guidelines.

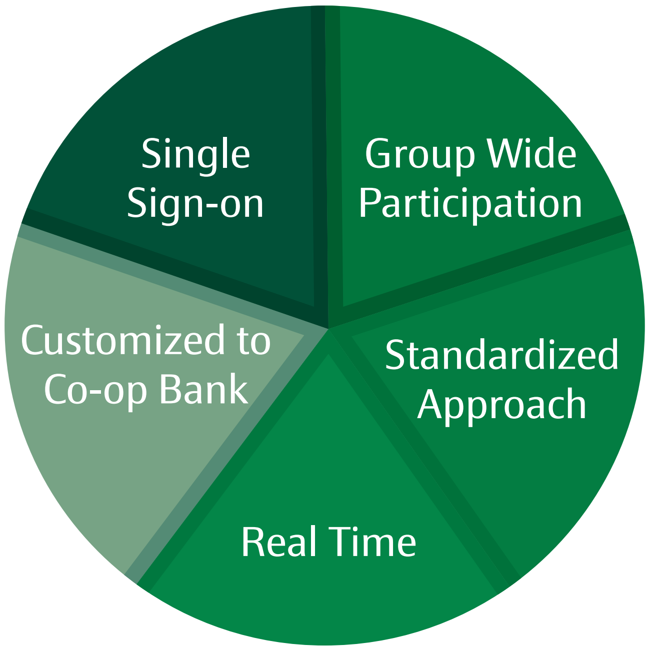
Risk Management Processes

Our risk management processes include:

1. Risk identification (which we jointly perform with our business units and risk champions);
2. Risks assessments/measurements (using a risk scoring matrix with risk impact and vulnerability as measurement variables);
3. Risk mitigation through measures such as internal controls, insurance, acceptance and avoidance;
4. Risk monitoring, reporting and ongoing assurance of the program.

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

R- Universe Risk System



Risk Appetite & Stress Testing

These are important tools for enhancing the level of quantitative risk management program within the Bank. 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 outcome are the various gaps. These in turn form part of our monthly and quarterly reporting to our Board of Management, ALCO and Board Risk Committee (BRC) respectively.

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 2016 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 CBK on a quarterly basis.

Risk Reporting

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 include select staff, Senior Management teams, various internal committees and the Board Risk Committee (BRC).

2016 Risk Profile and Performance Review

Year 2016 witnessed a number of initiatives that were key for the group and included amongst others:

1. An enhanced Risk Appetite framework
2. An enhanced Stress testing program
3. An automated risk management application system ('R-Universe) to warehouse our enterprise related risk activities within the Group.

The introduction of the automated system was key with one of the key benefit being providing a unified platform for effective collaboration between the business units through their risk champions and the Risk Management Department team. This collaboration did register 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.

In 2016, our top inherent business risks were in the following categories:

1. Credit risk, including country, settlement and concentration risk; espoused by risk parameters such as PAR, NPLs, and Portfolio Concentration
2. Market risk, including interest rate risk, foreign exchange rate risk and liquidity risks (Value at Risk, Liquidity Ratio, CRR, and Investments counterparty risks)
3. Operational risk; (optimization of people, process and systems)

All the risks that were identified were properly managed while leveraging the tenets of our enterprise risk management program and lessons learned were immediately put into use to ensure these risks are adequately prevented from recurrence and significantly reduce their likelihood of occurrence.

Looking Ahead - Material Matters

Looking into 2017, from a risk management perspective, will be a tough year for many businesses and especially for businesses in the financial services sector. Material matters are part and parcel of our operating environment and would have the potential of substantively affecting either positively or negatively the ability to achieve our business objectives over the short, medium and long term, and therefore we are managing them effectively to stay ahead of the curve. There are a number of factors which lead out to this perspective; Increased regulatory compliance environment, the upcoming general elections, cybercrime and regional stability. Our response to these material matters has been covered under the material matters section of this integrated report.

2017 Risk Focus Areas

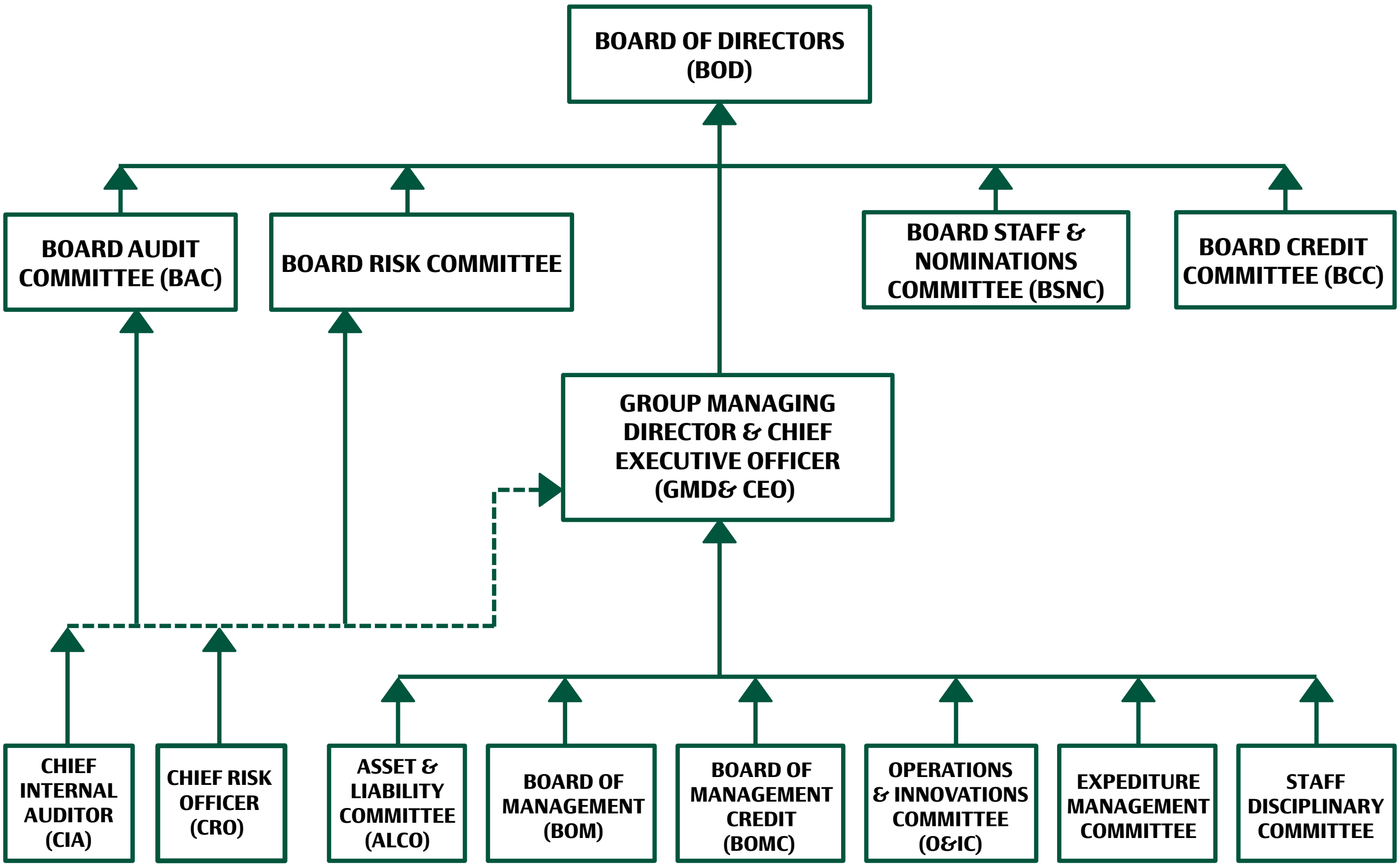
Our key priority in 2017 will be to continue focusing on the risk journey towards ensuring that our business units are self-reliant and ready in matters relating to risk identification, measurement and mitigation. We intend to ensure this objective is achieved through collaborative support programs which entrench periodic risk management capacity engagement training and sensitization curriculums coupled with comprehensive joint risk assessment exercises targeting the Group businesses, departments, units and product houses. These are incorporated in our 2017 Risk Management Plan, which has been approved by the Board of Directors.

Outlook

In 2017 and beyond, we intend to continue with our enterprise risk management activities to improve our risk management through enhanced benchmarking of our processes, systems and procedures for optimum value creation for our stakeholders.

Governance

Our Governance structure is as follows;



The Board of Directors
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 2016.

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-opholdings Cooperative Society Limited. In accordance with the company's Articles of Association, the Board includes the Commissioner of Co-operative Development appointed under the Co-operative Societies Act and the Permanent Secretary to the Treasury appointed under Permanent Secretary to the Treasury (Incorporation) Act. The Board is composed of directors with a diverse mix of skills, experience and competences in the relevant fields of expertise and is well placed to take the business forward. 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 co-ordinating the Board's agenda and papers.

Appointments and induction to the Board

Directors are appointed in accordance with the company's Articles of Association. At every Annual General Meeting, one third of directors are eligible to retire by rotation and may offer themselves for re-election. On appointment, directors receive an induction covering the bank's business and operations. As part of this process, the bank 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 it's 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 Managing Director

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

Board Performance Evaluation

The Board is responsible for ensuring that an evaluation of its performance and that of its committees and individual directors is carried out each year. This involves a self-review of the Board's capacity, functionality and effectiveness of performance against its set objectives. Evaluation enables directors to suggest how Board procedures may be improved by assessing strengths and weaknesses and addressing its balance of skills, knowledge and experience. This is done by way of both peer and self-evaluations, after which results are submitted to the Central Bank of Kenya (CBK). The 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 and Risk Committee and provides confirmation that the bank's business standards, policies and procedures as set by the Board are being complied with. The Board has reviewed the Group's system of internal control and is satisfied that the system is effective. However, the Board 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 as and when the environment so dictates.

The Board has also set up a Compliance Department which directly reports to its Audit and Risk Committees. 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. 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 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 Committeee
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 synchronise them with new developments and requirements of Central Bank (CBK) Prudential Guidelines.

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

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

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

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. J. Riungu - Vice Chairman
- Mr. Julius Sitienei
- Mr. Benedict W. Simiyu
- Mr. Macloud Malonza
- Dr. Gideon Muriuki, MBS - 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.

Board attendance
Attendance summary

Directors	Co-operative Bank Group				Co-operative Bank of Kenya Ltd Board Sub-committees		
	Co-operative Bank of Kenya Ltd	Co-op Bank South Sudan	Co-op Consultancy & Insurance Agency Ltd	Co-optrust Investment Services Ltd	Audit Committee	Staff and Remuneration committee	Credit Committee
Schedule of meetings:							
S. C. Muchiri, EBS - Group Chairman	5		4	4		1	
J. Riungu - Vice Chairman	5				3	1	
Dr. G. Muriuki, MBS - Group Managing Director & CEO	5		4	4		1	
L.C. Karissa - Appointed 27.05.2015	5				3	1	3
J.K. Murugu - Appointed 27.05.2015	5						
R. Simani (Mrs.)	5				3		3
W. Ongoro, HSC	4						
W. J. Mwambia - Representing PS Ministry of Finance	5				3		3
J. Sitienei	5					1	
R. L. Kimanthi	5						
M. Malonza	5						3
S. Odhiambo (Mrs.)			4	4			3
Dr. J. Kahunyo			4	4			
P. K. Githendu			4	4			
G. K. Mburia			4	4			
B.W Simiyu	5					1	
J.N. Njiru			4	4			
D.M. Muthigani			4	4			
P. M. Musyimi, HSC - Retired 27.05.2015			2	4			

Co-op Bank South Sudan	Full BOD	Audit	Risk & Finance
Schedule of meetings:			
S. C. Muchiri, EBS - Group Chairman	3	1	
J. Riungu - Vice Chairman	4		1
Dr. G. Muriuki, MBS - Group Managing Director & CEO	3	1	1
Zachary Chianda - Managing Director	4	1	1
Prof. Mathew Gordon Udo	4	1	
Wani Buyu Dyori	3		
Rosemary Githaiga	3	1	1
Eng. William Wol Maya			1

Remuneration guidelines

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

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 Division Directors.

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

- **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.

Remuneration of Directors and Executive Management

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

Amounts in KShs'M

	Salaries	Bonus	Fees & allowances	Honorarium	Total
Board of Directors	–	–	126.88	36.86	163.74
Executive Management	392.68	305.62	–	–	698.30
	392.68	**305.62**	**126.88**	**36.86**	**862.04**

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

The bank has a performance based Bonus reward system applicable to all staff including unionizable staff.

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

As at 31st December 2016 loans to Non-Executive Directors or companies controlled by Directors amounted to KShs. 277M (2015; KShs. 302M). All loans to directors were;

a) Made in the ordinary course of business
b) 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)

Directors Shareholdings

Directors' interest in the ordinary share capital of the Company on 31 December 2016 was as follows:

DIRECTOR	NO. OF SHARES	%
S. C. Muchiri, EBS – Chairman	6,253,333	0.13
Julius M Riungu – Vice Chairman	4,637,333	0.09
Dr. G. M. Muriuki, MBS – Group Managing Director	100,069,750	2.05
M. Malonza	4,300,000	0.09
S. Odhiambo (Mrs.)	1,435,570	0.03
P. K. Githendu	172,013	0.00
G. Mburia	2,150,001	0.04
J. N. Njiru	1,400	0.00
D. M. Muthigani	9,660	0.00
J. Sitienei	4,035,533	0.08
L. C. Karissa	3,217	0.00
R. L. Kimanthi	10,000	0.00
B. W. Simiyu	2,800	0.00
W. Ongoro	283,970	0.01
Philip Gichuki	7,000	0.00
Dr. James Kahunyo	1,300,000	0.03
J. K. Murugu	1,579,200	0.03
R. Simani (Mrs.)	-	-
W. J. Mwambia – Representing PS National Treasury	-	-
Mary Mungai – Commissioner for Cooperatives	-	-
TOTAL	**126,250,780**	**2.58**

Performance overview

The following section shows key financial numbers for a period of 5 years 2012-2016;

1. Key Financial Position numbers
2. Key income and expense numbers
3. Key Ratios

1. Key financial position numbers

(KShs Billion)	2016	2015	2014	2013	2012
Loans and advances to customers (net)	232.30	208.57	179.49	137.09	119.09
Total assets	351.83	342.50	285.40	231.22	200.89
Customer deposits	260.15	265.40	217.70	175.43	162.08
Borrowed funds	19.81	19.27	18.27	10.25	4.57
Total shareholders' funds	60.62	49.30	42.88	36.58	29.37

2. Key income and expense numbers

(KShs Billion)	2016	2015	2014	2013	2012
Total interest income	37.35	33.37	27.21	21.79	22.26
Total interest expenses	12.77	13.59	8.08	5.92	8.68
Net interest income	24.58	19.78	19.13	15.87	13.58
Total Fees, commissions & other incomes	17.69	16.61	12.96	12.02	10.20
Total operating income	42.27	36.39	32.09	27.89	23.78
Loan loss provision	2.60	2.02	1.18	0.78	1.00
Staff costs	9.40	8.93	8.44	8.01	6.10
Other operating expenses	12.64	10.44	10.48	8.59	7.07
Total other operating expenses	24.64	21.39	20.10	17.38	14.17
Profit/(loss) before tax	17.72	15.38	10.92	10.87	9.98
Current tax	5.05	3.68	8.01	1.76	2.26
Profit/(loss) after tax and exceptional items	12.68	11.71	8.01	9.11	7.72

3. Key ratios

Capital Adequacy Ratios	2016	2015	2014	2013	2012
Core capital (Tier 1) to Total Deposits	19.7%	17.5%	15.7%	18.2%	18.0%
Core capital (Tier 1) to Total risk weighted assets	16.1%	15.7%	13.5%	15.7%	20.3%
Total capital ((Tier 1 + 2)) to Total risk weighted assets	22.7%	22.4%	20.5%	21.1%	23.8%
SHEQ Capital / Average Assets	17.7%	16.0%	16.8%	17.0%	12.3%
Debt to Equity Ratio (Total Debt / SHEQ)	32.3%	38.4%	42.2%	27.9%	15.3%

Asset Quality Ratios	2016	2015	2014	2013	2012
Coverage (Spec. prov/Gross NPL)	38.1%	50.2%	30.0%	49.9%	53.3%
% of provision/NPLs	34%	44%	26%	39%	39%
Cost of Risk	1.2%	1.0%	0.7%	0.6%	0.7%
Non-Performing Loans in Total Loans	4.3%	3.4%	4.3%	4.0%	4.5%

Earnings and Efficiency Ratios	2016	2015	2014	2013	2012
Return on Average Assets (ROAA)	3.7%	3.7%	3.1%	4.2%	3.2%
Return on Average Equity (ROAE)	22.7%	25.0%	20.0%	27.4%	21.4%
Cost of Funds	4.47%	5.15%	3.75%	3.30%	5.56%
NIM (Net Interest Margin)	10.5%	10.3%	11.9%	12.4%	8.7%
FX/Non Funded	14.1%	24.2%	13.1%	15.9%	15.8%
Non - Funded to Total Operating Income	30.2%	36.2%	33.7%	33.2%	34.3%
Net Interest Income to Total Income	69.8%	63.8%	66.3%	66.8%	65.7%
Cost Income Ratio (With provision)	58.3%	58.8%	62.6%	62.3%	59.7%
Cost Income Ratio (Without provision)	52.1%	53.2%	59.0%	59.5%	55.5%

Liquidity ratios	2016	2015	2014	2013	2012
Liquidity ratio	33.2%	36.1%	33.8%	32.6%	35.8%
Total Loans to Total Deposits	89.9%	77.6%	81.3%	75.9%	78.8%
Loans /(Deposits+Borrowed Funds)	78%	72%	75%	71%	73%

Other key ratios	2016	2015	2014	2013	2012
Total asset growth rate	3%	20%	23%	15%	19%
Loan growth rate	14%	16%	31%	15%	9%
Earning growth rate	8%	46%	-12%	18%	44%
Customer Deposit Growth rate	-2%	22%	24%	8%	14%

Financial Statements

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2016. In accordance with Section 22 of the Banking Act (Cap 488) and Section 42 of the Sixth Schedule, Transitional and Saving Provisions, of the Kenyan Companies Act, 2015, this report has been prepared in accordance with Section 157 of the repealed Companies Act, as if that repeal had not taken effect.

1. PRINCIPAL ACTIVITIES

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

2. GROUP OPERATIONS

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

3. RESULTS

The results of the Group for the year are set out from page 86.

4. DIVIDEND

The directors recommend payment of a first and final dividend of KShs. 0.80 (2015 - KShs. 0.80) for every ordinary share of KShs. 1. The dividends will be paid on or about 30 June 2017 to the shareholders registered on the Bank's register at the close of business on 26 May 2017. The register will remain closed for one day on 29 May 2017 for the preparation of dividend warrants.

The Directors have also approved and recommend a bonus share issue, one (1) for every five (5) ordinary share held. The bonus subject to Capital Markets Authority approval will be credited to the shares on the register at the close of business on 30th June 2017.

5. RESERVES

The movement in the Group's reserves is shown on page 92 of these financial statements.

6. GROUP DIRECTORS

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

Co-operative Bank of Kenya and Kenyan subsidiaries:-

S. C. Muchiri, EBS - Group Chairman
J. M. Riungu - Vice Chairman
Dr. G. Muriuki, MBS - Group Managing Director& CEO
L. C. Karissa - Chairman, Board Staff and Nomination Committee
J. K. Murugu - Chairman, Board Credit Committee
R. Simani (Mrs) - Chairperson, Board Audit Committee
Wanyambura Mwambia - Representing PS, National Treasury, Chairman, Board Risk Committee
W. Ongoro, HSC
J. Sitienei
R. L. Kimanthi
M. Malonza
S. Odhiambo (Mrs)
Dr. J. Kahunyo
P. K. Githendu
G. K.Mburia
B. W. Simiyu
J. N. Njiru
D. M. Muthigani
P. Gichuki - (Retired 7 December 2016)
M. N. Mungai (Mrs) - (Appointed on 7 December 2016)

Co-operative Bank of South Sudan:-

William Mayar Wol - Chairman
Zacharia Chianda - Managing Director
Prof. Mathew Gordon Udo
Wani Buyu Dyori
S. C. Muchiri, EBS
J. M. Riungu
Dr. G. Muriuki, MBS
Rosemary Githaiga (Mrs)

7. AUDITORS

The company's auditors, Ernst & Young LLP, have expressed their willingness to continue in office in accordance with the Kenyan Companies Act, 2015.

8. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 15 March 2017.

By order of the Board

....

Group Managing Director & CEO

Statement of Directors' Responsibilities

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 maintains proper accounting records that are sufficient to show and explain the transactions of the company and disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 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 Bank'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 15th March 2017 and signed on its behalf by:

....

GROUP CHAIRMAN

....

VICE CHAIRMAN

....

GROUP MANAGING DIRECTOR & CEO

....

COMPANY SECRETARY

Independent Auditors' Report to the Shareholders of the Co-operative Bank of Kenya Limited

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and bank's financial statements of The Co-operative Bank of Kenya Limited (the Bank) and its subsidiaries (together, the Group), set out on page 86 to 170 which comprise the consolidated and separate statements of financial position as at 31 December 2016, and the consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and the Bank as at 31 December 2016, 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
Credit risk and impairment of loans and advances to customers Loans and advances constitute 66% of the total assets of the group in the statement of financial position as at 31 December 2016. 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. 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 note 2 (d) and 2 (o), 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. Accordingly, the impairment assessment of loans and advances is considered to be a key audit matter due to the the level of judgement and estimation involved.	Our audit procedures included but were not limited to:- • 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 Financial Reporting Standards ; • 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 provision on loans and advances to customers.
Valuation of land and buildings The bank's land and buildings are carried in the books of account using the revaluation model as per the provisions of the International Accounting Standards (IAS) No.16 - Property, Plant and Equipment. The Bank revalued its land and buildings as at 31 December 2016 resulting in a revaluation gain of KShs. 1,227,693,694 which we considered significant to the financial statements. We also focused on this areas because the valuation of the land and buildings was based on open market value assessed using the investment, cost and market comparison analysis approaches, which involve significant estimates and require application of judgment.	We designed our audit procedures to address this matter in the following ways: • Assessing the rationale used by the external valuer in determining the market value of the land and buildings • Evaluating the external valuer's qualifications, independence, competence and capacity to perform the valuation. • Evaluating and testing key assumptions used in the valuation to determine whether they were supported by the available evidence in as far as market prices are concerned. • Comparing the open market values with those of similar properties in the same location • Assessing the adequacy of the disclosures included in notes 6 and 19 to the financial statements.

Key Audit Matter	How the matter was addressed in the audit
Investment in banks under receivership The group, through Co-op Trust Investments Services Limited, had invested KShs. 923 million in Chase Bank (Kenya) Limited on behalf of its customers. This bank was put under receivership on 7 April 2016 and re-opened on 27 April 2016, under a Receiver Manager (KCB Bank Limited). The investments, mainly fixed deposits, were paid to the customers by the Co-operative Bank on behalf of Co-optrust Investment Limited. In addition, the group, through Co-op Trust Investment, had invested KShs. 274 million in Imperial Bank Limited on behalf of pension schemes. This Bank was also put under receivership on 13 October 2015 and consequently branches re-opened under NIC Bank Limited on 26 July 2016. The risk on the investments is carried by the individual pension scheme. There is uncertainty involved in relation to the recoverability of these investments as the industry regulator continues to look into the affairs of the two financial institutions. The management assessment on recoverability of Chase Bank investments is disclosed in note 12. Accordingly, we considered this a key matter due to the level of uncertainty involved.	Our audit procedures included but were not limited to: • Reviewing on a sample basis, payments made by the Co-operative Bank on behalf of Co-op Trust Investment Services Limited; • Assessing the judgement applied by management on future recoverability of the Chase Bank investments; • Reviewing of the correspondence between the group and the market regulator (the Capital Markets Authority) on the treatment of the investments; • Assessing the progress made by the regulator (Central Bank of Kenya) in reviving the two banks under receivership; and • Assessing the appropriateness of the disclosure on this matter, included in note 12 of the financial statements.
Reporting in hyperinflationary economies by Co-operative Bank of South Sudan With effect from 2016, the South Sudan economy was considered to be hyperinflationary in accordance with International Practices Task Force (IPTF) which required all registrants in South Sudan to report in accordance with International Accounting Standard (IAS) 29 -Financial Reporting in Hyperinflationary Economies. As a result, the financial statements of Co-operative Bank of South Sudan, which are included in the Group consolidated financial statements, have been restated to reflect the changes in general purchasing power of the South Sudanese Pound as required by IAS 29. We consider this to be a key audit matter due to effect of restatement on the Group Financial Statements as a result of adjusting Co-operative Bank of South Sudan financial statements to reflect the general change in purchasing power as disclosed in note 32 (c). The main inputs used in restatement of Co-operative Bank of South Sudan financial statement are the consumer price index (CPI) between 2015 and 2016 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).	Our audit procedures included: • Assessing the accuracy of restated financial statements for Co-operative Bank of South Sudan by reviewing the IAS 29 workings prepared by management and evaluating the reasonableness of the inputs used in the restatement. • Assessing whether the Group financial statement disclosure in note 32 (c) appropriately reflect the impact of hyperinflation reporting in Co-Operative Bank of South Sudan.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Kenyan Companies Act of Kenya, 2015. 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.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 IFRSs, 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:

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 Legal and Regulatory Requirements

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

(i) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;

(ii) In our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and

(iii) the company's statement of financial position and statement of comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is Joseph Cheboror – P/No. P.1145

Nairobi

31st March 2017

*In accordance with Section 42 of the Sixth Schedule, Transitional and Saving Provisions, of the Kenyan Companies Act, 2015, the company's financial statements and this report have been prepared in accordance with Sections 147 to 163 of the repealed Companies Act, as if that repeal had not taken effect.

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	2016 KShs'000	2015 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	7	25,682,704	29,455,691
Deposits and balances due from banks	8	5,017,303	13,977,237
Held-for-trading investments	9	147	206
Available-for-sale investments	10	24,758,146	28,771,869
Derivative financial instruments	11	126,776	621,737
Other assets	12	13,242,438	12,130,498
Loans and advances to customers	13(a)	232,307,329	208,571,920
Held-to-maturity investments	14	37,158,762	36,154,555
Investment in associate	16	2,409,297	2,267,230
Intangible assets	17(a)	1,713,118	1,605,069
Prepaid lease rentals	18	36,352	36,964
Property and equipment	19(a)	8,308,698	8,020,778
Deferred tax asset	20	1,067,507	886,055
TOTAL ASSETS		**351,828,577**	**342,499,809**
LIABILITIES			
Deposits and balances due to banks	21	3,411,977	3,421,219
Customer deposits	22(a)	260,153,437	265,398,587
Loans and borrowings	23	19,813,260	19,271,212
Tax payable	24(b)	1,221,025	171,328
Provisions	25	141,281	110,191
Other liabilities	26	5,968,630	4,306,703
Government grants	27	498,842	517,317
TOTAL LIABILITIES		**291,208,452**	**293,196,557**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT			
Share capital	28	4,889,317	4,889,317
Share premium	29	2,889,789	2,889,789
Revaluation reserve	30(a)	1,338,103	459,414
Retained earnings	30(b)	48,208,633	39,574,445
Available-for-sale reserve	30(c)	(1,158,031)	(1,870,841)
Statutory reserve	30(d)	736,418	784,381
Foreign currency translation reserve	30(e)	-	(948,210)
Proposed dividends	31	3,911,453	3,911,453
		60,815,682	**49,689,748**
Non-controlling interest	32	(195,557)	(386,496)
TOTAL EQUITY		**60,620,125**	**49,303,252**
TOTAL LIABILITIES & EQUITY		**351,828,577**	**342,499,809**

The financial statements were approved by the Board of Directors on 15th March 2017 and signed on its behalf by: -

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

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

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

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

Consolidated Income Statement

For the Year ended 31 December 2016

	Note	2016 KShs'000	2015 KShs'000
Interest income	33	37,349,857	33,370,039
Interest expense	34	(12,768,300)	(13,586,911)
NET INTEREST INCOME		**24,581,557**	**19,783,128**
Fees and commission income	35	9,787,509	9,501,834
Fees and commission expense	35	(248,482)	(57,944)
NET FEES AND COMMISSION INCOME		**9,539,027**	**9,443,890**
Net trading income	36	5,277,360	5,412,502
Amortisation of government grants	27	18,475	18,475
Other operating income	37	2,854,512	1,731,784
TOTAL OTHER INCOME		**8,150,347**	**7,162,761**
OPERATING INCOME		**42,270,931**	**36,389,779**
Net impairment losses on loans and advances	13(c)	(2,599,671)	(2,019,295)
Amortisation of intangible assets	17(a)	(485,506)	(399,950)
Amortisation of leasehold land	18	(612)	(606)
Depreciation of property and equipment	19(a)	(1,936,699)	(1,825,444)
Employee costs	38	(9,403,441)	(8,927,128)
Other operating expenses	39	(10,219,016)	(8,219,255)
OPERATING EXPENSES		**(24,644,945)**	**(21,391,678)**
OPERATING PROFIT		**17,625,986**	**14,998,101**
Share of profit of an associate	16	97,546	384,991
PROFIT BEFORE TAX		**17,723,532**	**15,383,092**
INCOME TAX EXPENSE	24(a)	(5,047,322)	(3,677,533)
PROFIT FOR THE YEAR		**12,676,210**	**11,705,559**
Attributable to:			
Equity holders of the parent		12,927,768	11,288,769
Non-controlling interest		(251,558)	416,790
		12,676,210	**11,705,559**
Basic earnings per share (KShs)	40	2.64	2.31
Diluted earnings per share (KShs)	40	2.20	1.92

Consolidated Statement of Comprehensive Income

For the Year ended 31 December 2016

	Note	2016	2015
		KShs'000	**KShs'000**
PROFIT FOR THE YEAR		**12,676,210**	**11,705,559**
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net movement on available-for-sale investments	41	708,015	(1,026,494)
Exchange differences on translation of a foreign operation		1,859,238	(1,890,682)
Other comprehensive income of associates			
-Fair value loss on available for sale investments		-	(40,270)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of land and building		859,386	-
Other comprehensive income of associates			
- Revaluation of building		7,776	54,042
OTHER COMPREHENSIVE INCOME, NET OF TAX		**3,434,415**	**(2,903,404)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF INCOME TAX		**16,110,625**	**8,802,155**
Attributable to:-			
Equity holders of the parent		15,464,337	9,288,411
Non-controlling interest		646,288	(486,256)
		16,110,625	**8,802,155**

Bank Statement of Financial Position

For the Year ended 31 December 2016

	Note	2016 KShs'000	2015 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	7	24,457,720	27,173,645
Deposits and balances due from banks	8	5,359,893	13,869,273
Held-for-trading investments	9	147	149
Available-for-sale investments	10	24,624,796	28,641,531
Derivative financial instruments	11	126,776	621,737
Other assets	12	13,071,271	12,018,596
Loans and advances to customers	13(a)	231,770,171	208,074,513
Held-to-maturity investments	14	37,003,530	35,999,971
Investment in subsidiaries	15	2,512,920	2,207,370
Investment in associate	16	755,118	755,118
Intangible assets	17(b)	1,410,156	1,461,590
Prepaid lease rentals	18	36,352	36,964
Property and equipment	19(b)	7,817,715	7,812,740
Deferred tax asset	20	1,051,197	876,614
TOTAL ASSETS		**349,997,762**	**339,549,811**
LIABILITIES			
Deposits and balances due to banks	21	3,402,893	2,905,405
Customer deposits	22(a)	259,471,749	263,709,415
Loans and borrowings	23	19,813,260	19,271,212
Tax payable	24(b)	1,248,698	157,596
Provisions	25	139,198	110,190
Other liabilities	26	5,876,131	4,085,215
Government grants	27	498,841	517,317
TOTAL LIABILITIES		**290,450,770**	**290,756,350**
EQUITY			
Share capital	28	4,889,317	4,889,317
Share premium	29	2,889,789	2,889,789
Revaluation reserve	30(a)	1,256,445	397,059
Retained earnings	30(b)	46,970,978	37,830,868
Available-for-sale reserves	30(c)	(1,088,834)	(1,842,869)
Statutory reserve	30(d)	717,844	717,844
Proposed dividends	31	3,911,453	3,911,453
TOTAL EQUITY		**59,546,992**	**48,793,461**
TOTAL LIABILITIES & EQUITY		**349,997,762**	**339,549,811**

The financial statements were approved by the Board of Directors on 15th March 2017 and signed on its behalf by:-

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

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

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

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

Bank Income Statement

For the Year ended 31 December 2016

	Note	2016 KShs'000	2015 KShs'000
Interest income	33	37,181,204	33,098,293
Interest expense	34	(12,727,244)	(13,564,779)
NET INTEREST INCOME		**24,453,960**	**19,533,514**
Fees and commission income	35	8,818,080	8,647,735
Fees and commission expense	35	(248,481)	(57,944)
NET FEES AND COMMISSION INCOME		**8,569,599**	**8,589,791**
Net trading income	36	5,076,446	4,100,649
Amortisation of government grants	27	18,475	18,475
Other operating income	37	2,892,718	1,785,689
TOTAL OTHER INCOME		**7,987,639**	**5,904,813**
OPERATING INCOME		**41,011,198**	**34,028,118**
Net impairment losses on loans and advances	13(c)	(2,594,567)	(2,007,357)
Amortization of intangible assets	17(b)	(447,371)	(377,563)
Amortisation of leasehold land	18	(612)	(606)
Depreciation of property and equipment	19(b)	(1,834,722)	(1,795,458)
Employee costs	38	(8,944,786)	(8,410,131)
Other operating expenses	39	(9,168,735)	(7,365,545)
OPERATING EXPENSES		**(22,990,793)**	**(19,956,660)**
PROFIT BEFORE TAX		**18,020,405**	**14,071,458**
INCOME TAX EXPENSE	24(a)	(4,968,841)	(3,599,860)
PROFIT FOR THE YEAR		**13,051,564**	**10,471,598**
Basic earnings per share (KShs)	40	2.67	2.14
Diluted earnings per share (KShs)	40	2.22	1.78

Bank Statement of Comprehensive Income

For the Year ended 31 December 2016

	Note	2016 KShs'000	2015 KShs'000
PROFIT FOR THE YEAR		**13,051,564**	**10,471,598**
OTHER COMPREHENSIVE INCOME:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net movement on available-for-sale investments	41	754,035	(1,048,807)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of land and building		859,386	-
OTHER COMPREHENSIVE INCOME, NET OF TAX		**1,613,421**	**(1,048,807)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		**14,664,985**	**9,422,791**

Consolidated Statement of Changes in Equity

For the Year ended 31 December 2016

	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 2015	**4,889,317**	**2,889,789**	**408,074**	**718,421**	**(793,356)**	**31,444**	**2,444,658**	**32,206,653**	**42,795,000**	**82,119**	**42,877,119**
Profit /(loss) for the year	-	-	-	-	-	-	-	11,288,660	**11,288,660**	416,899	**11,705,559**
Other comprehensive income	-		39,689	-	(1,075,690)	(964,248)	-	-	**(2,000,249)**	(903,155)	**(2,903,404)**
Total comprehensive income	**-**	**-**	**-**	**-**	**(1,075,690)**	**(964,248)**	**-**	**11,288,660**	**9,288,411**	**(486,256)**	**8,802,155**
Transfer of excess depreciation	-	-	(9,071)	-	-	-	-	9,071	-	-	-
Deferred income tax on transfer of excess depreciation -			2,722	-	-	-	-	(2,722)	-	-	-
Transfers to statutory reserve	-		-	65,960	-	-	-	(65,960)	-	-	-
Reclassification from /(to) non-controlling interest	-	-	18,001	-	(1,795)	(15,406)	-	50,196	**50,996**	17,641	68,636
2014- Dividends paid	-	-	-	-	-	-	(2,444,658)	-	**(2,444,658)**	-	(2,444,658)
Proposed dividends	-	-	-	-	-	-	3,911,453	**(3,911,453)**	**-**	-	-
At 31 December 2015	**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**
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								12,927,768	12,927,768	251,558	12,676,210
Other comprehensive income	-	-	1,234,895	-	721,770	948,210	-	-	2,904,875	897,846	3,802,721
Total comprehensive income	**-**	**-**	**1,234,895**	**-**	**721,770**	**948,210**	**-**	**12,927,768**	**15,832,643**	**646,288**	**16,478,931**
Deferred tax on revaluation surplus			(368,308)	-	-		-	-	**(368,308)**	-	**(368,308)**
Transfer to revaluation reserve -			-	1,172	-	-	-	(1,172)	**-**	-	-
Exchange difference on hyperinflationary economy	-	-	12,102	(49,135)	(8,960)	-	-	(380,955)	(426,948)	(455,349)	(882,297)
2016- 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**

Bank Statement of Changes in Equity

For the Year ended 31 December 2016

	Share capital	Share premium	Revaluation reserve	Statutory reserve	Available-for-salereserve	Proposed dividends	Retained earnings	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
As at 1 January 2015	**4,889,317**	**2,889,789**	**403,408**	**717,844**	**(794,062)**	**2,444,658**	**31,264,374**	**41,815,328**
Profit for the year	-	-	-	-	-	-	10,471,598	**10,471,598**
Other comprehensive income	-	-	-	-	(1,048,807)	-		**(1,048,807)**
Total comprehensive income	**-**	**-**	**-**	**-**	**(1,048,807)**	**-**	**10,471,598**	**9,422,791**
Transfer of excess depreciation	-	-	(9,071)	-	-	-	9,071	-
Deferred income tax on transfer of excess depreciation	-	-	2,722	-	-	-	(2,722)	-
2014- Dividends paid	-	-	-	-	-	(2,444,658)		**(2,444,658)**
Proposed dividends	-	-	-	-	-	3,911,453	(3,911,453)	-
At 31 December 2015	**4,889,317**	**2,889,789**	**397,059**	**717,844**	**(1,842,869)**	**3,911,453**	**37,830,867**	**48,793,460**
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	-	-	1,227,694	-	754,035	-	-	**1,981,729**
Total comprehensive income	**-**	**-**	**1,227,694**	**-**	**754,035**	**-**	**13,051,564**	**15,033,293**
Deferred tax on revaluation surplus	-	-	(368,308)	-	-	-	-	**(368,308)**
2016- 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**

Consolidated Statement of Cash Flows

For the Year ended 31 December 2016

	Note	2016 KShs'000	2015 KShs'000
Cash generated from operating activities	42	**(2,256,914)**	**23,558,606**
Tax paid	24(b)	(4,545,970)	(3,923,452)
Net cash flows generated from operating activities		**(6,802,884)**	**19,635,154**
INVESTING ACTIVITIES:-			
Purchase of property and equipment	19(a)	(687,739)	(631,099)
Purchase of intangible assets	17(a)	(595,352)	(338,689)
Proceeds from disposal of property and equipment		-	2,400
Purchase of held-to-maturity investments	14	(12,436,612)	(10,846,820)
Maturity of held-to-maturity investments	14	11,432,405	(664,209)
Investment in an associate		-	(30,152)
Dividends from an associate	16	72,876	69,407
Net cash flows used in investing activities:-		**(2,214,422)**	**(12,439,162)**
FINANCING ACTIVITIES:-			
Proceeds from borrowings	23	6,007,884	1,086,700
Repayment of borrowings	23	(5,465,665)	(1,820,787)
Dividends paid to equity holders of the parent		(3,911,453)	(2,444,658)
Net cash flows used in financing activities		**(3,369,234)**	**(3,178,745)**
Net movement in cash and cash equivalents		(12,386,540)	4,017,247
Effect of foreign exchange differences		3,887	(927,345)
Cash and cash equivalents at the beginning of the year		29,368,433	26,278,531
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**42**	**16,985,780**	**29,368,433**

Bank Statement of Cash Flows

For the Year ended 31 December 2016

OPERATING ACTIVITIES:-	Note	2016 KShs'000	2015 KShs'000
Cash (used in) / generated from operating activities	42	(717,665)	22,570,482
Tax paid	24(b)	(4,420,630)	(3,838,892)
Net cash flows (used in) / from operating activities		**(5,138,295)**	**18,731,590**
INVESTING ACTIVITIES:-			
Purchase of property and equipment	19(b)	(629,371)	(583,755)
Purchase of software	17(b)	(506,759)	(310,803)
Additional capital to a subsidiary		(305,550)	(400,922)
Purchase of held-to-maturity investments	14	(12,436,612)	(10,846,820)
Maturity of held-to-maturity investments	14	11,433,053	(692,959)
Net cash flows used in investing activities		**(2,445,239)**	**(12,835,259)**
FINANCING ACTIVITIES:-			
Proceeds from borrowings	23	6,007,884	1,086,700
Repayment of borrowings	23	(5,465,665)	(1,820,787)
Dividends paid		(3,911,453)	(2,444,658)
Net cash flows from financing activities		**(3,369,234)**	**(3,178,745)**
Net movement in cash and cash equivalents		(10,952,768)	2,717,586
Cash and cash equivalents at the beginning of the year		27,589,720	24,872,134
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**42**	**16,636,952**	**27,589,720**

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

1. GENERAL INFORMATION

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

The Bank has a subsidiary in Republic of South Sudan named Co-operative Bank of South Sudan which was established in 2012 through a partnership between The Co-operative Bank of Kenya Limited and the Government of South Sudan. The Subsidiary is incorporated in accordance with the Companies Act, 2012 of South Sudan and is licensed under the Banking Act of South Sudan.

2. ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

For the Kenyan Companies Act 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 associate as at 31 December 2016. 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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

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

(c) Changes in accounting policies and disclosures

New and amended standards and interpretations

TThe Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016. 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 2016, 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:

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

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

New and amended standards and interpretations (Continued)

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

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Group as it does not have any interest in a joint operation.

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

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 Agriculture. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are applied retrospectively and do not have any impact on the Group as it does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. These amendments do not have any impact on the Group's financial statements.

Annual Improvements 2012-2014 Cycle

These improvements include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts - The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

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

New and amended standards and interpretations (Continued)

IFRS 7 Financial Instruments: Disclosures (Continued)

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

These amendments do not have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the Bank.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are applied retrospectively and do not have any impact on the Group.

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.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

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

Standards issued but not yet effective

IFRS 9 Financial Instruments

Introduction

In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that will replace IAS 39 for annual periods on or after 1 January 2018, with early adoption permitted.

Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to profit or loss.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements will be presented in OCI with no subsequent reclassification to profit or loss, unless an accounting mismatch in profit or loss would arise.

Having completed its initial assessment, the Group has concluded that:

- The majority of loans and advances to banks, loans and advances to customers, cash collateral for reverse repo agreements and cash settlement balances with clearing houses that are classified as loans and receivables under IAS 39 are expected to be measured at amortised cost under IFRS 9
- Financial assets and liabilities held for trading and financial assets and liabilities designated at FVPL are expected to be continue to be measured at FVPL
- The majority of the debt securities classified as available for sale under IAS 39 are expected to be measured at amortised cost or FVOCI. Some securities, however, will be classified as FVPL, either because of their contractual cash flow characteristics or the business model within which they are held
- Debt securities classified as held to maturity are expected to continue to be measured at amortised cost.

Hedge accounting

IFRS 9 allows entities to continue with the hedge accounting under IAS 39 even when other elements of IFRS become mandatory on 1 January 2018. The Group does not have any hedge instruments.

Impairment of financial assets

Overview

IIFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Group will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Group has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

- To calculate ECL, the Group will estimates the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between: the contractual cash flows that are due to the Bank under the contract; and,
- The cash flows that the Group expects to receive, discounted at the effective interest rate of the loan.

In comparison to IAS 39, the Group expects the impairment charge under IFRS 9 to be more volatile than under IAS 39 and to result in an increase in the total level of current impairment allowances.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

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

Standards issued but not yet effective (Continued)

IFRS 9 Financial Instruments (Continued)

Forward looking information

The Group will incorporate forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECLs. The Group considers forward-looking information such as macroeconomic factors (e.g., unemployment, GDP growth, interest rates and house prices) and economic forecasts. To evaluate a range of possible outcomes, the group intends to formulate three scenarios: a base case, a worse case and a better case. The base case scenario represents the more likely outcome resulting from the group's normal financial planning and budgeting process, while the better and worse case scenarios represent more optimistic or pessimistic outcomes. For each scenario, the Group will derive an ECL and apply a probability weighted approach to determine the impairment allowance. The Group will use internal information coming from internal economic experts, combined with published external information from government and private economic forecasting services. Both the Risk and Finance management teams will need to approve the forward-looking assumptions before they are applied for different scenarios.

Limitation of estimation techniques

The models that will be applied by the Group may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as changes in market conditions. Interim adjustments are expected to need to be made until the base models are updated. Although the Group will use data that is as current as possible, models used to calculate ECLs will be based on data that is one month in arrears and adjustments will be made for significant events occurring prior to the reporting date.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Group is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statements.

IFRS 15 Revenue from Contracts with Customers

IIn May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Group does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in profit or loss. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Group does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

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

Standards issued but not yet effective (Continued)

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Group will adopt the amendment when it becomes effective. The adoption of this amendment will not have a material impact on the statement of cash flows as the gains or loss on foreign exchange are not material.

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.

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. These amendments are not expected to have any impact on the Group.

(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.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

(d) Significant accounting estimates and assumptions (Continued)

Fair value of financial instruments

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

Impairment losses on loans and advances

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

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

Impairment of available–for–sale investments

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

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

Deferred tax assets

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

(e) Recognition of income and expenses

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

i. Interest and similar income and expenses

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

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

(e) Recognition of income and expenses (Continued)

ii. Fee and commission income

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

iii. Dividend income

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

iv. Rental income

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

v. Net trading income

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

(f) Cash and cash equivalents

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

(g) Property and equipment

Recognition and measurement

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Any revaluation surplus is recognised as other comprehensive income in the assets revaluation reserve (a separate component of equity), except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve. Revaluation surpluses are not distributable. Land and buildings are revalued after every 3 years by approved external valuers.

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

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

(g) Property and equipment (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, and prospectively adjusted as a change in estimate if appropriate, at each financial year end.

(h) Business combinations and goodwill

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

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

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

Where goodwill has been allocated to a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal.

Goodwill disposed of in these circumstances are measured based on the relative values of the disposed operation and the portion of the CGU retained. When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

(i) Intangible assets

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

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

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

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

(a) Computer software licences

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

(b) Other intangible assets

Other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. Other intangible assets consist of Nairobi Stock Exchange (NSE) seat (now renamed NSE trading right) and joint venture development cost (Cost incurred for the joint venture agreement during the set-up of Co-operative bank of South Sudan). The Joint Venture development assets relates to the costs incurred in negotiating the Joint Venture arrangement with the Government of South Sudan. Under the Joint Venture agreement, the Bank acquired certain rights that are identifiable e.g., business relationships with the government and co-operative movements.

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.

(j) Investment in an associate

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 investment in its associate is 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.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

(j) Investment in an associate (Continued)

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

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

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

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

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

(k) Finance and operating leases

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

i) Operating leases:

Where:-

- Group is the lessee

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

- Group is the lessor

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

ii) Finance leases:

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

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

(l) Financial asset

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

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

a. *Financial assets at fair value through profit or loss*

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

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

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

Held-to-maturity financial assets

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

Loans and receivables

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

Available-for-sale financial assets

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

Amortised cost

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

(m) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Group's fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. External valuers are involved for valuation of significant assets, such as properties.

(n) Derivative financial instruments

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group. Over–the–counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position. The Group's exposure under derivative contracts is closely monitored as part of the overall management of its market risk.

Changes in fair value of any derivative instruments are recognised immediately in the profit or loss. Derivative financial instruments are initially recognised at fair value. Subsequent to initial recognition, derivative financial instruments are measured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore , do not indicate the Bank's exposure to credit or price risks. The derivative instruments become assets or liabilities as a result of fluctuations in foreign exchange rates relative to their terms.

The Bank uses the following derivative instruments:

Currency Forwards

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

Swaps

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

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2. ACCOUNTING POLICIES (continued)

(o) Impairment of financial assets

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

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

(1) Financial assets carried at amortised cost

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

For loans and advance impairment losses are computed based on:

i) Central Bank of Kenya Prudential Guidelines

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

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

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

ii) International Accounting Standard (IAS) 39

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

(o) Impairment of financial assets (Continued)

(1) Financial assets carried at amortised cost (Continued)

ii) International Accounting Standard (IAS) 39 (Continued)

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 but recognised as other comprehensive income and accumulated in the available-for-sale reserve (a separate component of equity). If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

(3) Renegotiated loans

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

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

(4) Derecognition of financial assets

A financial asset is derecognised when:

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

(p) Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial liabilities at amortised cost

(a) Customer deposits

Customer deposits include call, fixed, current account and savings deposits. The fair value of savings, deposits and current accounts with no specific maturity is assumed to be the amount payable on demand at end of the reporting period, i.e. their carrying values at this date. The fair values of term deposits are estimated using discounted cash flow calculations based upon interest rates currently being offered for similar contracts with maturities consistent with those being valued. The carrying amounts of variable-rate deposits approximate their fair values at the reporting date

(b) Deposits from/ to other banks

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

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

(c) Other borrowed funds and borrowing costs

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

(d) Financial guarantee contracts

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

(q) Provisions

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

(r) Offsetting

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

(s) Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within 'Non-current assets held for sale'. The bank did not have repossessed assets in the current year (2015: nil).

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

(t) Foreign currency

i) Transactions

Transactions in foreign currencies are translated at the rates ruling on the transaction dates. Monetary balances in foreign currencies are translated at the Central Bank of Kenya rates ruling at the end of each reporting period. Any resulting gains or losses on exchange are dealt with in profit or loss in the period in which they arise. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, whilst assets carried at fair value are translated at the exchange rate when the fair value was determined.

ii) Group companies

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

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

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

(u) Employee benefits

The Group operates a defined contribution retirement scheme for its employees. The assets of the scheme are held in a separate trustee administered fund which is funded by contributions from both the Group and employees. The Group contributions to the scheme are charged to the profit or loss in the year to which they relate. The Group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to KShs. 200 per employee per month.

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

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

(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.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

(v) Taxes (Continued)

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:

(iii) where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset

(iv) 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

(v) 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.

(w) Grants

Grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as other income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to other income in equal annual amounts over the expected useful life of the related asset.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as other income in the period in which it becomes receivable.

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

(x) Cash and cash equivalents

Cash and cash equivalents comprise balances with maturities of less than 91 days from the date of acquisition and include cash and balances with Central Bank of Kenya (excluding restricted balances - cash reserve ratio), items in the course of collection, government securities and deposits and balances due from banking institutions. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Cash and cash equivalents are measured at amortised cost.

(y) Dividends

Dividends on ordinary shares are charged to equity in the year in which they are declared. Proposed dividends are shown as a separate component of equity until they have been ratified at the Annual General Meeting.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

(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, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. Impairment losses on goodwill are not reversed.

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

(ab) Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period

Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period

Or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

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 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 2016

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (Continued)

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

	Note	Group 2016 KShs'000	Group 2015 KShs'000	Bank 2016 KShs'000	Bank 2015 KShs'000
Carrying amount	13(a)	**245,002,074**	**220,556,598**	**244,455,158**	**220,054,537**
Staff loans amortization	12	(4,628,234)	(4,811,635)	(4,628,234)	(4,811,635)
Individually assessed for impairment:					
Grade 5: Loss category		674,983	695,943	674,983	695,943
Grade 4: Doubtful category		4,771,526	4,188,409	4,770,400	4,188,409
Gross amount		5,446,509	4,884,352	5,445,383	4,884,352
Allowance for impairment		(3,995,201)	(2,855,436)	(3,994,075)	(2,855,436)
Carrying amount		**1,451,308**	**2,028,916**	**1,451,308**	**2,028,916**
Collectively assessed for impairment:					
Grade 1: Normal		197,251,662	193,010,260	196,708,388	192,512,853
Grade 2: Watch list		36,474,619	19,352,492	36,474,619	19,352,492
Gross amount		233,726,281	212,362,752	233,183,007	211,865,345
Allowance for impairment		(3,068,119)	(2,532,335)	(3,061,323)	(2,532,335)
Carrying amount		**230,658,162**	**209,830,417**	**230,121,684**	**209,333,010**
Past due loans (Grade 3 - Substandard):					
Past due up to 30 days		2,180,967	2,113,557	2,180,967	2,113,557
Past due 31-60 days		1,922,433	672,254	1,922,433	672,254
Past due 61-90 days		1,032,215	383,855	1,032,215	383,855
Past due 91-150 days		692,050	135,175	692,050	135,175
Gross amount		**5,827,665**	**3,304,841**	**5,827,665**	**3,304,841**
Allowance for impairment		(1,002,163)	(1,780,619)	(1,002,163)	(1,780,619)
Carrying amount		**4,825,502**	**1,524,222**	**4,825,502**	**1,524,222**
Net carrying amount	**13 (a)**	**232,307,329**	**208,571,920**	**231,770,171**	**208,074,513**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (Continued)

Maximum exposure to credit risk before collateral held:

	Group		Bank	
	2016	**2015**	**2016**	**2015**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Items recognised in the statement of financial position:				
Items in the course of collection	195,791	384,161	195,791	384,161
Deposits and balances due from banking institutions	5,017,303	13,977,237	5,359,893	13,869,273
Financial assets:				
-Derivatives	126,776	621,737	126,776	621,737
-Held-to-maturity	37,158,761	36,154,555	37,003,530	35,999,971
-Held-for-trading	147	206	147	149
-Available-for-sale	24,624,796	28,771,869	24,624,796	28,641,531
Interest receivable	3,848,678	2,565,663	3,848,491	2,565,663
Loans and advances to customers	232,307,329	208,571,920	231,770,171	208,074,513
	303,279,581	**291,047,348**	**302,929,595**	**290,156,998**
Items not recognised in the statement of financial position (note 46)	12,465,919	12,509,752	12,465,919	12,509,752
	315,745,500	**303,557,100**	**315,395,514**	**302,666,750**

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. 64.429 Million (2015- KShs. 52.228 Million). All other facilities are secured by collateral in the form of charges over cash, land and buildings, marketable securities, plant and machinery among others.

Impaired loans

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

Past due but not impaired loans

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

Loans with renegotiated terms

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

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:

	2016 KShs'000	2015 KShs'000
Commercial loans	21,646,699	11,922,194
	21,646,699	**11,922,194**

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	
	2016 KShs'000	2015 KShs'000
(i) Categorised by loans & advances:		
Doubtful & loss categories	10,480,512	4,596,134
Past due but not impaired (Sub-standard) category	15,100,117	2,493,842
Normal & watch categories	378,334,639	245,779,535
	403,915,268	**252,869,511**
(ii) Categorised by nature of collateral:		
Land & buildings	208,107,228	119,866,272
Cash & other pledges	4,165,063	2,133,614
Motor vehicles	49,985,757	42,082,098
Hypothecation of stock	1,343,493	835,479
Debentures & guarantees	133,811,514	67,753,830
Other chattels	6,502,213	20,198,218
	403,915,268	**252,869,511**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (Continued)

Concentration of Risk

CConcentration 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**	
	2016	**2015**	**2016**	**2015**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
(i) Concentration by sector:				
Agriculture	8,185,857	8,593,414	8,185,857	8,593,414
Manufacturing, energy & water	27,450,579	24,264,230	27,450,579	24,264,230
Financial services	25,582,370	24,743,324	25,582,370	24,743,324
Tourism & hospitality	1,507,486	1,434,270	1,507,486	1,434,270
Wholesale and retail trade	40,315,026	34,952,226	40,315,026	34,952,226
Transport and communication	15,967,830	14,964,629	15,967,830	14,964,629
Real Estate, building & construction	39,290,875	34,620,191	38,746,475	34,118,130
Consumer & household	86,702,051	76,984,314	86,699,535	76,984,314
	245,002,074	**220,556,598**	**244,455,158**	**220,054,537**
Less: staff loans amortisation	(4,628,234)	(4,811,635)	(4,628,234)	(4,811,635)
	240,373,840	**215,744,963**	**239,826,924**	**215,242,902**
(ii) Concentration by business:				
Corporate	80,923,439	86,801,346	80,923,439	86,801,346
Mortgage & Asset Finance	54,204,700	32,898,823	54,204,700	32,898,823
Small, Medium and Microenterprises	18,619,394	18,496,123	18,619,393	18,496,123
Retail	85,487,807	76,772,604	84,940,891	76,270,543
Agribusiness	5,766,734	5,587,702	5,766,735	5,587,702
	245,002,074	**220,556,598**	**244,455,158**	**220,054,537**
Less: staff loans amortisation	(4,628,234)	(4,811,635)	(4,628,234)	(4,811,635)
	240,373,840	**215,744,963**	**239,826,924**	**215,242,902**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (Continued)

Settlement Risk

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

	Group		Bank	
Customer deposits:-	**2016**	**2015**	**2016**	**2015**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Private enterprises	71,944,715	81,788,307	71,944,715	81,788,307
Non-profit institutions	24,405,500	23,680,982	24,405,500	23,680,982
Individuals	90,728,092	81,832,784	90,728,092	81,832,784
Others	73,075,130	78,096,514	72,393,442	76,407,342
	260,153,437	**265,398,587**	**259,471,749**	**263,709,415**

(b) Liquidity risk

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

Management of liquidity risk

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (Continued)

Exposure to liquidity risk

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

31 December 2016	Available immediately and upto 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	-	7,318,183	5,130,027	31,023,042	24,308,903	**67,780,155**
Loans and advances to customers	35,282,250	5,145,919	29,041,593	111,022,662	74,643,936	**255,136,360**
Total undiscounted financial assets	**65,982,257**	**12,464,102**	**34,171,620**	**142,045,704**	**98,952,839**	**353,616,522**
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	5,176	-	**260,153,798**
Loans	-	-	-	14,264,004	8,045,727	**22,309,731**
Total undiscounted financial liabilities	**206,785,087**	**38,695,532**	**18,079,980**	**14,269,180**	**8,045,727**	**285,875,506**
Net liquidity gap at 31 December 2016	**(140,802,830)**	**(26,231,430)**	**16,091,640**	**127,776,524**	**90,907,112**	**67,741,016**
Liabilities not recognised in statement of financial position (note 46(a))	**1,213,193**	**2,697,706**	**7,349,400**	**1,205,620**	**-**	**12,465,919**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (Continued)

31 December 2015	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	29,455,691	-	-	-	-	**29,455,691**
Deposits and balances due from banks	13,697,692	-	-	-	-	**13,697,692**
Investment in financial instruments	4,600,186	689,425	4,102,338	27,147,260	24,778,043	**61,317,252**
Loans and advances to customers	34,465,356	5,157,525	21,264,977	81,279,016	63,833,662	**206,000,536**
Total undiscounted financial assets	**82,218,925**	**5,846,950**	**25,367,315**	**108,426,276**	**88,611,705**	**310,471,171**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	675,049	1,965,565	763,499	-	-	**3,404,113**
Customers' deposits	168,687,635	8,492,311	1,251,905	84,266,736	-	**262,698,587**
Loans	-	-	-	19,033,565	30,000	**19,063,565**
Total undiscounted financial liabilities	**169,362,684**	**10,457,876**	**2,015,404**	**103,300,301**	**30,000**	**285,166,265**
Net liquidity gap at 31 December 2015	**(87,143,759)**	**(4,610,926)**	**23,351,911**	**5,125,975**	**88,581,705**	**25,304,906**
Liabilities not recognised in statement of financial position (note 46(a))	**-**	**5,203,629**	**7,019,953**	**286,170**	**-**	**12,509,752**

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:

	2016	2015
	%	%
At 31 December	33.7	37.6
Average for the year	38.1	35.3
Maximum for the year	41.0	39.7
Minimum for the year	33.7	29.4
Statutory minimum ratio	20.0	20.0

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk

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

Management of market risk

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

Exposure to market risk – trading portfolios

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

Exposure to interest rate risk – non- trading portfolios

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

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

3. **FINANCIAL RISK MANAGEMENT** (continued)

(c) Market risk (Continued)

(i) Exposure to interest rate risk (Continued)

31 December 2016	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	-	-	-	-	-	25,682,704	**25,682,704**
Deposits and balances due from banks	650,000	-	-	-	-	4,367,303	**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	**35,932,250**	**12,464,101**	**34,171,620**	**125,107,244**	**87,325,945**	**43,292,445**	**338,293,605**
LIABILITIES							
Deposits and balances due to banks	3,200,000	-	-	-	-	211,977	**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**
Other financial liabilities	-	-	-	-	-	7,330,936	**7,330,936**
Total liabilities	**206,573,110**	**38,695,532**	**18,079,980**	**12,672,669**	**7,145,406**	**7,542,913**	**290,709,610**
Interest sensitivity gap	**(170,640,860)**	**(26,231,431)**	**16,091,640**	**112,434,575**	**80,180,539**	**35,749,532**	**47,583,995**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

3. **FINANCIAL RISK MANAGEMENT** (continued)

(c) Market risk (Continued)

(i) Exposure to interest rate risk (Continued)

31 December 2015	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
ASSETS	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cash and balances with Central Bank of Kenya	-	-	-	-	-	29,455,691	**29,455,691**
Deposits and balances due from banks	10,907,695	3,069,542	-	-	-	-	**13,977,237**
Investment in financial instruments	4,946,437	741,317	9,586,591	25,330,923	24,943,099	-	**65,548,367**
Loans and advances to customers	34,813,491	5,209,621	16,650,018	86,911,651	64,987,139	-	**208,571,920**
Other assets	-	-	-	-	-	24,946,594	**24,946,594**
Total assets	**50,667,623**	**9,020,480**	**26,236,609**	**112,242,574**	**89,930,238**	**54,402,285**	**342,499,809**
LIABILITIES							
Deposits and balances due to banks	3,421,219	-	-	-	-	-	**3,421,219**
Customers' deposits	171,387,635	6,762,037	2,982,179	84,266,736	-	-	**265,398,587**
Loans	-	-	-	10,970,630	8,300,582	-	**19,271,212**
Other financial liabilities	-	-	-	-	-	54,408,791	**54,408,791**
Total liabilities	**174,808,854**	**6,762,037**	**2,982,179**	**95,237,366**	**8,300,582**	**54,408,791**	**342,499,809**
Interest sensitivity gap	**(124,141,231)**	**2,258,443**	**23,254,430**	**17,005,208**	**81,629,656**	**(6,506)**	**-**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

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:

	2016 Carrying amount KShs'000	1% increase	1% decrease	2015 Carrying amount KShs'000	1% increase	1% decrease
ASSETS						
Deposits and balances due from banks	**5,017,303**	50,173	(50,173)	**13,977,237**	139,772	(139,772)
Held -for- trading investments	**147**	1	(1)	**206**	2	(2)
Held to maturity investments	**37,158,762**	371,588	(371,588)	**36,154,555**	361,546	(361,546)
Available for sale investments	**24,758,146**	247,581	(247,581)	**28,771,869**	287,719	(287,719)
Loans and advances to customers	**232,307,329**	2,323,073	(2,323,073)	**208,571,920**	2,085,719	(2,085,719)
		2,992,416	**(2,992,416)**		**2,874,758**	**(2,874,758)**
LIABILITIES & EQUITY						
Deposits and balances due to banks	**3,411,977**	(34,120)	34,120	**3,421,219**	(34,212)	34,212
Customers' deposits	**260,153,437**	(2,601,534)	2,601,534	**265,398,587**	(2,653,986)	2,653,986
Loans and borrowings	**19,813,260**	(198,133)	198,133	**19,271,212**	(192,712)	192,712
		(2,833,787)	**2,833,787**		**(2,880,910)**	**2,880,910**
Effect on profit before tax		**158,629**	**(158,629)**		**(6,152)**	**6,152**
As percentage of profit before tax (%)		**0.89%**	**(0.89%)**		**0.04%**	**(0.04%)**
Effect on equity		**111,040**	**(111,040)**		**(4,306)**	**4,306**
As percentage of equity (%)		**0%**	**0%**		**0%**	**0%**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

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 it 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	102	152	112	1	103	7	102	
31 December 2016	**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 positionitems	**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		-	-	-	-	-	**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 2016

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (Continued)

(ii) Exposure to currency risk (Continued)

CURRENCY TYPE	USD	GBP	EURO	JPY	CHF	ZAR	OTHERS	TOTAL
EXCHANGE RATE	102	152	112	1	103	7	102	
31 December 2015	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**
Foreign Currency Assets:								
Cash and balances with banks abroad	12,538,000	177,790	1,244,427	77,538	55,917	22,266	58,001	**14,173,939**
Loan and advances	28,307,766	80,426	52,821	-	-	-	-	**28,441,013**
Other foreign assets	365,381	1,465	330	1	-	4	1,316	**368,498**
Total statement of financial positionitems	**41,211,147**	**259,681**	**1,297,578**	**77,539**	**55,917**	**22,270**	**59,317**	**42,983,450**
Items not recognised in statement of financial position	11,407,533	192,745	1,784,060	-	20,299	-	247,188	**13,651,825**
Total Foreign Assets	**52,618,680**	**452,426**	**3,081,638**	**77,539**	**76,216**	**22,270**	**306,505**	**56,635,275**
Foreign Currency Liabilities:								
Balances due to banks abroad	-	-	-	-	-	-	-	-
Deposits	14,473,442	149,089	995,322	77,111	3,377	1,123	7,090	**15,706,554**
Loan and advances	13,513,275	-	-	-	-	-	-	**13,513,275**
Other foreign liabilities	2,222,732	24,289	154,670	2	33	41	2,855	**2,404,622**
Total statement of financial position items	**30,209,449**	**173,378**	**1,149,992**	**77,113**	**3,410**	**1,164**	**9,945**	**31,624,451**
Items not recognised in statement of financial position	19,194,790	261,055	1,907,240	-	61,352	-	282,448	**21,706,886**
Total Foreign liabilities	**49,404,239**	**434,433**	**3,057,233**	**77,113**	**64,762**	**1,164**	**292,393**	**53,331,337**
Net Exposure at 31 December 2015	**3,214,441**	**17,994**	**24,405**	**426**	**11,453**	**21,106**	**14,112**	**3,303,938**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

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:-

	2016 Carrying amount KShs'000	10% appreciation	10% depreciation	2015 Carrying amount KShs'000	10% appreciation	10% depreciation
Foreign Currency Assets:						
USD	**37,972,813**	(3,797,281)	3,797,281	**41,211,148**	(4,121,115)	4,121,115
GBP	**547,395**	(54,739)	54,739	**259,681**	(25,968)	25,968
EURO	**1,757,433**	(175,743)	175,743	**1,297,578**	(129,758)	129,758
JPY	**77,014**	(7,701)	7,701	**77,539**	(7,754)	7,754
CHF	**33,049**	(3,304)	3,304	**55,917**	(5,592)	5,592
ZAR	**8,796**	(879)	879	**22,270**	(2,227)	2,227
Other currencies	**26,695**	(2,669)	2,669	**59,317**	(5,931)	5,931
		(4,042,316)	**4,042,316**		**(4,298,345)**	**4,298,345**
Foreign Currency Liabilities:						
USD	**27,850,038**	2,785,003	(2,785,003)	**30,209,449**	3,020,945	(3,020,945)
GBP	**411,789**	41,178	(41,178)	**173,378**	17,338	(17,338)
EURO	**1,699,3536**	1,699,353	(1,699,353)	**1,149,993**	115,000	(115,000)
JPY	**79,013**	7,901	(7,901)	**77,113**	7,711	(7,711)
CHF	**2,537**	253	(253)	**3,410**	341	(341)
ZAR	**742**	74	(74)	**1,164**	116	(116)
Other currencies	**2,157**	215	(215)	**9,945**	994	(994)
		4,533,977	**(4,533,977)**		**3,162,445**	**(3,162,445)**
Effect on profit before tax		**491,661**	**(491,661)**		**(1,135,900)**	**1,135,900**
As percentage(%) of profit before tax		**2.72%**	**(2.72%)**		**(8.18%)**	**8.18%**
Effect on equity		**344,163**	**(344,163)**		**(795,130)**	**795,130**
As percentage(%) of equity		**0.58%**	**(0.58%)**		**(1.6%)**	**1.6%**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT (continued)

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business units.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

(i) requirements for appropriate segregation of duties, including the independent authorisation of transactions
(ii) requirements for the reconciliation and monitoring of transactions
(iii) compliance with regulatory and other legal requirements
(iv) documentation of controls and procedures
(v) requirements for the yearly assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
(vi) requirements for the reporting of operational losses and proposed remedial action
(vii) development of contingency plans
(viii) training and professional development
(ix) ethical and business standards
(x) risk mitigation, including insurance where this is effective

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

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

4. CAPITAL MANAGEMENT

Regulatory capital

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

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

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

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

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

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Bank has complied with all externally imposed capital requirements throughout the year.

The Bank's regulatory capital position as at 31 December was as follows:

	2016	2015
Tier I Capital:	**KShs'000**	**KShs'000**
Ordinary share capital	4,889,317	4,889,317
Share premium	2,889,789	2,889,789
Retained earnings (current year profits - 50%)	46,970,978	37,830,867
Other reserves	498,841	517,317
Less: Investments in equity of other institutions & deferred tax	(3,324,117)	(2,843,985)
Core Capital	**51,924,808**	**43,283,305**
Tier II Capital:		
Revaluation reserves (25%)	314,111	99,264
Term subordinated debt	19,813,260	19,271,211
Loan loss provisions	717,844	717,845
Supplementary capital	**20,845,215**	**20,088,320**
Total regulatory capital	**72,770,023**	**63,371,625**
Total risk weighted assets	**319,614,654**	**298,137,367**
Capital ratios:		
Core capital to Total deposit liabilities (CBK minimum 10.5%)	20%	16.2%
Core capital to Total risk weighted assets (CBK minimum 10.5%)	16.2%	14.5%
Total capital to Total risk weighted assets (CBK minimum 14.5%)	22.8%	21.3%

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

4. CAPITAL MANAGEMENT (continued)

Capital Allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes.

The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Group Risk and Group Credit, and is subject to review by the Group Credit Committee or ALCO as appropriate. Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision-making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

5. SEGMENT REPORTING

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

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

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

The Group's segment operations are all financial with a majority of revenues deriving from interest. The management relies primarily on net interest revenue to assess the performance of the segment. Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not gross income and expenses. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2016 or 2015.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

5. SEGMENT REPORTING (continued)

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments. All the revenue shown is from external customers.

Profit or loss for the year ended 31 December 2016	Wholesale banking KShs'000	Retail banking KShs'000	Un-allocated KShs'000	Total KShs'000
Net interest income	14,105,092	13,806,688	2,093,729	**30,005,509**
Non-funded income	4,554,016	6,418,710	1,292,696	**12,265,422**
Operating income	**18,659,108**	**20,225,398**	**3,386,425**	**42,270,931**
Depreciation	(55,714)	(1,150,764)	(730,221)	**(1,936,699)**
Amortisation	(67,197)	(134,395)	(284,525)	**(486,117)**
Other operating expenses	(9,836,914)	(11,061,528)	(1,323,687)	**(22,222,129)**
Share of profit in associate	-	-	97,546	**97,546**
Profit before tax	**8,699,283**	**7,878,711**	**1,145,538**	**17,723,532**

Profit or loss for the year ended 31 December 2015	Wholesale banking KShs'000	Retail banking KShs'000	Un-allocated KShs'000	Total KShs'000
Net interest income	10,467,230	11,598,274	1,268,333	23,333,837
Non-funded income	1,651,998	9,098,699	2,305,246	13,055,942
Operating income	**12,119,228**	**20,696,973**	**3,573,579**	**36,389,779**
Depreciation	(19,426)	(1,038,876)	(865,307)	(1,923,609)
Amortisation	(38,945)	(44,834)	(349,631)	(433,410)
Other operating expenses	(8,916,370)	(9,141,665)	(976,624)	(19,034,659)
Share of profit in associate	-	-	384,991	384,991
Profit before tax	**3,144,487**	**10,471,598**	**1,767,008**	**15,383,092**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

5. SEGMENT REPORTING (continued)

Statement of financial position as at 31 December 2016	**Wholesale banking KShs'000**	**Retail banking KShs'000**	**Un-allocated KShs'000**	**Total KShs'000**
Assets:				
Segment assets	67,766,169	106,708,399	-	**174,474,568**
Unallocated assets	-	-	177,354,009	**177,354,009**
Total assets	**67,766,169**	**106,708,399**	**177,354,009**	**351,828,577**
Liabilities and equity:				
Segment liabilities	132,901,186	126,624,206	-	**259,525,392**
Unallocated liabilities	-	-	92,303,185	**92,303,185**
Inter-segment lending	-	-	-	**-**
Total liabilities and equity	**132,901,186**	**126,624,206**	**92,303,185**	**351,828,577**
Other disclosures				
Capital expenditure	**365,901**	**294,501**	**475,723**	**1,136,124**

Statement of financial position as at 31 December 2015	**Wholesale banking KShs'000**	**Retail banking KShs'000**	**Un-allocated KShs'000**	**Total KShs'000**
Assets:				
Segment assets	110,305,605	88,781,087	-	**199,086,692**
Unallocated assets	**-**	**-**	**143,413,117**	**143,413,117**
Total assets	**110,305,605**	**88,781,087**	**143,413,117**	**342,499,809**
Liabilities and equity:				
Segment liabilities	108,711,223	153,807,238	-	**262,518,461**
Unallocated liabilities	-	-	79,981,348	**79,981,348**
Inter-segment lending	1,594,382	(65,026,151)	63,431,769	-
Total liabilities and equity	**110,305,605**	**88,781,087**	**143,413,117**	**342,499,809**
Other disclosures				
Capital expenditure	**288,102**	**231,883**	**374,573**	**894,558**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

5. SEGMENT REPORTING (continued)

Geographical information

The Group's operations are within the two geographical segments of Kenya and South Sudan. The table below contains segmental information provided to the Board of Management for the year ended 31 December 2016.

Profit or loss for the year ended 31 December 2016	**Kenya KShs'000**	**South Sudan KShs'000**	**Total KShs'000**
Net interest income	29,877,964	76,030	**29,953,994**
Non-funded income	11,685,094	652,031	**12,337,125**
Operating income	**41,563,058**	**728,061**	**42,291,119**
Depreciation	(1,837,630)	(99,069)	**(1,936,699)**
Amortization	(465,159)	(20,958)	**(486,117)**
Other operating expenses	(21,064,702)	(751,865)	**(21,816,567)**
Loss on net monetary position	-	(425,749)	**(425,749)**
Operating profit/(Loss)	**18,195,567**	**(569,580)**	**17,625,987**
Share of profit in associate	27,459	70,087	**97,546**
Profit/(Loss) before tax	**18,223,026**	**(499,493)**	**17,723,533**
Statement of financial position as at 31 December 2016			
Segment assets			
Non-current assets	62,920,637	1,109,806	**64,030,443**
Current assets	286,147,020	1,773,255	**287,920,275**
	349,067,657	**2,883,061**	**351,950,718**
Segment liabilities	**289,721,937**	**1,494,773**	**291,216,710**
Equity	**59,345,720**	**1,388,288**	**60,734,008**

Profit or loss for the year ended 31 December 2015	**Kenya KShs'000**	**South Sudan KShs'000**	**Total KShs'000**
Net interest income	23,161,923	171,914	**23,333,837**
Non-funded income	11,385,834	1,670,108	**13,055,942**
Operating income	**34,547,757**	**1,842,022**	**36,389,779**
Depreciation	(1,798,815)	(124,794)	**(1,923,609)**
Amortization	(392,047)	(41,363)	**(433,410)**
Other operating expenses	(18,111,731)	(922,928)	**(19,034,659)**
Operating profit	**14,245,164**	**752,937**	**14,998,101**
Share of profit in associate	288,208	96,783	**384,991**
Profit before tax	**14,533,372**	**849,720**	**15,383,092**
Statement of financial position as at 31 December 2015			
Segment assets			
Non-current assets	40,437,744	411,213	**40,848,957**
Current assets	298,706,938	2,943,914	**301,650,852**
	339,144,682	**3,355,127**	**342,499,809**
Segment liabilities	**290,445,795**	**2,750,762**	**293,196,557**
Equity	**48,698,887**	**604,365**	**49,303,252**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Determination of fair value and fair value hierarchy

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

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

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

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

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

As at 31 December 2016	**Level 1 KShs'000**	**Level 2 KShs'000**	**Level 3 KShs'000**	**Total KShs'000**
Assets measured at fair value:				
Free hold land and buildings	-		**2,408,791**	**2,408,791**
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**
Assets for which fair values are disclosed (note 6b)				
Held-to-maturity				
Treasury bonds	29,320,838			29,320,838
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	3,328,383	-	3,328,383

As at 31 December 2015	**Level 1 KShs'000**	**Level 2 KShs'000**	**Level 3 KShs'000**	**Total KShs'000**
Assets measured at fair value:				
Free hold land and buildings	-		**1,387,097**	**1,387,097**
Held-for-trading investments:				
Treasury bonds	149	-	**-**	**149**
Available-for-sale investment				
Treasury bonds	23,824,739	-	**-**	**23,824,739**
Corporate bonds	4,786,783	-	**-**	**4,786,783**
Derivatives	-	621,737	**-**	**621,737**
Loans and advances				
Directors and staff loans	-	4,811,635	**-**	**4,811,635**
Assets for which fair values are disclosed (note 6b)				
Held-to-maturity				
Treasury bonds	26,142,167			26,142,167
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	2,344,567	**-**	**2,344,567**

There were no transfers between levels 1, 2 and 3 in the year (2015: no transfer).

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

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

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:	KShs'000	KShs'000	KShs'000	KShs'000
Held-to-maturity investments				
Treasury bonds and bills	29,747,019	29,320,838	26,081,820	19,499,748
	29,747,019	**29,320,838**	**26,081,820**	**19,499,748**
Financial liabilities:				
Loans and borrowings				
Fixed-rates borrowings	4,144,448	3,328,383	3,707,009	2,344,567
	4,144,448	**3,328,383**	**3,707,009**	**2,344,567**

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

(i) Assets for which fair value approximates carrying value

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

(ii) Loans and advances to customers

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

(iii) Long term fixed rate financial instruments

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

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

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

	Valuation Techique	Significant unobservable inputs	Range (Weighted Average)
Free hold land and building	DCF	Estimated rental value per 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. 4,628 M	Discounted cash flows	Market interest rate
Loans and borrowings	KShs. 3,328 M	Discounted cash flows	Market interest rate

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

7. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	Group		Bank	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Cash on hand	8,432,988	9,057,746	8,119,618	8,880,989
Central Bank of Kenya:				
Restricted balances (Cash Reserve Ratio)	13,376,450	13,837,359	13,376,450	13,837,359
Unrestricted balances available for use by the Group	2,961,652	4,455,297	2,961,652	4,455,297
Central Bank of South Sudan	911,614	2,105,289	-	-
	25,682,704	**29,455,691**	**24,457,720**	**27,173,645**

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 2016, the Cash Reserve Ratio requirement was 5.25% (2015 – 5.25%) on all deposits. The restricted balances are not considered as part of cash and cash equivalents from a statement of cash flow 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	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Local banks	703,530	9,878,261	703,530	9,770,382
Foreign banks	4,313,773	4,098,976	4,656,363	4,098,891
	5,017,303	**13,977,237**	**5,359,893**	**13,869,273**

The weighted average effective interest rate on deposits and balances due from banks as at 31 December 2016 was 3.12% (2015-3.14%)

9. HELD-FOR-TRADING INVESTMENTS

	Group		Bank	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
(a) Treasury bonds				
Maturing within 91 days of reporting date			-	-
Maturing after 91 days of reporting date	147	206	147	149
	147	**206**	**147**	**149**

The weighted average effective interest rate on government and other securities held-for-trading at 31 December 2016 was 10.75% (2015 – 10.75%).

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

10. AVAILABLE- FOR -SALE INVESTMENTS

	Group		Bank	
	2016	**2015**	**2016**	**2015**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Government treasury bonds:				
Maturing within 91 days of the reporting date	903,362	-	903,362	-
Maturing after 91 days of the reporting date	19,772,177	23,824,739	19,772,177	23,824,739
Corporate bonds:	3,919,648	4,786,783	3,919,248	4,786,783
Maturing after 91 days of the reporting date	3,919,648	4,786,783	3,919,248	4,786,783
Quoted equity Investments:-	30,400	-	-	-
Nairobi Securities Exchange:-				
7,000,000 shares of KShs. 14.65 each (note 17(a))	102,550	130,338	-	-
CIC Insurance Group Ltd:-	2,700	2,700	2,700	2,700
8,000,000 shares of KShs. 3.80 each	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:-	30,000	30,000	30,000	30,000
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
	24,772,446	**28,786,169**	**24,639,096**	**28,655,831**
Less: Provision for diminution in value of investment in Consolidated Bank of Kenya Ltd	(14,300)	(14,300)	(14,300)	(14,300)
	24,758,146	28,771,869	24,624,796	28,641,531
Movement in the year:				
At January 1	**28,771,869**	**21,170,478**	**28,641,531**	**21,062,453**
Additions	3,923,105	11,664,730	3,867,073	11,664,730
Disposals and maturities	(8,645,543)	(3,036,845)	(8,637,843)	(3,036,845)
Change in fair value recognized in other comprehensive income	708,715	(1,026,494)	754,035	(1,048,807)
At December 31	**24,758,146**	**28,771,869**	**24,624,796**	**28,641,531**

The unquoted equity are carried at cost due to lack of active market for them which could have been used as a basis for the determination of fair value.

The weighted average effective interest rate on available for sale investments as at 31 December 2016 was 11.62% (2015- 11.4%).

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

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			
	2016		2015	
	KShs'000	KShs'000	KShs'000	KShs'000
	Notional value	Fair value of contracts: Asset /(Liability)	Notional value	Fair value of contracts: Asset /(Liability)
Forward exchange contracts	661,588	(10,803)	3,383,150	83,132
Swaps	6,577,552	137,579	11,272,425	538,605
	7,239,140	**126,776**	**14,655,575**	**621,737**

12. OTHER ASSETS

	Group		Bank	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Interest receivable	3,848,678	2,565,663	3,848,491	2,565,663
Items in the course of collection from other banks	195,791	384,161	195,791	384,161
Deposits with defaulting financial Institutions	43,052	43,052	43,052	43,052
Sundry debtors and prepayments	4,569,735	4,369,039	4,398,755	4,257,137
Staff loan amortisation	4,628,234	4,811,635	4,628,234	4,811,635
	13,285,490	**12,173,550**	**13,114,323**	**12,061,648**
Impairment losses on deposits with default financial institutions	(43,052)	(43,052)	(43,052)	(43,052)
	13,242,438	**12,130,498**	**13,071,271**	**12,018,596**

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 Co-operative Bank of Kenya on behalf of Co-optrust Investment Services Limited customers. Chase Bank was put under receivership on 7 April 2016 and re-opened on 27 April 2016 under a receiver Manager (KCB Bank Limited). The fixed deposits were paid to the customers on maturity by the Co-operative Bank. Owing to uncertainty in recoverability of these investments, the management has assessed the amount as not impaired. In making this assessment, 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 of fully operationalisation of the bank by end of March 2017 hence there is likelihood the investments will be recovered. Further, the management in assessing for the impairment, considered the regular updates from Central Bank of Kenya which indicates that Chase Bank continued to operate normally under receivership and the bank is likely to be released back to the successful private investor by end of March 2017. However, the management has impaired in full, the accrued interest of KShs. 36 million arising from these fixed deposits.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

13. LOANS AND ADVANCES TO CUSTOMERS

(a) Net loans and advances	Group 2016 KShs'000	Group 2015 KShs'000	Bank 2016 KShs'000	Bank 2015 KShs'000
Overdrafts	7,781,024	11,885,932	7,781,024	11,885,932
Commercial loans	229,636,764	200,873,160	229,089,848	200,371,099
Government/Donor funded loan schemes	2,029,062	2,054,503	2,029,062	2,054,503
Credit card balances	1,191,947	782,120	1,191,947	782,120
Micro enterprises & SME	4,363,277	4,960,883	4,363,277	4,960,883
Gross loans and advances	**245,002,074**	**220,556,598**	**244,455,158**	**220,054,537**
Staff loans amortisation (note 12)	(4,628,234)	(4,811,635)	(4,628,234)	(4,811,635)
	240,373,840	**215,744,963**	**239,826,924**	**215,242,902**
Impairment losses on loans and advances (note 13 c)	(8,066,511)	(7,173,043)	(8,056,753)	(7,168,389)
Net loans and advances	**232,307,329**	**208,571,920**	**231,770,171**	**208,074,513**

(b) The weighted average effective interest rate at 31 December was:-	Group and Bank 2016 %	Group and Bank 2015 %
Overdrafts	14.0	16.4
Commercial loans	13.9	14.3
Government/Donor funded loan schemes	8.0	13.7
Credit card balances	14.0	20.0

(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 2016	**4,640,709**	**2,532,334**	**7,173,043**
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	(1,776,505)	-	**(1,776,505)**
Amounts released to income – unused provision reversed	(509,088)	-	**(509,088)**
Balance at 31 December 2016	**5,000,085**	**3,066,426**	**8,066,511**
Balance at 1 January 2015	**2,433,976**	**2,022,765**	**4,456,741**
Impairment losses recognised during the year through profit or loss	1,509,726	509,569	**2,019,295**
Interest on impaired loans not recognised as income	875,914	-	**875,914**
Impaired losses written off during the year	-	-	**-**
Amounts released to income – unused provision reversed	(178,907)	-	**(178,907)**
Balance at 31 December 2015	**4,640,709**	**2,532,334**	**7,173,043**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

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 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	(1,776,505)	-	**(1,776,505)**
Amounts released to income – unused provision reversed	(509,088)	-	**(509,088)**
Balance at 31 December 2016	**4,995,431**	**3,061,322**	**8,056,753**
Balance at 1 January 2015	**2,391,897**	**2,022,765**	**4,414,662**
Impairment losses recognised during the year through profit or loss	1,497,788	509,569	**2,007,357**
Interest on impaired loans not recognised as income	875,914	-	**875,914**
Impaired losses written off during the year	-	-	**-**
Amounts released to income – unused provision reversed	(129,544)	-	**(129,544)**
Balance at 31 December 2015	**4,636,055**	**2,532,334**	**7,168,389**

(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. 11.3 billion (2015 – KShs. 8.1 billion).

14. HELD-TO-MATURITY INVESTMENTS

	Group		Bank	
	2016 KShs'000	**2015 KShs'000**	**2016 KShs'000**	**2015 KShs'000**
Government treasury bills:				
Maturing within 91 days of the reporting date	3,924,467	4,633,693	3,924,467	4,633,693
Maturing after 91 days of the reporting date	3,332,043	5,224,111	3,332,043	5,224,111
Treasury bonds:	1,701,578	250,168	1,701,578	250,168
Maturing within 91 days of the reporting date	1,701,578	250,168	1,701,578	250,168
Maturing after 91 days of the reporting date	28,200,674	26,046,583	28,045,442	25,891,999
	37,158,762	**36,154,555**	**37,003,530**	**35,999,971**
Movement in the year:				
At 1 January	36,154,555	24,643,526	35,999,971	24,460,192
Additions	12,436,612	10,846,820	12,436,612	10,846,820
Amortization of premiums and discounts	946,595	4,164,209	945,947	4,192,959
Maturities	(12,379,000)	(3,500,000)	(12,379,000)	(3,500,000)
At December 31	**37,158,762**	**36,154,555**	**37,003,530**	**35,999,971**

The weighted average effective interest rate on held-to-maturity investments as at 31 December 2016 was 11.92% (2015 – 12.1%).

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

15. INVESTMENT IN SUBSIDIARIES

The following subsidiaries are owned by the Bank:-

Bank	Ownership	Principal activity	2016 KShs'000	2015 KShs'000
Co-op Consultancy & Insurance Agency Limited	100%	Consultancy & Insurance agency	70,000	70,000
Co-optrust Investment Services Limited	100%	Fund management	20,000	20,000
Kingdom Securities Limited	60%	Brokerage services	150,000	150,000
Co-operative Bank of South Sudan	51%	Banking	2,272,920	1,967,370
			2,512,920	**2,207,370**

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 2016 show that the company made a profit after tax of KShs. 138,218,873 (2015- KShs. 121,604,207).

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 2016 show that the company made a profit after tax of KShs. 48,613,577 (2015- KShs. 42,496,500).

Kingdom Securities Limited (previously named 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 2016 show that the company made a loss after tax of KShs. 18,448,934 (2015 – KShs. 1,340,034). 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 85% of the total share capital with the Government of South Sudan contributing 15%. The Subsidiary is based in South Sudan and commenced operation in September 2013. The audited financial statements for the year ended 31 December 2016 show that the company made a loss of KShs. 499,495,577 (2015 profit of KShs. 849,720,191). Refer to note 32 for financial statements summaries.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

16. INVESTMENT IN ASSOCIATE

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

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

Co-operative Bank of South Sudan owns 31% stake in CIC South Sudan. The interest in CIC South Sudan is accounted for using equity method in the consolidated financial statements.

	Group		Bank	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January	**2,267,230**	**1,907,722**	**755,118**	**755,118**
Share of profit	97,546	384,991	-	-
Additional Shares - CIC South Sudan	-	30,152	-	-
Other comprehensive income	7,776	13,772	-	-
Exchange difference on translation	109,621	-	-	-
Dividends received	(72,876)	(69,407)	-	-
As at 31 December	**2,409,297**	**2,267,230**	**755,118**	**755,118**

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

	Co-operative Insurance Society Limited		CIC South Sudan Limited	
	2016	2015	2016	2015
Share of the associate's statement of financial position:	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Non-current assets	4,037,299	2,905,942	82,866	88,756
Current assets	5,506,602	6,078,224	80,558	82,561
	9,543,901	8,984,166	163,424	171,317
Current liabilities	(6,907,854)	(6,193,402)	(21,064)	(15,086)
Equity	**2,636,047**	**2,790,764**	**142,360**	**156,231**
Share of the associate's revenue and profit:				
Revenue	4,673,727	4,919,301	124,040	111,451
Profit before tax	53,140	496,481	112,764	96,783
Profit after tax	27,462	288,208	70,084	96,783

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

17. INTANGIBLE ASSETS

(a) GROUP	Computer software KShs'000	Joint venture development KShs'000	Other intangible assets KShs'000	Work-in-progress KShs'000	Total KShs'000
COST					
At 1 January 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	20,288	44,890	-	69,926	135,104
At 31 December 2016	**3,280,990**	**73,049**	**25,000**	**255,287**	**3,634,325**
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	8,215	17,890	-	-	26,105
At 31 December 2016	**1,877,417**	**43,790**	**-**	**-**	**1,921,207**
NET CARRYING AMOUNT					
At 31 December 2016	**1,403,573**	**29,259**	**-**	**-**	**1,713,118**

(a) GROUP	Computer software KShs'000	Joint venture development KShs'000	Other intangible assets KShs'000	Work-in-progress KShs'000	Total KShs'000
COST					
At 1 January 2015	**2,362,983**	**124,940**	**25,000**	**239,601**	**2,752,524**
Additions	58,109	-	-	280,580	338,689
Transfers	319,353	-	-	(319,353)	-
Reclassification from property and equipment	-	-	-	165,141	165,141
Exchange difference on translation	(39,187)	(96,781)	-	(105,720)	(241,689)
At 31 December 2015	**2,701,258**	**28,159**	**25,000**	**260,249**	**3,014,665**
AMORTISATION					
At 1 January 2015	**1,013,215**	**26,407**	**-**	**-**	**1,039,622**
Amortisation for the year	394,318	5,632	-	-	399,950
Exchange difference on translation	(9,226)	(20,750)	-	-	(29,976)
At 31 December 2015	**1,398,307**	**11,289**	**-**	**-**	**1,409,596**
NET CARRYING AMOUNT					
At 31 December 2015	**1,302,951**	**16,870**	**25,000**	**260,249**	**1,605,069**

Other intangible assets relates to trading rights by Kingdom Securities Limited to participate in trading at Nairobi Securities Exchange (NSE).

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

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

17. INTANGIBLE ASSETS (continued)

(b) BANK	Computer Software KShs'000	Work-in progress KShs'000	Total KShs'000
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	**3,140,032**	**71,074**	**3,211,106**
AMORTISATION			
At 1 January 2016	**1,353,579**	**-**	**1,353,579**
Amortisation for the year	447,371	-	447,371
At 31 December 2016	**1,800,950**	**-**	**1,800,950**
NET CARRYING AMOUNT			
At 31 December 2016	**1,339,082**	**71,074**	**1,410,156**
COST			
At 1 January 2015	**2,235,600**	**103,625**	**2,339,225**
Additions	31,560	279,243	310,803
Transfers	319,353	(319,353)	-
Reclassification from Property and equipment	-	165,141	165,141
Cost at 31 December 2015	**2,586,513**	**228,656**	**2,815,169**
AMORTISATION			
At 1 January 2015	**976,016**	**-**	**976,016**
Amortisation for the year	377,563	-	377,563
At 31 December 2015	**1,353,579**	**-**	**1,353,579**
NET CARRYING AMOUNT			
At 31 December 2015	**1,232,934**	**228,656**	**1,461,590**

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. 726,721,845 (2015 - KShs. 585,852,349), 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. 145,344,368 (2015 –KShs. 117,170,470).

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

18. PREPAID LEASE RENTALS

	Group and Bank	
	2016	2015
	KShs'000	KShs'000
COST		
At 1 January	**54,413**	**54,413**
At 31 December	**54,413**	**54,413**
Amortisation:		
At 1 January	**17,449**	**16,843**
Charge for the year	612	606
At 31 December	**18,061**	**17,449**
NET CARRYING AMOUNT		
At 31 December	**36,352**	**36,964**

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 2016

19.(a) PROPERTY AND EQUIPMENT-GROUP

COST/VALUATION	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery, furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
At 1 January 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	(206,000)	-	(88,889)	(11,651)	-	(35,983)	**(342,523)**
Reclassification from intangible assets (note 17(a))	-	110,796	-	-	-	-	**110,796**
Revaluation gain	1,227,693	-	-	-	-	-	**1,227,693**
Transfers		(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**
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	(206,000)	-	(86,677)	(11,658)	-	(33,052)	**(337,387)**
Exchange difference on translation	-	-	-	93,464	1,464	24,868	**119,796**
Write off	-	-	-	-	-	-	**-**
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) 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 (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).

(iii) 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.

(iv) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 5,496,487,965 (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).

(v) Capital Works in progress, intangible assets had been posted to Capital works in progress, property, plant & equipment. Reclassification is to remove the amount relating to cwip-intangible assets from cwip-property, plant & equipment.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

19.(a) PROPERTY AND EQUIPMENT-GROUP

	Freehold land & buildings	Capital work-in progress	Fixtures	Office machinery, furniture & equipment	Motor vehicles	Computers	Total
COST/VALUATION	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
At 1 January 2015	**1,387,097**	**1,627,598**	**7,619,830**	**2,054,608**	**182,993**	**5,684,612**	**18,556,738**
Additions	-	506,226	4,034	83,394	1,785	35,660	**631,099**
Disposals	-	-	-	(4,404)	(5,658)	(58,590)	**(68,652)**
Reclassification to intangible assets (note 17(a))	-	(165,141)	-	-	-	-	**(165,141)**
Transfers	-	(1,206,322)	334,970	60,124	-	811,228	**-**
Exchange difference on translation	-	(125,457)	-	(473,780)	(31,044)	(96,532)	**(726,813)**
Write off	-	-	(97,538)	-	-	-	**(97,538)**
At 31 December 2015	**1,387,097**	**636,904**	**7,861,296**	**1,719,942**	**148,076**	**6,376,378**	**18,129,693**
DEPRECIATION							
At 1 January 2015	**103,000**	**-**	**3,558,513**	**1,155,403**	**113,016**	**3,548,108**	**8,478,040**
Charge for the year	51,500	-	876,777	167,177	16,626	713,364	**1,825,444**
Disposals	-	-	-	(4,399)	(3,562)	(57,532)	**(65,493)**
Exchange difference on translation	-	-	-	(62,821)	(7,794)	(24,203)	**(94,818)**
Write off	-	-	(34,258)	-	-	-	**(34,258)**
At 31 December 2015	**154,500**	**-**	**4,401,032**	**1,255,360**	**118,286**	**4,179,737**	**10,108,915**
NET CARRYING AMOUNT							
At 31 December 2015	**1,232,597**	**636,904**	**3,460,264**	**464,582**	**29,790**	**2,196,641**	**8,020,778**

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

(ii) Land and Buildings were revalued on open market value basis by professional valuers (Manclem Valuers) as at 31 December 2012. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs. 1,269 million (2014: KShs. 1,372 million).

(iii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs. 35,496,498 (2014- 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. 4,119,728,390 (2014- KShs. 3,101,893,806), 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. 760,549,466 (2014- KShs. 594,835,351).

(v) Capital Works in progress, intangible assets had been posted to Capital works in progress, property, plant & equipment. Reclassification is to remove the amount relating to cwip-intangible assets from cwip-property, plant & equipment.

(vi) The write off relates to decommissioning of Dagoretti branch.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

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 1January 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	(205,999)	-	-	-	-	-	**(205,999)**
Revaluation	1,227,693	-	-	-	-	-	**1,227,693**
Reclassification fromi ntangible assets ((note17(b)	-	71,072	-	-	-	-	**71,072**
	2,408,791	**435,965**	**8,038,219**	**1,575,480**	**140,490**	**6,749,889**	**19,348,834**
At 31 December 2016	2,408,791	435,965	8,038,219	1,575,480	140,490	6,749,889	19,348,834
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	765,819	**1,834,723**
Disposals	-	-	(86,677)	(11,658)	-	(33,053)	**(131,388)**
Transfers	(205,600)	-	-	-	-	-	**(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) Capital work-in-progress represents ongoing construction work at the various branches of the Bank.

(ii) The write offs relate to abandoned projects that were written off during the year.

(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 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 2016

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 2015	**1,387,097**	**1,460,147**	**7,619,193**	**1,438,725**	**142,913**	**5,542,602**	**17,590,677**
Additions	-	473,575	4,034	72,997	-	33,149	**583,755**
Disposals	-		-	(4,404)	(2,423)	(58,402)	**(65,229)**
Reclassification to intangible assets((note 17(b)	-	(165,141)	-	-	-	-	**(165,141)**
Transfer from WIP	-	(1,161,700)	334,970	12,197	-	814,533	**-**
Write Off	-	-	(97,538)	-	-	-	**(97,538)**
	1,387,097	**606,881**	**7,860,659**	**1,519,515**	**140,490**	**6,331,882**	**17,846,524**
At 31 December 2015	1,387,097	606,881	7,860,659	1,519,515	140,490	6,331,882	**17,846,524**
DEPRECIATION							
At 1 January 2015	103,000	-	3,557,539	1,066,968	103,062	3,506,275	**8,336,844**
Charge for the year	51,500	-	876,777	146,194	15,045	705,942	**1,795,458**
Disposals	-	-	-	(4,399)	(2,423)	(57,438)	**(64,260)**
Write Off	-	-	(34,258)	-	-	-	**(34,258)**
At 31 December 2015	**154,500**	**-**	**4,400,058**	**1,208,763**	**115,684**	**4,154,779**	**10,033,784**
NET CARRYING AMOUNT							
At 31 December 2015	**1,232,597**	**606,881**	**3,460,601**	**310,752**	**24,806**	**2,177,103**	**7,812,740**

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

(ii) Land and Buildings were revalued on open market value basis by professional valuers (Manclem Valuers) as at 31 December 2012. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs. 1,269 million (2014: KShs. 1,321 million).

(iii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs. 35,496,498 (2014- 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. 4,119,728,390 (2014- KShs. 3,101,893,807), 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. 760,549,466 (2014 - KShs. 594,835,351).

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

20. DEFERRED TAX

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

GROUP	2016 Deferred tax assets KShs'000	2016 Profit or loss KShs'000	2015 Deferred tax assets KShs'000	2015 Profit or loss KShs'000
Collective allowance for impairment disallowed for tax purposes	(934,213)	(164,033)	(770,180)	(152,871)
Revaluation surplus	457,647	-	89,340	(2,721)
Excess of tax wear and tear allowance over depreciation	(1,027,828)	(292,057)	(735,771)	(310,276)
Unrealised exchange gains	481,142	(83,043)	564,185	203,663
Other temporary differences	(44,254)	(10,547)	(33,707)	(5,221)
Tax loss available for future tax relief	-	-	78	-
	(1,067,507)	**(549,680)**	**(886,055)**	**(267,426)**

BANK	2016 Deferred tax assets KShs'000	2016 Profit or loss KShs'000	2015 Deferred tax assets KShs'000	2015 Profit or loss KShs'000
Collective allowance for impairment disallowed for tax purposes	(918,397)	(158,696)	(759,701)	(152,871)
Revaluation surplus	457,647	-	89,340	(2,721)
Excess of tax wear and tear allowance over depreciation	(1,029,830)	(292,497)	(737,333)	(310,276)
Unrealised exchange gains	481,142	(83,043)	564,185	203,663
Other temporary differences	(41,759)	(8,654)	(33,105)	(5,253)
	(1,051,197)	**(542,890)**	**(876,614)**	**(267,457)**

21. DEPOSITS AND BALANCES DUE TO BANKS

	Group		Bank	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Local banks	3,401,828	2,914,082	3,392,744	2,863,659
Foreign banks	10,149	507,137	10,149	41,746
	3,411,977	**3,421,219**	**3,402,893**	**2,905,405**

The weighted average effective interest rate on deposits from other banks at 31 December 2016 was 8.75% (2015- 8.5%).

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

22. CUSTOMER DEPOSITS

		Group		Bank	
		2016	2015	2016	2015
(a)	**Deposit category**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
	Call deposits	6,045,085	13,491,629	6,045,085	13,491,629
	Fixed deposits	68,940,819	86,074,584	68,921,330	86,074,584
	Transaction accounts	106,389,639	72,027,838	106,389,639	72,006,389
	Savings accounts	7,282,024	6,431,065	7,280,356	6,431,065
	Current accounts	60,276,632	68,454,688	59,616,101	68,454,688
	Foreign currency deposits	11,219,238	18,918,783	11,219,238	17,251,060
		260,153,437	**265,398,587**	**259,471,749**	**263,709,415**
(b)	**From government and parastatals:-**				
	Payable on demand	17,592,364	19,148,678	17,592,364	19,148,678
	Payable within 30 days	2,965,163	4,606,595	2,965,163	4,606,595
	Payable after 30 days but within 1 year	19,461,284	20,350,884	19,461,284	20,350,884
		40,018,811	**44,106,157**	**40,018,811**	**44,106,157**
(c)	**From private sector and individuals:-**				
	Payable on demand	158,511,363	131,832,348	157,849,164	131,826,650
	Payable within 30 days	10,617,020	13,485,247	10,617,020	11,808,730
	Payable after 30 days butwithin 1 year	51,006,243	75,974,835	50,986,754	75,967,878
		220,134,626	**221,292,430**	**219,452,938**	**219,603,258**
		260,153,437	**265,398,587**	**259,471,749**	**263,709,415**

Included in customers' deposits is an amount of KShs. 7,098 Million (2015- KShs. 6,897 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 8.83% (2015– 5.05%).

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

23. LOANS AND BORROWINGS

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

	Group & Bank	
Balances at 31 December	**2016 KShs'000**	**2015 KShs'000**
IFAD	38,636	37,736
GoK (Informal Sector Enterprises)	-	255,437
DEG	4,333,574	5,401,669
International Finance Corporation (IFC)	9,055,379	4,472,558
European Investment Bank	2,279,859	5,434,539
AFD Microfinance & line of credit	4,040,649	3,669,273
KFW Loan -SIPMK	65,163	-
	19,813,260	**19,271,212**
Movement in the year:		
At 1 January	19,271,212	18,269,487
Additional loan disbursement	6,007,884	1,086,700
Accrued interest	131,088	207,650
Loan Repayment	(5,465,665)	(1,820,787)
Foreign exchange difference	(131,259)	1,552,035
Reversal of Soros Fund	-	(23,873)
At 31 December	**19,813,260**	**19,271,212**

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.

GoK (Informal Sector Enterprises)

The loan agreement was entered into in 2011 between the Government of Kenya-Ministry of Finance and The Co-operative Bank of Kenya Limited for a loan of KShs. 250 million for onward lending through the Bank's outlets to create an enabling business environment for the informal sector enterprises (ISEs). The loan amount is payable to the government over a period of 4 years in annual instalments. The loan attracted an interest of 4% p.a. on reducing balance. The loan was fully paid by end of year 2016.

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 2016, Euros 55 million had been disbursed to the bank. The 20 million Euros loan matured in year 2016 and fully repaid. The loans are to be repaid over a period of 10 years.

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 2016, 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.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

23. LOANS AND BORROWINGS (Continued)

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 2016, the bank had drawn USD 60 Million from this facility.

In December 2015 the bank entered into agreement with IFC for a senior unsecured loan of USD 105 Million to finance the growth of SMEs portfolio, WOEs portfolio and affordable housing through expansion of mortgage & construction finance. The loan has an element of fixed and variable interest rate which is pegged to the LIBOR rate. The loan has a maturity period of 7 years and a 2 year grace period on principal repayment. As at the end of year 2016 the bank had received a drawdown of USD 50 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 2016

24. TAXATION

	Group		Bank	
	2016	**2015**	**2016**	**2015**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
(a) Income Statement:-				
Current tax at 30% on the taxable profit for the year	5,598,455	3,950,622	5,511,731	3,872,980
Over provision in previous year	(2,791)	(5,663)	-	(5,663)
Deferred tax (credit) / charge	(548,342)	(267,426)	(542,890)	(267,457)
	5,047,322	**3,677,533**	**4,968,841**	**3,599,860**
(b) Statement of financial position:-				
Balance brought forward	171,328	149,821	157,596	129,171
Over-provision in previous year	(2,791)	(5,663)	-	(5,663)
Charge for the year	5,598,458	3,950,622	5,511,732	3,872,980
Paid during the year	(4,545,970)	(3,923,452)	(4,420,630)	(3,838,892)
Tax payable	**1,221,025**	**171,328**	**1,248,698**	**157,596**
(c) Reconciliation of tax expense to tax based on accounting profit:-				
Accounting profit	**17,723,532**	**15,383,092**	**18,020,405**	**14,071,458**
Tax applicable rate at 30%	5,317,060	4,614,928	5,406,121	4,221,437
Over-provision in previous year	(2,791)	(5,663)	-	(5,663)
Tax loss	101,850	6,397	-	-
Exchange differences on translation	68,290	-	-	-
Tax effect of items not eligible for tax	(437,087)	(938,129)	(437,280)	(615,914)
Tax in the statement of comprehensive income	**5,047,322**	**3,677,533**	**4,968,841**	**3,599,860**

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 2016

25. PROVISIONS

	Group		Bank	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Leave liability	141,282	110,191	139,198	110,190
Balance at 1 January	**110,191**	**93,570**	**110,190**	**92,840**
Movement through profit or loss	31,091	16,621	29,008	17,350
Balance at 31 December	**141,282**	**110,191**	**139,198**	**110,190**

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	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Bills payable	2,638,567	990,285	2,593,121	792,702
Sundry creditors and accruals	3,330,063	3,316,418	3,283,010	3,292,513
	5,968,630	**4,306,703**	**5,876,131**	**4,085,215**

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

27. GOVERNMENT GRANTS

	Group and Bank	
	2016	2015
Grant net of amortisation:	KShs'000	KShs'000
At 1 January	**517,317**	**535,792**
Amortisation for the year	(18,475)	(18,475)
At 31 December	**498,842**	**517,317**

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	
	2016	2015
	KShs'000	KShs'000
Authorised :-		
5,000,000,000 (2015: 5,000,000,000) ordinary shares of KShs. 1 each.	**5,000,000**	**5,000,000**
Issued and fully paid:-		
4,889,316,295 (2015: 4,889,316,295) ordinary shares of KShs. 1 each.	**4,889,317**	**4,889,317**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

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	
	2016	**2015**
	KShs'000	**KShs'000**
At 1 January	2,889,789	2,889,789
At 31 December	**2,889,789**	**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	
	2016	**2015**
	KShs'000	**KShs'000**
Proposed dividends	**3,911,453**	**3,911,453**

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

(ii) Proposed dividends are accounted for as a separate component of equity at year end until they are ratified at an Annual General Meeting (AGM). At the AGM to approve year 2016 financial statements, a first and final dividend in respect of year 2016 of KShs. 0.80 (2015 - KShs. 0.80) for every ordinary share of KShs. 1 is to be proposed by the directors and is subject to approval by shareholders.

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

32. NON-CONTROLLING INTERESTS

(a) Kingdom Securities Limited

Kingdom Securities Limited (previously named Bob Mathews Stockbrokers Limited) was acquired in 2009 by The Co-operative Bank of Kenya Limited 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. The Bank holds 51% of the ordinary shares. 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 for:-

	Kingdom Securities Limited		Co-operative Bank of South Sudan	
	2016	**2015**	**2016**	**2015**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Interest and other income	61,856	75,045	769,117	1,864,154
Interest and commission expenses	(1,392)	(4,313)	(46,159)	(22,132)
	60,464	**70,732**	**722,958**	**1,842,022**
Operating expenses	(80,628)	(69,158)	(866,787)	(1,089,086)
Loss on net monetary position	-	-	(425,749)	-
Profit / (loss) before tax	(20,164)	1,574	(569,578)	752,936
Share of profit from an associate	-	-	70,084	96,784
Income tax expense	1,714	(234)	-	-
Profit / (loss) for the year	**(18,450)**	**1,340**	**(499,494)**	**849,720**
Other comprehensive income	(27,387)	26,644	**1,172**	**29,295**
Total comprehensive income	**(45,837)**	**27,984**	**(498,322)**	**879,015**
Attributable to non-controlling interests	**(18,335)**	**11,194**	**(244,179)**	**430,717**

Summarised statement of financial position as at 31 December

	Kingdom Securities Limited		Co-operative Bank of South Sudan	
	2016	**2015**	**2016**	**2015**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Current assets	247,712	309,376	1,773,256	2,943,914
Non-current Assets	37,146	34,235	1,109,806	411,213
Current liabilities	(50,206)	(63,123)	(1,494,773)	(2,750,762)
Total equity	**234,652**	**280,488**	**1,388,289**	**604,365**
Attributable to:-				
Equity holders of the parent	140,791	168,293	708,027	308,226
Non-controlling interest	93,861	112,195	680,261	296,139

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

32. NON-CONTROLLING INTERESTS (continued)

(c) Hyperinflationary economies 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. 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:

Period	CPI	Conversion coefficient
CPI as at 31 December 2015	438.80	6
Average CPI in 2016	1574.18	-
CPI as at 31 December 2016	2798.72	1

33. INTEREST INCOME

	Group		Bank	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Loans and advances to customers	33,345,459	29,997,981	33,228,373	29,803,934
Held-to-maturity investments	3,432,600	2,577,694	3,415,876	2,560,494
Deposits and balances due from other banks	391,319	664,820	356,476	604,321
Interest on previously impaired loans	180,479	129,544	180,479	129,544
	37,349,857	**33,370,039**	**37,181,204**	**33,098,293**

34. INTEREST EXPENSE

	Group		Bank	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Call deposits	894,483	1,737,325	853,427	1,737,325
Fixed deposits	9,054,999	8,802,365	9,054,999	8,802,365
Savings accounts	517,173	1,522,538	517,173	958,028
Current accounts	1,191,760	263,868	1,191,760	806,246
Deposits and balances due to banks	117,980	232,602	117,980	232,602
Loans	991,905	1,028,213	991,905	1,028,213
	12,768,300	**13,586,911**	**12,727,244**	**13,564,779**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

35. FEES AND COMMISSIONS

	Group		Bank	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Fees and commissions income:				
Fees and commissions on loans and advances	2,330,859	2,495,441	2,330,859	2,339,680
Ledger fees & service charges	1,227,381	1,253,129	1,158,964	1,045,411
Other fees and commissions	6,229,269	5,753,264	5,328,257	5,262,644
	9,787,509	**9,501,834**	**8,818,080**	**8,647,735**
Fees and commissions expense:				
Inter-bank transaction charges	239,165	53,627	239,164	53,627
Brokerage fees	9,317	4,317	9,317	4,317
	248,482	**57,944**	**248,481**	**57,944**
Net fees and commissions income	**9,539,027**	**9,443,890**	**8,569,599**	**8,589,791**

36. NET TRADING INCOME

	Group		Bank	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Foreign exchange gain	1,836,876	3,192,469	1,635,962	1,880,616
Interest income on investment securities:				
- Available for sale	3,481,698	2,244,924	3,481,698	2,244,924
- Held-for-trading	16	59	16	59
Changes in fair value of financial assets held-for-trading	1	-	1	-
Amortisation of financial instruments	(41,231)	(24,950)	(41,231)	(24,950)
	5,277,360	**5,412,502**	**5,076,446**	**4,100,649**

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

37. OTHER OPERATING INCOME

	Group		Bank	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
(Loss)/gain on disposal of property and equipment	(19,806)	(25,101)	(19,806)	(25,101)
Dividend income	-	-	73,001	69,407
Rental income	97,900	84,670	97,900	84,670
Loan recoveries	33,928	30,821	33,928	30,821
Gain on sale of financial assets available-for-sale	217,577	5,785	217,577	5,785
Amortisation of Treasury Bills	1,654,777	542,058	1,654,777	542,058
Interest received repo placement	96,507	107,233	96,507	107,233
Sundry Income*	773,629	986,318	738,834	970,816
	2,854,512	**1,731,784**	**2,892,718**	**1,785,689**

* 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 2016

38. EMPLOYEE COSTS

	Group		Bank	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Basic salaries	7,765,801	7,513,319	7,480,335	7,098,853
Allowances	435,592	468,645	409,444	448,992
Pension scheme contribution				
- Statutory Scheme	8,778	3,605	8,592	3,532
- Employee Scheme	544,083	454,887	525,553	446,827
Medical expenses	146,324	135,649	141,836	130,769
Education and training	104,115	113,950	102,246	111,780
Early retirement cost	-	1,908	-	1,908
Others	398,748	235,165	276,780	167,470
	9,403,441	**8,927,128**	**8,944,786**	**8,410,131**

The number of employees at the year-end was:	2016	2015	2016	2015
Management	452	419	435	381
Supervisory and unionisable	2,955	3,225	2,903	3086
Others	336	49	242	42
	3,743	**3,693**	**3,580**	**3,509**

39. OTHER OPERATING EXPENSES

	Group		Bank	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Rent and maintenance costs for branch premises	1,511,417	1,568,536	1,420,959	1,409,932
Motor vehicle running & other equipment maintenance	1,305,494	1,197,302	1,265,461	1,157,173
Stationery and printing	645,480	660,240	636,908	506,853
Travelling and insurance	596,509	643,876	538,013	530,642
Telephone, postage, electricity and water	655,919	687,643	623,577	675,073
Contribution to Deposit Protection Fund	361,012	303,163	361,012	303,163
Directors' emoluments	163,742	148,257	115,861	107,181
Auditors' remuneration	17,182	15,668	11,418	10,752
Loss on net monetary position	425,749	-	-	-
Other operating and administrative expenses	4,536,512	2,994,570	4,195,526	2,664,776
	10,219,016	**8,219,255**	**9,168,735**	**7,365,545**

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.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

40. BASIC AND DILUTED EARNINGS PER SHARE (Continued)

The Bank is proposing to existing shareholders a bonus share in the proportion of one (1) new ordinary share of KShs. 1 each for every five (5) ordinary shares then held. This will result in capitalisation of KShs. 977,863,369 out of share premium of the Bank, to create 977,863,369 bonus shares to be distributed among the ordinary shareholders. The bonus issue will be subject to the Bank receiving all requisite approvals including approvals from the Capital Markets Authority and the shareholders of the Bank at the Annual General Meeting to be held in May 2017.

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Profit for the year attributable to equity holder of the parent (KShs'000)	12,947,768	11,288,769	13,051,564	10,471,598
Weighted average number of ordinary shares for basic earnings per share (Thousands)	4,889,318	4,889,318	4,889,318	4,889,318
Weighted average number of ordinary sharesfor diluted earnings per share (Thousands)	5,867,180	5,867,180	5,867,180	5,867,180
Basic earnings per share (KShs)	2.65	2.31	2.67	2.14
Diluted earnings per share (KShs)	2.20	1.92	2.22	1.78

41. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Available for sale investments	Group		Bank	
	2016	**2015**	**2016**	**2015**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Gains/(losses) arising during the year	864,843	1,092,447	917,863	1,092,447
Amortization of discount to profit or loss	(301,686)	397,139	(301,686)	397,139
Reclassification during the year to profit or loss	144,858	(463,092)	137,858	(440,779)
	708,015	**1,026,494**	**754,035**	**1,048,807**

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

42. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of profit before taxation to cash generated from operations

		Group		Bank	
		2016	2015	2016	2015
OPERATING ACTIVITIES:-	**Note**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Profit before tax		**17,723,532**	**15,383,092**	**18,020,405**	**14,071,458**
Adjustments for:-					
Depreciation	19	1,936,699	1,825,444	1,834,722	1,795,458
Amortization of prepaid lease rentals	18	612	606	612	606
Write off property and equipment	19	123,040	63,280	123,040	63,280
Movement in provisions		893,468	2,716,302	889,260	2,753,728
Unrealised exchange differences		(193,561)	(260,244)	(193,561)	(260,244)
Amortization of intangible assets	17	485,506	399,950	447,371	377,563
Amortization of capital grants	27	(18,475)	(18,475)	(18,475)	(18,475)
Loss / (gain) on disposal of property and equipment		5,135	757	5,150	968
Changes in fair value of financial instruments held-for-trading	9	2	2	2	2
Share of profit in associates	16	(97,546)	(384,991)		-
Exchange difference on borrowings	23	(131,259)	1,552,035	(131,259)	1,552,035
Interest on loans and borrowings	23	131,088	207,650	131,088	207,650
Loss on net monetary position		425,749	-	-	-
Cash flows from operating activities before working capital changes		**21,283,990**	**21,485,408**	**21,108,355**	**20,544,029**
Advances to customers		(24,628,877)	(31,801,867)	(24,584,918)	(31,849,655)
Other assets		(1,106,749)	(3,642,010)	(1,047,484)	(3,501,309)
Deposits from customers		(5,245,150)	47,700,264	(4,237,666)	47,535,102
Deposits from banks		(9,242)	261,775	497,488	(336,321)
Other liabilities		1,693,018	1,686,940	1,819,920	1,648,253
Central Bank of Kenya cash reserve ratio		538,640	(3,023,191)	460,909	(2,411,894)
Held-for-trading investments		57	351	-	350
Available-for-sale investments		4,722,438	(8,678,876)	4,770,770	(8,627,885)
Derivative financial instruments		494,961	(430,188)	494,961	(430,188)
Cash flows (used in)/ generated from operating activities		**(2,256,914)**	**23,558,606**	**(717,665)**	**22,570,482**
Cash and cash equivalents comprises of:-					
Cash on hand		8,432,987	9,057,746	8,119,617	8,880,988
Cash with Central Bank of Kenya		17,249,715	20,397,945	16,338,101	18,292,657
Deposits and balances due from banking institutions		5,017,303	13,977,237	5,359,893	13,869,273
Items in the course of collection from other Banks		195,791	384,161	195,791	384,161
		30,895,796	**43,817,089**	**30,013,402**	**41,427,079**
Less: CBK Cash reserve ratio		(13,910,016)	(14,448,656)	(13,376,450)	13,837,359
Cash and cash equivalents		**16,985,780**	**29,368,433**	**16,636,952**	**27,589,720**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

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

	2016 KShs'000	2015 KShs'000
Directors	277,346	302,146
Employees	7,543,400	6,596,839
	7,820,746	**6,898,985**
Interest income earned	**700,218**	**442,327**
Weighted average interest rate	**7.0%**	**6.58%**

The loans are secured by property mortgage and are repayable in a period less than 30 years. No impairment losses have been recorded against balances outstanding during the period and no specific allowance has been made for impairment losses on balances at period end (2015-Nil) as staff and directors are all active and currently in-service for the bank and recoveries are made directly through payroll.

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

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

	2016 KShs'000	2015 KShs'000
Directors and Employees	759,667	693,821
Subsidiaries and Associate companies	3,171,841	3,347,532
Interest expensed	40,440	40,587
Weighted average interest rate	6.95%	4.85%

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

43. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

(c) Inter-company balances and transactions:-

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

		Bank	
	Relationship	2016 KShs'000	2015 KShs'000
Due from:-			
Co-optrust Investment Services Limited	Subsidiary	-	1,198
Co-op Consultancy & Insurance Agency Ltd	Subsidiary	9,085	3,379
Co-opholdings Co-operative Society Limited	Parent	29,779	40,850
Co-operative Bank of South Sudan	Subsidiary	133,659	101,379
		172,523	**146,806**
Insurance premium:-			
Co-operative Insurance Company Limited	Associate	**49,769**	**36,821**

All transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and no guarantees have been provided or received from any related party. The Bank has not made any provision for impairment losses on balances at period end (2015-nil).

(d) Compensation of key management personnel

	Group		Bank	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Directors' emoluments:				
- Fees	143,116	118,000	96,276	78,420
- Others	20,626	30,257	19,585	28,761
	163,742	**148,257**	**115,861**	**107,181**
Senior Managers:				
- Short-term employee benefits	862,772	660,659	805,509	619,391
- Post-employment pension	62,904	51,856	59,805	48,853
- Termination benefits	1,109	-	1,109	-
	926,785	**712,515**	**866,423**	**668,244**

(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 2016, KShs.183,000,883 (2015-KShs. 152,763,103) was disbursed to the Foundation. At 31 December 2016, the Foundation held deposits of KShs1,373,496 (2015 - KShs. 1,148,853) with the Bank.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

43. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

(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. 546,050,375 (2015 - KShs. 463,337,860) as at 31 December 2016. 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:

	2016 KShs'000	2015 KShs'000
Rent paid to the scheme on leased property	**6,450**	**6,450**
Dividends paid on the Bank's ordinary shares	**26,368**	**14,232**

44. OPERATING LEASE COMMITMENTS

As lessor:

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

	Group and Bank	
	2016 KShs'000	2015 KShs'000
Within One year	126,788	66,823
Between 2 and 5 years	316,220	119,984
Over 5 years	9,226	14,935
	452,234	**201,742**

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

As lessee:

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

	Group and Bank	
	2016 KShs'000	2015 KShs'000
Within one year	979,092	969,479
Between 2 and 5 years	2,089,648	1,270,770
Over 5 years	1,127,641	340,856
	4,196,381	**2,581,105**

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.

45. COMMITMENTS

	Group and Bank	
	2016 KShs'000	2015 KShs'000
(i) Capital: Authorised and contracted for	333,473	4,400
(ii) Capital: Authorised and not contracted for	3,457,469	3,708,909
(iii) Loans committed but not disbursed at year end	26,962,895	2,213,833

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2016

46. CONTINGENT LIABILITIES

(a) Not recognised in statement of financial position	Group and Bank 2016 KShs'000	2015 KShs'000
Letters of credit	4,920,013	6,992,080
Guarantees	7,545,906	5,517,672
	12,465,919	**12,509,752**

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

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

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

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

(b) Pending legal suits

(i) Kenya Continental Holdings

This is an injunction application seeking to stop the Bank from selling the company's security alleging fraud and misrepresentation on the part of the Bank with a claim for special damages for alleged loss of opportunities amounting to KShs. 404,785,225. The Bank has a counterclaim amounting to KShs. 521,318,439 against the debtor. The matter was slated for a mention on 29 January 2016 but the court was not sitting. The matter is slated for hearing on 31st March, 27th and 28th June, 2017. The Borrower has also approached the Bank with a view of having the matter settled out of court and the settlement offer is under consideration by the Bank.

(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 slated for hearing on 28th March, 2017.

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 2016

46. 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	97,661,643	11,719,397	109,381,040
	495,403,544	**126,134,067**	**621,537,611**

As at 31 December 2016, 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 advise by the tax consultants are of the opinion that no liability will arise.

47. FIDUCIARY ACTIVITIES

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

The Group at Custodial Services department holds asset on behalf of customers with a value of KShs. 35.210 billion (2015 - KShs. 38.583 billion). The income for the period for custodial services was KShs. 57.168 million (2015 - KShs. 44.46 million) while the expenses amounted to KShs. 42.708 million (2015 - KShs. 38.51 million).

The Group, through Co-op Trust Investment Services Limited manages securities with a value of KShs. 38.88 billion (2015 - KShs. 39.9 billion) on behalf of customers. The total income for the period from fund management was KShs. 123.28 million (2015 - KShs. 137.80 million), with total expenses amounting to KShs. 78.5 million (2015 - KShs. 74.13 million).

48. ASSETS PLEDGED AS SECURITY

As at 31 December 2016, there were no assets pledged by the Group to secure liabilities.

49. HOLDING ENTITY

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

50. INCORPORATION

The Bank is incorporated in Kenya under the Companies Act.

51. CURRENCY

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

52. EVENTS AFTER REPORTING DATE

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

Disclaimer

Co-operative Bank of Kenya Group has acted in good faith and has made every reasonable effort 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.

Notes


BANK