BANK

2018

INTEGRATED REPORT

TRANSFORMING LIVES

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Eleventh Annual General Meeting of **THE CO-OPERATIVE BANK OF KENYA LIMITED** will be held at the Bomas of Kenya Nairobi on Thursday, 23rd May 2019 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 2018 together with the Directors' and Auditors' report thereon.
3. To approve and declare a first and final dividend of Kshs. 1.00 per share in respect of the year ended 31st December, 2018, to be paid to the shareholders on the register as at the close of business on 29th April, 2019.
4. Election of Directors.
   - i) Mr. Macloud Malonza, Mr. Richard Kimanthi and Mr. Benedict Simiyu 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.
   - ii) In accordance with the provisions of Section 769 of the Companies Act, 2015, the following directors being members of the Board Audit Committee be elected to continue to serve as members of the said Committee:-
     - i) Mrs. Rose Simani.
     - ii) Mr. Patrick K. Githendu.
     - iii) Mr. Lawrence Karissa.
     - iv) Mr. Mwambia Wanyambura.
5. To approve the remuneration of the Directors for the year ended 31st December, 2018 and to authorize the Board to fix the remuneration of Directors.
6. To re-appoint Ernst & Young LLP, Auditors of the Company, having expressed their willingness to continue in office and to authorize the directors to fix their remuneration.
7. Transact any other business, which may be properly transacted at an Annual General Meeting.

Dated at Nairobi this 24 day of April 2019

By order of the Board

SAMUEL M. 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 be 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 21st May 2019, 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.

Integrated Reporting (IR) in Co-op Bank

About this Integrated Report

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

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

The report indicates the strategic performance of the Group, shows key indicators of our stakeholder engagement, key indicators of our business model and key financial performance indicators. Included in this report are our financial results for the year ended 31 December 2018.

The scope of this report

This report covers the period from 01 January 2018 to 31 December 2018. We have referred to other periods for comparison purpose. The report covers Co-operative Bank of Kenya Ltd, Co-operative Bank of South Sudan Ltd, Co-op Consultancy and Insurance Agency Ltd, Co-op Trust Investment Services Ltd and Kingdom Securities Ltd. By extension, we have covered some areas of our associate company CIC Insurance Company Ltd.

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

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

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

Key concepts

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

How to navigate the report

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

- A description of who we are.
- A description of how we create value using our Business Model.
- An analysis of our Strategic Focus.
- Performance Review: Operating Environment Review, Financial Review, Business Review and Risk Management Review.
- Corporate governance at Co-op bank.
- Audited Annual Report and Financial Statements for the year ended 31 December 2018.

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

Assurance

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

Responsibility of the Board on Integrated Report

This integrated report was approved by our Board of Directors on 20 March 2019.

Statement of the Co-operative Bank Board of Directors

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

Mr. John Murugu, OGW
Bank Chairman

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

Bank Chairman Mr. John Murugu (Second Right) chairs the 2017 Annual General Meeting flanked by (From left to right) Board members Mr. Patrick Githendu, Vice Chairman Co-opholdings Co-operative Society Ltd, Mr. Macloud Malonza, Bank Vice Chairman and Dr. Gideon Muriuki, GMD & CEO Co-operative Bank of Kenya Ltd (Right).

Overview

We are a Universal Financial Solutions Provider. We do so efficiently to create sustainable value for all our Stakeholders.

Who We Are

Vision

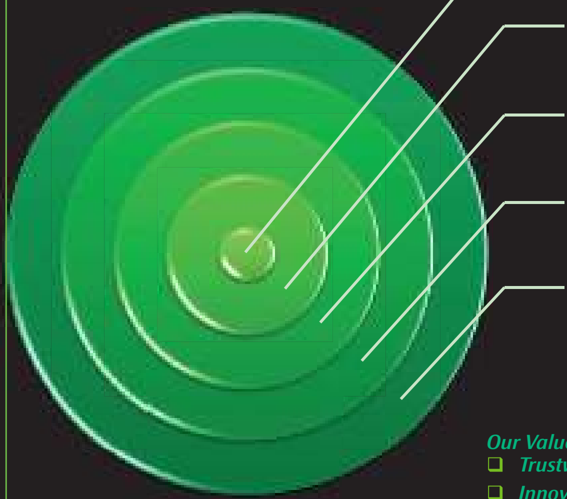
"To be the dominant Bank in Kenya and in the Region riding on the unique Co-operative Model providing innovative financial solutions for distinctive customer experience."

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

OUR STRATEGY UNDERPINNED BY TRANSFORMATION



Shareholder

Customer

Staff

Our Enterprise

Community

Our Values

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

Key Drivers

- Optimal returns to our shareholders
- Sustainability/ Marketshare growth

- Customer centricity
- Digitized customer journeys

- Employer of choice
- Staff productivity
- Staff development

- Operational efficiency
- Proactive Risk management
- Optimal digital strategy

- Responsible Corporate Citizen
- Sustainable Economic, social & Environmental Impact

- **KShs. 413.4 Total Assets**
- **8 Million Customers**
- **4251 Staff**

155 Branches
4 Million Mcoop cash mobile banking
12000+ Co-op Kwa Jirani Agents
580 ATMs
82K+ CoopNet– Internet Banking
464 Sacco Front Offices Branch network
14,596 Diaspora Banking Customers

Historical timeline

We have **over 50 Years'** experience in Financial Solution Provision;

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

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

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

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

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

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

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

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

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

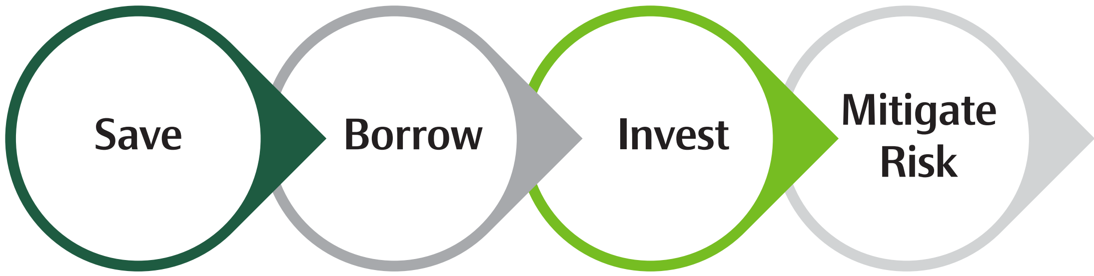
2016
Group registers continued growth with a PBT of Kshs. 17.7 Billion and an asset base of over Kshs. 351.8 Billion.

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

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

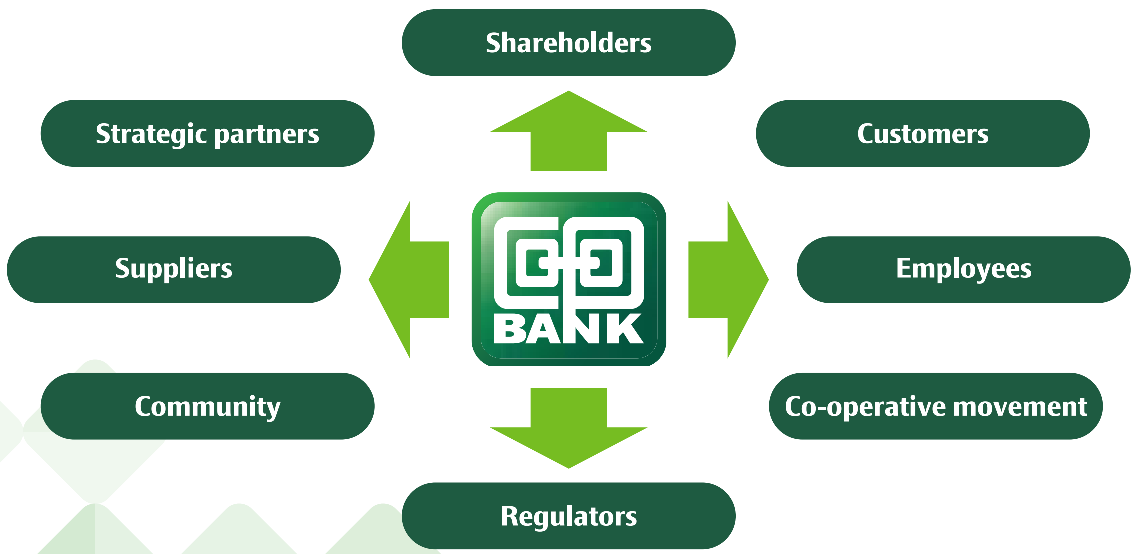
Our Key Business

We enable our Customers to;



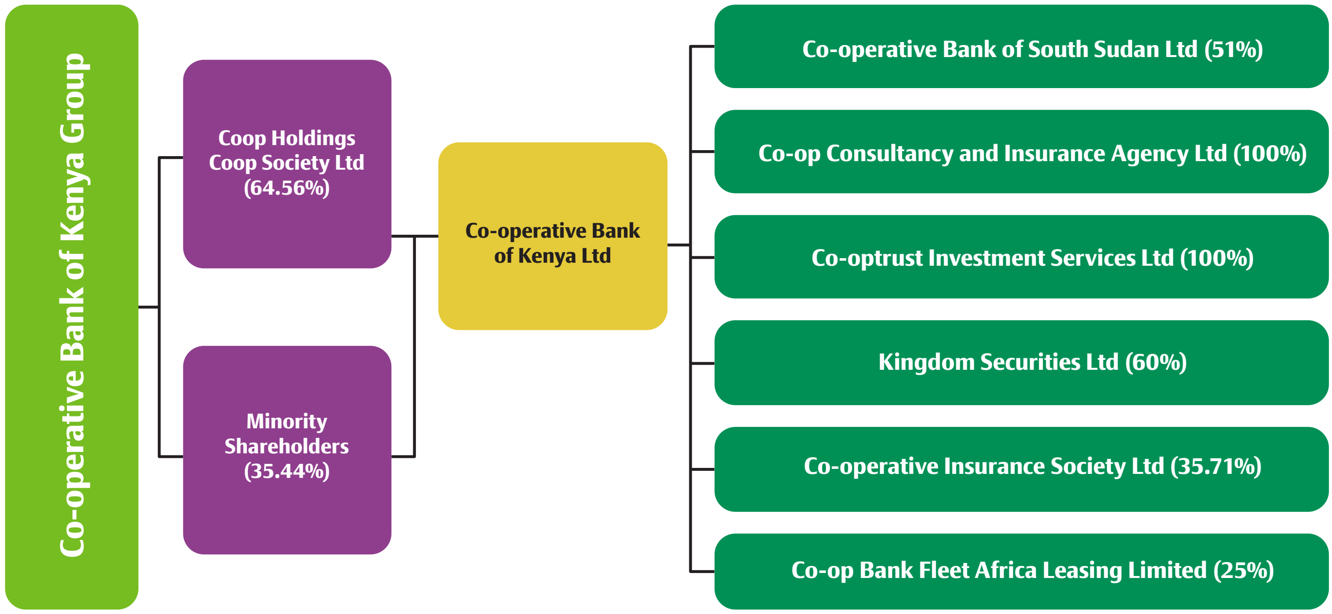
	What we do	What we offer
• **Retail and Business Banking Division**	Providing financial solutions to individual customers, Micro, Small and Medium Enterprises	Deposit/ Instant Access accounts Savings Accounts Current accounts Fixed/Call deposit accounts Forex products Payment solutions M-Wallet loans Trade Finance MSME Loans Personal/Consumer Loans Working Capital Loans Asset Finance Insurance Premium Financing Mortgage Finance Investment services Banc Assurance Consultancy and capacity building Stock Brokerage
• **Corporate & Institutional Banking Division**	Providing financial solutions to; • Corporates • Institutions • Government • Parastatals • Non- Governmental Institutions • International Financial Institutions	
• **Co-operatives Banking**	Providing financial solutions to; • Large Saccos • Housing Saccos • Agricultural and other Co-operatives • PSV/ Transport Saccos • Investment Saccos • Housing Saccos	
• **Co-opTrust Investment Services Ltd**	Providing Fund Management Services	
• **Consultancy and capacity building**	• Providing Banc Assurance Services • Providing Consultancy and capacity building services to Co-operative Societies	
• **Kingdom Securities Ltd**	Providing Stock Brokerage Services	

Our Stakeholders



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

Group structure



Our Shareholders

TOP 10 SHAREHOLDERS AS 31 DECEMBER 2018		
Shareholder	**No. of shares**	**% shareholding**
Co-opholdings Co-operative Society Limited	3,787,715,404	64.56
Dr. Gideon Maina Muriuki, CBS, MBS	105,083,700	1.79
Kenya Commercial Bank Nominees Limited A/C 915B	45,420,739	0.77
NIC Custodial Services A/C 077	36,904,143	0.63
Stanbic Nominees Ltd A/C NR1030682	31,865,673	0.54
Kenya Commercial Bank Nominees Limited A/C 915A Kenya Commercial Bank Nominees Limited A/C 915A	27,380,400	0.47
Amarjeet Baloobhai Patel & Baloobhai Chhotabhai Patel	20,190,619	0.34
Standard Chartered Nominees Resd A/C KE11443	19,846,200	0.34
Old Mutual Life Assurance Company Ltd	19,100,391	0.33
Standard Chartered Nominees Resd A/C KE11401	19,087,800	0.33
Total	**4,112,595,069**	**70.09**
Other Shareholders	**1,754,585,034**	**29.91**
Total	**5,867,180,103**	**100.00**

CATEGORY SUMMARY OF SHAREHOLDERS AS AT 31 DECEMBER 2018			
Category	**No. of shareholders**	**No. of shares**	**% shareholding**
Foreign Companies	37	112,737,478	1.921
Foreign Individuals	175	4,582,824	0.078
Local Companies	2,992	4,795,985,004	81.743
Local Individuals	93,392	918,055,747	15.650
East African Companies	56	35,300,836	0.602
East African Investors	61	518,214	0.009
	96713	**5,867,180,103**	**100.00**

SHAREHOLDER DISTRIBUTION AS AT 31 DECEMBER 2018			
Shareholding	**No. of shareholders**	**No. of shares**	**% shareholding**
1-500	12,847	2,417,977	0.041
501-5,000	36,878	75,220,571	1.282
5,001-10,000	31,244	252,673,299	4.307
10,001-100,000	14,720	327,454,516	5.581
100,001-1,000,000	765	228,445,858	3.894
above 1,000,000	259	4,980,967,882	84.896
	96,713	**5,867,180,103**	**100.00**

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

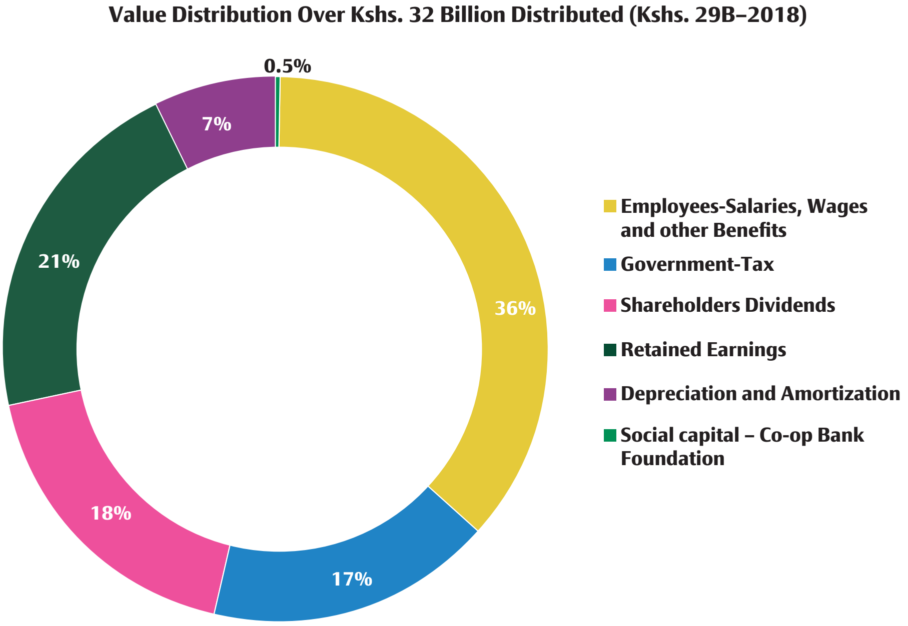
The Bank was listed at the Nairobi Securities Exchange in December 2008, and Shares previously held by 3,805 Co-operatives Societies and unions were ring-fenced under Co-opholdings Co-operative Society Limited in order to retain the critical cooperative identity of the bank.

As at end of December 2018, Co-opholdings had 3833 (2017-3833) individual co-operative society shareholders with a well-established Over-The-Counter (OTC) trading of shares held by them. Trading of these shares is only open to registered co-operative societies.

"It is our firm belief that the cooperatives are a strategic vehicle for sustainable delivery of banking services to the vast majority"
Dr. Gideon Muriuki (CBS, MBS) GMD & CEO Co-operative Bank of Kenya

TOP 10 CO-OPHOLDING SHAREHOLDERS AS AT 31 DECEMBER 2018		
Shareholding	**No. of shares**	**% shareholding**
Harambee Cooperative Savings & Credit Society Ltd	144,857,832	3.82
H & M Cooperative Savings & Credit Society Ltd	125,247,471	3.31
Kenya Police Sacco Society Ltd	119,885,226	3.17
Afya Cooperative Savings & Credit Society Ltd	111,395,592	2.94
Masaku Teachers Coop Savings & Credit Society Ltd	110,037,033	2.91
Kipsigis Teachers Coop Savings & Credit Society Ltd	101,495,520	2.68
K-Unity Savings and Credit Co-Operative Society Limited	90,162,633	2.38
Telepost Co-operative Savings & Credit Society Limited	89,889,091	2.37
Co-operative Bank Coop Savings & Credit Society Ltd	75,118,512	1.98
Nawiri Savings and Credit Co-operative Society Ltd	69,453,216	1.83
Total	**1,037,542,126**	**27.39**

Wealth creation and distribution

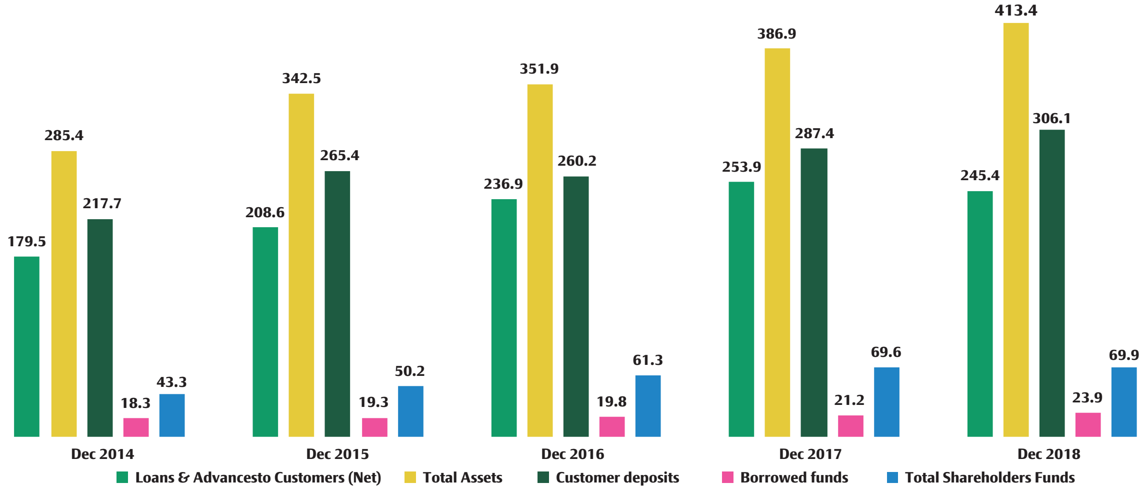


The First Lady H.E. Mrs. Margaret Kenyatta (Left) receives a presentation from the Group Managing Director & CEO Co-operative Bank Dr. Gideon Muriuki (Right) for the Sh20 million donation by the Bank to the First Lady's Initiative on 5th February 2019 at State House, Nairobi.

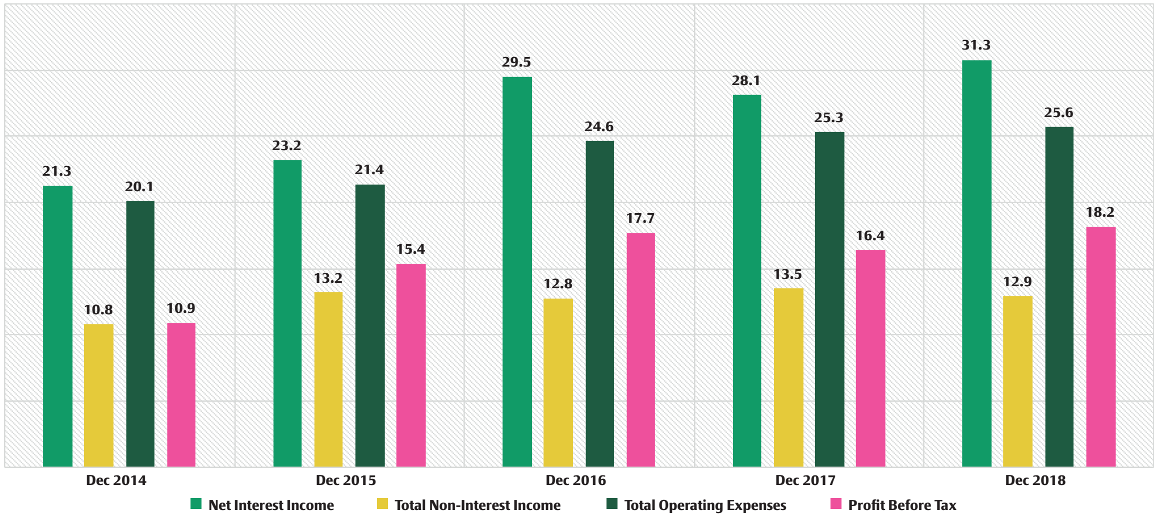
Co-operative Bank retains a strong partnership with the First Lady's Beyond Zero initiative on the promotion of child and maternal health, as part of the Bank's Corporate Social Investment.

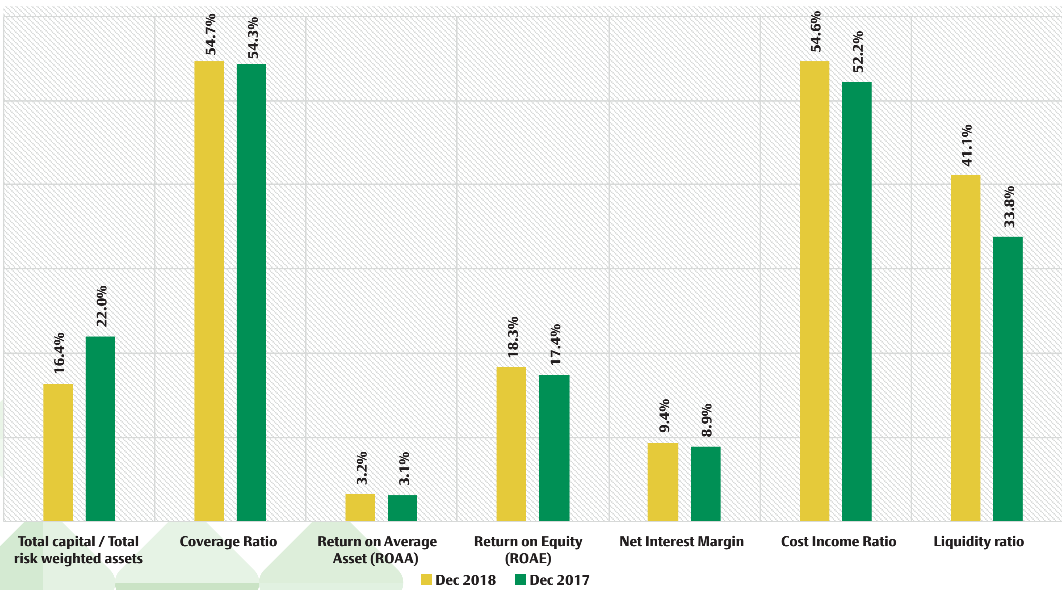
Five-Year Group Financial Review

A Strong Financial Position (Kshs. Billion)



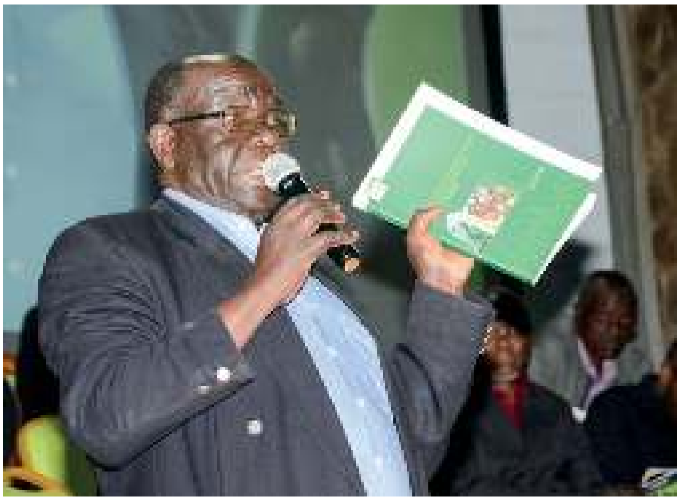
Sustainable Profitability (Kshs. Billion)





Bank Shareholders

Bank Shareholders actively participating in decision making on their investments in Co-operative Bank at an AGM



Chairman's Statement

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

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

Dear Shareholders,

I am delighted to once again present to you our bank's Integrated Report for the year ended 31st December, 2018.

Overview of the Operating Environment

The Kenyan economy was on a recovery and growth path in 2018 supported by good weather, eased political uncertainty and strong private consumption. Real GDP growth is estimated at 5.9% in 2018, up from 4.9% in 2017. This growth was supported by an uptick in accommodation and food services, electricity and water supply and construction activities.

The macroeconomic environment remained stable, with low and stable interest rates and competitive exchange rate to support exports. Month-on-month overall inflation remained stable averaging 4.7% in 2018 down from 8.0% in 2017, owing to a decline in food and energy prices.

This stability in the foreign exchange market was supported by strong inflows, resulting in a narrowing of the current account deficit to an estimated 5.2% of GDP in 2018 from 6.7% in 2017. This improvement in the current account balance was driven by a rise in diaspora remittances and tourism receipts, higher tea and horticultural exports, slower growth in imports (due to lower food and SGR–related equipment imports) and the decline in international oil prices. The current account deficit is estimated at 5.2% of GDP in 2018, and is expected to remain within this low range in 2019.

To stimulate growth, the Central Bank of Kenya reduced the Central Bank Rate to 9% in July 2018 from 9.5%. This has already resulted in increased borrowing by the households. However, this was not adequate to spur rapid economic activity. Commercial banks still face the challenges brought about by the capping of interest rates. There is need to review this law in a bid to enable commercial banks price-in the credit risk for different customers in the different sectors of the economy.

GDP growth is projected to steadily rise to 6.0% in 2019 and 6.1% by 2020 as the output gap closes. Improved business confidence and continued macroeconomic stability will contribute to growth. The downside risks to this outlook arise from subdued private sector credit growth that has already slowed down private investment, a sudden uptick in oil prices and tightening global financial markets.

Regulatory Environment

The regulatory environment in 2018 was dynamic. The Banking Sector Charter, which is a commitment by the banking sector to entrench a responsible and disciplined banking sector cognizant of, and responsive to, the unique socio-economic realities of the Kenyan people was amended. The Charter envisions adoption of customer-centric business models, Risk-based credit pricing, Enhanced transparency and information disclosure and Entrenching an ethical culture in banks.

Cyber-security concerns in our industry escalated. In 2018, the regulator introduced Cyber Security Guidelines for Payment Service Providers (PSPs). The Guidelines set the minimum standards that PSPs should adopt to develop effective cybersecurity governance and risk management frameworks in order to maintain a sound, secure and efficient National Payment System.

Following the introduction of Mortgage Refinance Companies (MRCs) in the Finance Act 2018, the Central Bank introduced the draft MRC Regulations, 2019 intended to provide a framework for licensing, capital adequacy, liquidity management, corporate governance, risk management, and reporting requirements of MRCs. MRCs will refinance primary mortgage lenders such as commercial banks, microfinance banks and Saccos using funds from the capital markets so as to provide affordable mortgages to eligible members of the public. This will avail immense business growth opportunities in the mortgage segment.

Anti-Money Laundering and Countering Financing of Terrorism continued to take centre stage especially in the renewed fight against corruption in the public sector. Conducting customer due diligence, a thorough review of supporting documentations and reporting of large and/or suspicious transactions, and those by politically exposed persons cannot be over-emphasized.

The bank will continue to strengthen its anti-money laundering and countering of financing of terrorism (AML/CFT) frameworks and commits to address the identified lapses and be fully compliant with all aspects of the law.

We welcome the renewed vigor in regulatory oversight in cognizance of the fact that it enhances the customer's trust in our banking system and safeguards stakeholders' interests, both critical elements for maintaining a healthy financial sector.

Performance Overview

Our balance sheet expanded by 7% to Kes 413.67 Billion as at the close of 2018 from Kes.386.86 Billion in 2017. Profit after tax grew by 11.6% to Kes. 12.73 Billion compared to Kes.11.41 Billion the previous year. The commendable performance reflects the success of the transformation agenda which has re-tooled and equipped the business with the strategic agility and resilience to achieve its objectives even in the difficult operating environment. The group will continue to leverage the 'soaring eagle transformation project focused on improving operational efficiencies, Salesforce effectiveness and leveraging innovative customer delivery channels to serve our growing customer base, which currently stands at 8 million.

The bank has continued to attract recognition both locally and globally for its impact in fostering growth, reducing poverty and improving financial inclusion and shared prosperity in Kenya. The bank was honoured as the Best Retail Bank and Best SME Bank in Kenya by the Banker Africa, and the Best Bank in Kenya and Best Product Launch by the EMEA African Banking Awards 2018. Locally, the bank was recognized at the ICPAK Financial Reporting (Fire) Awards for its Social Impact Reporting around our work in Co-op Consultancy and Co-op Bank Foundation.

Board Changes and Corporate Governance

The Board of Directors is responsible for the Group's corporate governance practices and embraces its responsibilities to shareholders and other stakeholders to uphold the highest ethical and moral standards and ensure that the Group conducts its business in accordance with global best practice. The Board consists of twelve directors, one of whom, the Managing Director is executive, and eleven are non-executive. The Board is composed of directors with a variety of skills, experience and competences in their relevant fields of expertise and is well placed to drive the bank's business to new heights.

During the year Dr. James M. Kahunyo retired from the board of Co-optrust Investment Services Ltd and Co-op Consultancy & Insurance Agency Ltd while Hon. Wani Buyu Dyori retired from the board of Co-operative Bank South Sudan. Mr. Francis Ngone and Mr. Geoffrey M'Nairobi were appointed as board members of Kenyan Subsidiaries while Hon. Ocum Genes Karlo was appointed to the board of Co-operative Bank South Sudan. I thank the retiring directors for their devotion and selfless service and wish the incoming directors success and God's guidance in execution of duty in their new roles.

Dividend and the Annual General Meeting

The bank is committed to ensuring effective communication with the shareholders and has used the Annual General Meetings and Special General Meetings to fully engage shareholders on the bank's activities, strategy and performance. The Board of Directors has recommended to the Annual General Meeting (AGM) a dividend of Kes 1.00 per every ordinary share held subject to the approval by the Capital Markets Authority. This will represent a growth of 25% compared to a dividend of Kes 0.80 paid in 2017.

The Eleventh Annual General Meeting of the Co-operative Bank of Kenya Limited will be held at the Bomas of Kenya, Nairobi on Thursday 23rd May 2019 to transact the agenda as specified in the Notice of the AGM.

Looking Ahead

We are pleased with our progress in 2018. That said, we look forward to greater performance in the days ahead. In the recent past, the banking environment has experienced an accelerated rate of change. As the natural world teaches us, adaptability and agility are critical in a changing, and often times challenging environment. In 2018, we laid a solid platform for the Micro, Small and Medium Enterprises (MSME) product and service offering. In addition, we have put in significant investment in our Digital Journey by boosting our digitalization and innovation efforts to equip us with the tools to offer a fulfilling customer experience.

I believe that our unique market positioning and clear strategy will serve as a source of inspiration for our employees and our other stakeholders.

Acknowledgement

First, I would like to sincerely thank our customers and shareholders, whose trust and confidence have made these achievements possible.

On behalf of the Board, I also wish to recognize the unwavering support and dedication shown by the Board of Management led by the Group Managing Director & CEO Dr. Gideon Muriuki, CBS, MBS and the entire Co-operative Bank Group team.

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

Thank you and may God richly bless you all.

JOHN MURUGU, OGW

Chairman

Taarifa ya Mwenyekiti

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

> "Benki imeendelea kuvutia utambuzi wote wa humu ndani na wa kimataifa kwa athari zake katika kukuza ukuaji, kupunguza umasikini na kuboresha jumuisho la wengi katika shughuli za kifedha na mafanikio ya pamoja hapa Kenya."

Wapendwa Wamilikihisa,

Nina furaha tele kuwasilisha kwenu kwa mara nyingine tena Taarifa ya Kifedha iliyojumuishwa ya Benki yetu ya mwaka uliomalizikia tarehe 31 Disemba, 2018.

Maelezo kwa ujumla ya Mazingira ya Uendeshaji Shughuli

Katika 2018 uchumi wa Kenya ulishika njia ya kupata afueni na ukuaji huku ukisaidiwa na hali nzuri ya hewa, kupungua kwa hali ya kisiasa isiotabirika na kuzidi kongezeka kwa matumizi ya kibinafsi. Ukuaji halisi wa Pato la Taifa unakadiriwa kufikia asilimia 5.9 katika mwaka wa 2018, kutoka asilimia 4.9 ya mwaka wa 2017. Ukuaji huu ulishadidiwa na kuongezeka kwa mahitaji ya huduma za malazi na huduma za chakula, umeme, maji na shughuli za ujenzi.

Hali ya uchumi mkuu imesalia imara, na viwango vya riba na uwiano mzuri wa viwango vya ubadilishanaji fedha ukisaidia uuzaji bidhaa nje. Mfumuko wa bei kwa ujumla, mwezi kwa mwezi, uliendelea kuwa imara kwa wastani wa 4.7% katika mwaka wa 2018 chini kutoka 8.0% ya mwaka wa 2017, hii ikitokana na kushuka kwa bei za vyakula na nishati.

Kuimarika huku kwa soko la fedha za kigeni kuliungwa mkono na mapato thabiti, na kusababisha kupungua kwa nakisi ya akaunti ya Current kwa wastani wa asilimia 5.2 ya Pato la Taifa la mwaka wa 2018 kutoka 6.7% katika mwaka wa 2017. Kuimarika huku kwa usawa wa akaunti ya Current kulichochewa na kuongezeka kwa uingizaji fedha kutoka kwa wanaoishi nje ya nchi na mapato kutokana na utalii na uuzaji nje wa mazao ya kilimo cha maua, kupungua kwa ukuaji wa uagizaji bidhaa kutoka nje (kwa sababu ya kuhafifika kwa uagizaji wa chakula kutoka nje na uagizaji wa vifaa vya SGR) na kushuka kwa bei za kimataifa za mafuta. Upungufu wa usawa katika akaunti ya Current unakadiriwa kuwa kima cha asilimia 5.2 ya Pato la Taifa la mwaka wa 2018, na unatarajiwa kusalia kwenye kiwango hiki cha chini hadi katika mwaka wa 2019.

Ili kuchochea ukuaji, Benki Kuu ya Kenya ilipunguza kiwango cha riba cha Benki Kuu hadi 9% mnamo Julai 2018 kutoka 9.5%. Hii imesababisha kuongezeka ukopaji majumbani. Hata hivyo, hii haikuweza kutimu kuweza kuongeza kasi ya shughuli za kiuchumi. Benki za kibiashara bado yanakabiliwa na changamoto zilizoletwa na kupangiwa viwango vya riba. Kuna haja ya kutathmini sheria hii katika jitihada za kuwezesha kuzingatia gharama za dhima ya deni kwa wateja tofauti waliyo katika sekta tofauti za uchumi.

Ukuaji wa Pato la Taifa unakadiriwa kupanda kwa kasi kufikia asilimia 6.0 katika 2019 na asilimia 6.1 ifikapo 2020 huku pengo la pato likiendelea kufungwa. Kuboreka kwa matumaini ya uwezo wa biashara na kuendelea kuimarika kwa uchumi mkuu kutachangia ukuaji zaidi. Mashaka pekee ya mtazamo huu yanaibuka kutokana na kwa ukuaji finyu wa mikopo ya sekta ya kibinafsi ambayo tayari imedororesha kasi ya uwekezaji wa sekta ya kibinafsi, upandaji ghafla wa bei za mafuta na hali finyu ya masoko ya kifedha duniani.

Hali ya Udhibiti wa Kanuni

Hali ya udhibiti katika 2018 ulikuwa wenye nguvu. Kipengee cha Mkataba wa Sekta ya Mabenki, ambao unayakinisha kujitolea kwa wahusika wa sekta ya benki katika kuzingatia kuwajibika na nidhamu kwa kutambua, kuweza kujibu, hali halisi zenye utofauti za kijamii na kiuchumi za watu wa Kenya, kilibadilishwa. Mkataba huo unatazamia kupitishwa kwa miundo ya kibiashara ya wateja-msingi, Uwekaji bei za mikopo unaozingatia mashaka, Kuimarishwa kwa Uwazi na utoaji wa habari na kuingizwa kwa utamaduni wa maadili katika mabenki.

Masuala ya usalama wa mtandao wa internet katika sekta yetu yaliongezeka. Mnamo 2018, mdhibiti kanuni alizindua Mwongozo wa Usalama wa mtandao wa internet kwa watoa huduma za malipo (PSPs). Mwongozo huu uliweka viwango vya chini ambavyo PSPs wanapaswa kuuchukua ili kudumisha usimamizi bora wa usalama wa mtandao wa internet na kuthibiti usimamizi wa hatari ili kudumisha mfumo wa Malipo wa Kitaifa, uliyo salama na wa ufanisi.

Kufuatia kuzinduliwa kwa Makampuni za kufadhili wakopeshaji wa mikopo ya nyumba yaani Refinance Mortgage (MRCs) katika Sheria ya Fedha ya 2018, Benki Kuu iliasisi Kanuni za MRC, katika 2019 ili kutoa mfumo wa kutoa leseni, ufanisi wa mtaji, udhibiti wa ukwasi, utawala wa mashirika, usimamizi wa dhima, na utoaji wa ripoti za MRCs. MRCs zitafadhili wakopeshaji msingi wa mikopo kama mabenki ya kibiashara, benki ndogo za utoaji fedha na Vyama vya Ushirika vya kifedha kwa kutumia fedha kutoka masoko ya mitaji ili kutoa rehani za gharama nafuu kwa wanachama wa umma wanaostahiki. Hii itatumia fursa nyingi za ukuaji wa biashara katika kitengo cha mikopo wa nyumba.

Juhudi za kukabili Usafishaji Fedha haramu na Kupambana na Fedha za kufadhili Ugaidi ziliendelea kuzingatiwa hasa kukiwa na azimio jipya dhidi ya ufisadi katika sekta ya umma. Kutekeleza uchunguzi muafaka wa wateja, utathmini wa kina wa hati za utambulisho na utoaji wa ripoti za shughuli zozote kubwa na / au zenye shaka, na wale walio katika siasa hawawezi kusisitizwa zaidi.

Benki hii itaendelea kuimarisha mfumo wake kukabili Usafishaji Fedha haramu na Kupambana na Fedha za kufadhili Ugaidi (AML / CFT) na inajitolea kutambua na kutii kikamilifu vipengee vyote vya sheria.

Tunakaribisha msukumo huu mpya katika usimamizi wa udhibiti kanuni kwa kukubali kuwa ni wa kuboresha uaminifu wa wateja katika mfumo wetu wa benki na kulinda maslahi ya wadau, mambo yote mawili yakiwa ni muhimu katika kudumisha sekta bora ya kifedha.

Utendaji kwa ujumla

Mizania yetu ya hesabu imeongezeka kwa asilimia 7 hadi kufikia Kes Bilioni 413.67 mwishoni mwa mwaka wa 2018 kutoka Kes.Bilioni 386.86 za mwaka wa 2017. Faida baada ya kodi iliimarika kwa 11.6% kufikia Kes. Bilioni 12.73 ikilinganishwa na Kes. Bilioni 11.41 katika mwaka uliopita. Matokeo haya ya kupendeza yanaonyesha mafanikio ya ajenda yetu ya mabadiliko ambayo imerejesha zana za kuimarisha biashara kwa ujasiri na unyumbufu wa kimkakati ili kufikia malengo yake licha ya kuwepo hali ya mazingira magumu ya uendeshaji. Kundi hili litazidi kutumia kama nyenzo ya uimarishaji mradi wa mabadiliko almaarufu 'soaring eagle' unaolenga kuboresha ufanisi wa uendeshaji shughuli, ufanisi wa kundi la Mauzo na uhamasishaji wa njia za utoaji huduma kwa wateja kwa ubunifu ili kuhudumia wateja wetu kuongeza idadi yao, ambao hivi sasa wametimu milioni 8.

Benki imeendelea kuvutia utambuzi wote wa humu ndani na wa kimataifa kwa athari zake katika kukuza ukuaji, kupunguza umasikini na kuboresha jumuisho la wengi katika shughuli za kifedha na mafanikio ya pamoja hapa Kenya. Benki hii iliheshimiwa kwa kutuzwa kama Benki Bora ya Biashara ya Biashara na Benki Bora Zaidi ya kuhudumia Wawekezaji wadogo (SME) nchini Kenya na taasisi ya Banker Africa, na kuwa Benki Bora katika Kenya kwa Uzinduzi wa Bidhaa katika tuzo za EMEA African Banking Awards 2018. Humu nchini, benki hii ilitambuliwa katika tuzo za utoaji Taarifa za Kifedha za ICPAK Financial Reporting (Fire) Awards kwa utoaji ripoti bora ya Athari yake katika Jamii kutegemea kazi yetu inayotekelezwa na taasisi zetu za kufadhili katika Co-op Consultancy na Co-op Bank Foundation.

Mabadiliko ya Bodi na Usimamizi wa Shirika

Bodi ya Wakurugenzi huwajibika kwa shughuli za utawala wa Kundi hili na inashikilia majukumu yake kwa wanahisa na wadau wengine kutekeleza viwango vya juu vya maadili na maadili na kuhakikisha kuwa Kundi linafanya biashara yake kwa mujibu wa viwango vya kimataifa. Bodi inajumuisha wakurugenzi kumi na wawili, mmoja wao, Mkurugenzi Mtendaji ni mtendaji, na kumi na moja sio watendaji. Bodi iko na wakurugenzi wenye ujuzi aina mbali mbali, uzoefu na ustadi katika nyanja zao walizobobea na wako katika nafasi nzuri ya kuendesha biashara ya benki hii kwenda hadi upeo mpya.

Mwakani Dkt. James M. Kahunyo alistaafu kutoka kwa bodi ya Co-optrust Investment Services Ltd na Co-op Consultancy & Insurance Agency Ltd huku Mheshimiwa Wani Buyu Dyori akistaafu kutoka bodi ya Co-operative Bank Sudan Kusini. Bw. Francis Ngone na Bw. Geoffrey M'Nairobi walichaguliwa kuwa wanachama wa Mashirika tanzu ya Kenya huku Mheshimiwa Ocum Genes Karlo akiteuliwa kujiunga na bodi ya Co-operative Bank Sudan Kusini. Ninashukuru wakurugenzi wanaostaafu kwa kujitolea kwao kuhudumu na nawatakia wakurugenzi wanaojiunga mafanikio na mwongozo kutoka kwa Mungu katika kutekeleza wadhifa wao mpya.

Mgao wa Hisa na Mkutano Mkuu wa Mwaka

Benki hii inaahidi kuhakikisha kuwepo kwa mawasiliano bora na wanahisa na hutumia Mikutano Mikuu ya Mwaka na Mikutano Mikuu Maalum kuwajuza kikamilifu wanahisa kuhusu shughuli za benki hii, mkakati na utendaji wake. Bodi ya Wakurugenzi inapendekeza katika Mkutano huu Mkuu wa Mwaka (AGM) kuwe na mgao wa Kes 1.00 kwa kila hisa ya kawaida inayomilikiwa kukitegemewa idhini ya Mamlaka ya Masoko ya Mitaji. Hii itawakilisha ukuaji wa asilimia 25 ikilinganishwa na mgao wa Kes 0.80 uliolipwa katika mwaka wa 2017.

Mkutano Mkuu wa Mkutano wa Kumi na moja wa Benki ya Co-operative Bank of Kenya Limited utafanyika Bomas of Kenya, Nairobi siku ya Alhamisi, mwezi wa Mei tarehe 23, 2019 ili kufanikisha ajenda kama ilivyofafanuliwa katika Notisi ya Mkutano Mkuu wa Mwaka.

Mtazamo wa Siku zijazo

Tunafurahia maendeleo yetu katika mwaka wa 2018. Baada ya hayo, tunatarajia utendaji bora zaidi katika siku zijazo. Katika siku za hivi karibuni, mazingira ya benki yamemepatwa na mabadiliko ya kiwango cha kasi. Kama dunia asilia inavyotufundisha, urekebifu na unyumbufu ni muhimu katika mazingira hasa yenye changamoto za mara kwa mara. Katika 2018, tuliweka vigezo imara kuauni Wajasiriamali katika biashara za kati na ndogo za utoaji bidhaa na huduma (MSME). Isitoshe, tumeweka uwekezaji mkubwa katika Mfumo wetu wa Dijitali kwa kuimarisha juhududi zetu za kutumia dijitali na uvumbuzi ili kujihami na zana za kutuwezesha kutoa huduma za kukidhi mahitaji ya wateja.

Ninaamini kwamba nafasi yetu ya kipekee katika soko hili na mkakati wetu ulio wazi itatumika kama chanzo cha msukumo kwa wafanyakazi wetu na wadau wetu wengine.

Shukrani

Kwanza, ningependa kutoa shukrani zangu za dhati kwa wateja na wamiliki hisa wetu, ambao matumaini na ujasiri wao umefanya mafanikio haya kuwezekana.

Kwa niaba ya Bodi, napenda pia kutambua msaada imara usiotikisika na kujitolea kulikodhihirika kwa Bodi ya Usimamizi inayoongozwa na Mkurugenzi Msimamizi na Afisa Mkuu Mtendaji wa Kundi Dkt. Gideon Muriuki, CBS, MBS na timu nzima ya Co-operative Bank Group.

Kutamatisha, ningependa kuwashukuru Wanachama wenzangu wa Bodi kwa huduma zao, uaminifu na kujitolea kwa wajibu wa kutumikia Benki hii tukiwa pamoja nao.

Asanteni na Mungu awape nyinyi wote baraka tele.

JOHN MURUGU, OGW

Mwenyekiti

The Board of Directors

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

John Murugu, OGW, Chairman (68)

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

Macloud Malonza, HSC, Vice Chairman (50)

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

Dr. Gideon Muriuki, CBS, MBS Group Managing Director & CEO (54)

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. 18.2 billion in 2018. 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 30 years experience in banking and finance and he was voted CEO of the year Africa 2014 by the International Banker. He is a Director of Kingdom Securities Limited, Vice-President Africa – International Co-operative Banking Alliance (ICBA), former Chairman, Governing Council of the Africa International University and former Chairman, African Rural and Agricultural Credit Association (AFRACA). He was decorated in 2005 with the award of Order of the Grand Warrior (OGW), in 2011, award of the Moran of the Order of the Burning Spear (MBS), in 2017 with Chief of the Order of the Burning Spear first class (CBS) in recognition of his successful turnaround of the Bank and exemplary service to the nation. He is a recipient of a decoration of Chevalier de L'orde National du Burkina Faso by the President of Burkina Faso in recognition of his outstanding contribution to development of rural finance in Africa, 2016 Lion of Judah Award by Evangelical Alliance of Kenya and Mtumishi Bora Grand Award - 2016 by the Kenya Christian Professionals Forum for his great servant leadership as a committed christian leader in the market place. In 2018, awarded Best Banking CEO Kenya by International Finance.

The Board of Directors (Continued)

Patrick K. Githendu, Director (65)

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

Rose Simani (Mrs.), Director, Independent (60)

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 (63)

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 (64)

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

Benedict W. Simiyu, Director (57)

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 (62)

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 (63)

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 32 years in the Ministry of Foreign Affairs and Ministry of Finance & Planning. He has brought a wealth of experience in finance and management in the public sector Government departments under the Office of the President. He is the Chairman of the Board Risk Committee.

Wilfred Ongoro, HSC, Director (63)

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.

Godfrey K. Mburia, Director (62)

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

Samuel M. Kibugi, Company Secretary (42)

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

Francis Ngone, Director (64)

Appointed Director on 27th April 2018. He has extensive knowledge and experience in the Co-operative movement and is currently the Chairman of Muranga Farmers' Co-operative Union, one of the largest co-operative unions in Kenya and the Chairman of Gatunyu Kigio Farmers Co-operative Society Limited. He is the current Chairman of Catholic Men Association in the Catholic Diocese of Muranga and the General Secretary of Catholic Men Association in Kenya.

He holds a Diploma in Business Management and CPA I & CPA II. He has previously worked for Cotton Board of Kenya as a Branch Manager and Kenya Post & Telecommunication as an accountant for a period spanning over 20 years cumulatively.

David Muthigani Muriuki, Director (50)

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

James N. Njiru, Director (51)

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

Scholastica Odhiambo (Mrs.), Director (59)

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

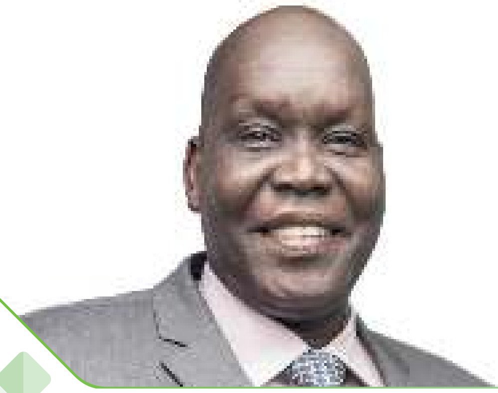
Didacus Ityeng', Director (55)

He is a career civil servant who joined the Board of Directors in 2019. He is a holder of MSc. Entrepreneurship from Jomo Kenyatta University of Agriculture and Technology and a BSc (Agriculture) from the University of Nairobi. He has also attended various local and international courses on strategic leadership, livestock emergencies and food security. He has been the Chair of the Agriculture and Livestock sector working group, Head – Food Security in the Department of Livestock Production and Project Coordinator, Regional Pastoral livelihoods Resilience Project. He is the current Ag. Commissioner for Co-operatives Development. He has over 30 years working experience having worked in various government ministries notably Ministry of Agriculture and currently Ministry of Industry, Trade & Co-operatives and undertaken extensive research in topical agriculture issues. He is a member of Kenya Association of Cooperative professions, Animal Production Society of Kenya and Kenya Association of Public and Administration and Management.

Geoffrey M'Nairobi, Director (63)

Appointed Director on 27th April 2018. He has extensive knowledge and experience in the Co-operative movement and is currently the General Manager of Meru South Farmers' Co-operative Union Limited, one of the largest co-operative unions in Kenya, with over 30 years' experience. He is also a member of the Board of Management of Muthambi Girls High School and Chief Mbogori Girls High School. He has attended various local and international courses on co-operatives with emphasis on dairy and coffee management sectors.

He has a Diploma in Senior Co-operative Management.



William Mayar Wol, Chairman (56)

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

Elijah Wamalwa, Managing Director (45)

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

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

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

Prof. Mathew Gordon Udo, Director (60)

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

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

Hon. Ocum Genes Karlos (61)

He was appointed director of Co-op Bank of South Sudan on 8th November, 2018. He is a South Sudan citizen and is currently Under Secretary for Planning in the Ministry of Finance & Economic Planning. He is a seasoned finance and planning technocrat with a decorated service on financial matters in South Sudan. He also has a vast international exposure having worked for over 12 years with various United Nations Agencies such as United Nations World Food Programme, United Nations Development Programme and Care International in Sudan.

He is a holder of Bachelor of Science (B.Sc) in Management from the University of Juba and a Masters of Science, Qualifying Certificate in Business Administration from the University of Khartoum.

Rosemary M. Githaiga, (Mrs), Director (55)

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.

Helen Obiri leads 10Km Race at the 28th Edition of the Armed Forces Cross country Championships . Cooperative Bank is a strong partner to the Kenya Defence Forces Sports Programs.

The Bank staff volunteered to raise funds for the Beyond Zero Marathon trust dedicated to zero maternal and infant mortality at birth. Over 200 staff members volunteered.

Mourine Andabwa (left) assists Sister Delvin review a patient at Bukaya Health Centre in Mumias, Kakamega County, recently. Mourine is 4th Year Bachelor of Medicine and Surgery student at the University of Nairobi's Medical School sponsored by the Co-operative Bank Foundation, and volunteers at Bukaya Health Centre during college vacations. The Co-op Bank Foundation has supported over 7,000 gifted but needy students from all over Kenya with full academic scholarships for secondary and university education.

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

Noah Kimutai a beneficiary of the Co-operative Bank Foundation Scholarship Program at Kimuri health center during his Community Service Program where the students learn to give back to society. Noah is a student at Moi University pursuing a degree in Bachelor of Medicine and Surgery.

Bank staff celebrate long and dedicated service awards presented to colleagues who have served diligently for over 25 years at the Annual Christmas Party.

Group Managing Director & CEO's Report

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

> "As a bank we are constantly evaluating our role as a financial services provider across every level to remain competitive in the changing landscape."

Dear shareholders,

Year 2018 was a period of gradual recovery relative to the preceding year 2017 that was marked by elevated challenges in the operating environment mainly due to the extended electioneering period in that year. The economy is yet to regain full growth momentum; nonetheless positive but sub-optimal growth was realized in most sectors.

The banking sector remains stable and resilient. Significant headwinds however still persist, among them the contraction of interest margins due to the capping of interest rates, heightened regulatory and compliance focus, and the rising levels on non-performing loans. The ratio of gross non-performing loans for the sector stood at 12% in December 2018 compared to 10.6% in December 2017, caused largely by the long outstanding unpaid bills especially by County and National governments compounded by be the subdued level of private sector economic activity.

I share the Chairman's view that in as much as 2018 was characterized by macro-economic stability, this was not adequate to spur vibrant economic growth. The capping of interest rates continues to pose significant challenge to credit access by the private sector, especially the medium-sized enterprises. There is urgent need therefore to review this law with a view to enabling commercial banks to price-in credit risk appropriately.

GDP growth is projected to steadily rise to 6.0% in 2019 and 6.1% by 2020 as the output gap closes. Improved business confidence and continued macroeconomic stability will contribute to growth. The downside risks to this outlook arise from subdued private sector credit growth that has already slowed down private investment, a sudden uptick in oil prices and tightening global financial markets.

We remain optimistic that with the sustained improvement in the external environment in 2019, there will be greater opportunity for us to realize our strategic objectives. We remain ready and eager to seize these opportunities.

Performance Overview

For the financial year ended 31 December 2018, the Group's revenue grew by 5% to Kes 43.6 Billion from Kes 41.6 Billion for the financial year ended 31 December 2017. This was mainly due to a 30% growth in Net interest Income from Kes 24.0 Billion for the year ended 31 December 2017 to Kes 31.3 Billion in year 2018. Operating expenses increased by marginal 1.2% mainly attributed to tight cost control and a modest increase in staff cost as the bank increased capacity in the Information Technology area with key professionals to drive the bank's digital strategy.

Overall, the Group recorded a profit before tax of Kes 18.2 Billion for FY2018, up 10.7% from Kes 16.4 Billion for the financial year 2017.

As a bank we are constantly evaluating our role as a financial services provider across every level to remain competitive in the changing landscape.

Strategic Direction: The 'Soaring Eagle' Transformation Agenda

We embarked on our transformation journey in 2014 and since then, we have witnessed remarkable improvement both on operational aspects and tangible metrics. Critical areas of focus were and still remain: Enhanced Operational Efficiency and Effectiveness, Frontline Productivity and Sales-Force Effectiveness, Improved Cost-To-Income Ratio and Enhanced Performance Management.

We've continued to invest in innovation to drive growth. In today's data-driven world, demand for new innovations and fast technology adoption increases on a daily basis. That's why we are still on the transformation project entrenching the realized gains with an expanded focus mainly on data-driven interventions. From serving our customers on digital channels and automating back-office support functions, we seek to hinge every aspect of our business process including sales and decision-making to data analytics. We seek to actively drive innovation, especially around alternative channels, data analytics and business intelligence, to accelerate growth across markets and customer segments.

In 2018, we launched our Micro Small and Medium Enterprises (MSME) Proposition resulting in major improvements in customer experience, continued positive development in employee engagement, motivation and strong financial results with good cash flow and profitability growth

Towards Greater Customer Experiences

We continue to expend substantial resources to ensure our customers enjoy fulfilling experiences at all our service points. Queue time has improved from 52 Minutes in 2014 to currently under 12 Minutes, 92% of transactions are being done on alternative channels and our cost-to-income ratio has improved to 54.6% in 2018 from 59% in 2014. The role of Teller and Service Champion has been merged into one; Sales and Service Advisors to make our branches Centers of Excellence in Sales, Service and Advisory.

We continue to make substantial investments in Business Intelligence and Data Analytics to enrich customer experience, deepen client relationships and enhance management reporting. We are doing all this as we have a deep conviction that Customer Value Proposition and Customer Experience are the most critical metrics in measurement of performance of a service business such as ours.

Our goal is to build a fulfilling customer experience as a competitive differentiator. This can only happen through sincere commitment from the entire bank team, that our promises to our customers will be fulfilled in every interaction, seamlessly through all touch points at every possible opportunity.

Risk Management

The Group performs a detailed assessment of its risk profile and capital requirements on an annual basis. Our risk universe is continuously reviewed to identify any new areas or forms of potential risk and appropriate mitigating measures put in place. The Co-operative Bank Group has no room for complacency. We remain alert against the ever-present risk of cybercrime to both the bank and our customers.

The Group is adequately capitalized for its business model and the risk appetite as defined by the Board of Directors (the Board). The Group's capital ratios are higher than the minimum requirements prescribed under both Basel and CBK Prudential Requirements. The Group believes the current capital position provides sufficient flexibility to take advantage of growth and expansion both locally and regionally, acquisition opportunities, and payment of dividends.

The governance and risk management processes are in line with the requirements as outlined in the Central Bank of Kenya (CBK) and Capital Markets Authority (CMA) corporate governance guidelines. The Group has adopted the Standardized Approach for credit risk and market risk measurements and the Basic Indicator Approach for operational risk.

Compliance and Fighting Financial Crime

The Group retains a zero-tolerance posture towards unethical behavior of any magnitude. During the year, the entire Group team was trained and had team discussions on anti-money laundering and countering the financing of terrorism (AML/CFT) guidelines. In addition, The Foreign Account Tax Compliance Act (FATCA), an important U.S. guideline in efforts to combat international financial crime and tax evasion by U.S. persons holding accounts and other financial assets offshore was discussed in depth. Such continuous interventions we believe will embed a culture of ethical and responsible banking in the core of our institution.

The value of ethics and responsibility is indisputable as stakeholders are increasingly interested in building sustainable partnerships across businesses and markets. Our key corporate objectives is to be an ethical business partner and create value for all our stakeholders. We strongly believe in compliance and ethical code of conduct in our business dealings, and will continue to enhance this with all our customers and partners.

A Bright Outlook

The Group continues to post impressive growth on all fronts supported by the robust foundation laid over the years. Our operating model has equipped the business with added resilience to achieve the set strategic objectives even in challenging seasons.

It is upon this solid foundation that we launch into 2019 with great excitement. Co-operative Bank has had a remarkable influence in the character of Kenyan banking and society already for 50 years. As we celebrate our 50th Anniversary and the rich legacy, we are inspired by the achievements and humbled by the opportunity we have enjoyed to make our contribution to the progress of our society.

In Conclusion

On behalf of the management team and on my own behalf, I extend my sincere appreciation to our customers for their loyalty and confidence in the Group. I would like to most sincerely thank the Board for the sustained commitment, support and wise counsel in the affairs of the Group.

Special thanks to the entire Co-op Bank Team for their steadfast commitment to duty and dedication to serve that continues to make the bank a formidable player in financial services in the country.

I also would like to warmly thank our partners and shareholders for making 2018 another year of inspiration and progress, and I look forward to continuing our partnership and joint success in 2019 and beyond.

Thank you and May God richly bless you.

Dr. Gideon Muriuki, CBS, MBS

Group Managing Director and CEO

Taarifa ya Mkurugenzi Mkuu na Afisa Mkuu Mtendaji wa Kundi

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

> "Sisi kama benki daima huthamini jukumu letu kama mtoa huduma za kifedha katika kila kiwango ili kuendelea kuwa na ushindani katika mazingira haya yanayozidi kubadilika kila kukicha."

Wapendwa Wamilikihisa,

Mwaka wa 2018 ulikuwa wa kipindi cha kupata afueni ikilinganishwa na mwaka uliotangulia wa 2017 ambao ulikuwa na changamoto nyingi mno katika mazingira ya uendeshaji shughuli hasa kutokana kudumu kwa muda mrefu kwa shughuli za uchaguzi katika mwaka huo. Uchumi bado haujarejea tena katika hali ya ukuaji wa kasi; ingawa kuna matumaini kwa vile kulishuhudiwa ukuaji japo mdogo katika sekta nyingi.

Sekta ya benki bado ingali imara na thabiti. Hata hivyo bado matatizo makubwa yangali yanakumba sekta, miongoni mwao ikiwa ni kupungua kwa faida za riba kwa sababu ya kuwekewa viwango vya riba, kuzidishwa udhibiti kanuni na kutilia mkazo utiifu, na kupanda kwa viwango vya mikopo isiyolipika. Uwiano wa jumla ya mikopo isiyolipwa katika sekta hii ilifikia kima cha 12% mwezi Disemba 2018 ikilinganishwa na 10.6% za mwezi Disemba 2017, ikisababishwa hasa zaidi na kukosa kulipwa madeni ya muda mrefu hususan na serikali za Kaunti na ya kitaifa ikijumuisha na tatizo la kupungua shughuli za kiuchumi katika sekta ya kibinafsi.

Nina mtazamo sawa na ule wa Mwenyekiti kwamba licha ya mwaka wa 2018 kuonekana kuimarika kiuchumi kwa kiasi kikubwa, hii haikutosha kuweza kuchochea ukuaji wa thabiti wa kiuchumi. Kuwekewa viwango vya riba kunaendelea kusababisha changamoto kubwa katika upatikanaji wa mikopo na sekta ya kibinafsi, hasa makampuni ya kiwango cha kati. Kwa hivyo kuna haja ya dharura ya kutathmini sheria hii kwa lengo la kuwezesha benki za kibiashara kuwa na uwezo wa kupanga vyema bei za mikopo kwa kuzingatia dhima.

Ukuaji wa Pato la Taifa unatarajiwa kupanda kwa kasi hadi kufikia asilimia 6.0 katika mwaka wa 2019 na hadi 6.1% ifikapo 2020 huku kukinzwa kwa uzalishaji kukizidi kupungua. Matumaini ya kuboreshwa kwa biashara yanazidi na kuimarika kwa uchumi kutachangia ukuaji. Mashaka ya mtazamo huu yanatokana na kupunguzwa nguvu kwa ukuaji wa mikopo ya sekta binafsi ambako tayari kulipunguza kasi ya uwekezaji wa kibinafsi, kuongezeka ghafla kwa bei za mafuta na kukazika kwa masoko ya kifedha duniani.

Tunaendelea kuwa na matumaini kuwa na kuimarika kwa kudumu katika mazingira ya nje katika mwaka wa 2019, kutakuwa na fursa kubwa zaidi kwetu kufanikisha malengo yetu ya kimkakati. Tungali tayari na wachangamfu kuwania fursa hizi.

Utendaji kwa ujumla

Katika mwaka wa kifedha uliomalizikia Disemba tarehe 31, 2018, mapato ya Kundi yaliongezeka kwa 5% hadi Kes Bilioni 43.6 kutoka Kes Bilioni 41.6 za mwaka wa kifedha uliomalizika Disemba tarehe 31, 2017. Hii hasa zaidi ilitokana na ukuaji wa 30% katika Jumla ya Mapato ya riba kutoka Kes Bilioni 24 za mwaka uliomalizikia tarehe 31 Disemba 2017 hadi Kes Bilioni 31.3 katika mwaka wa 2018. Gharama za uendeshaji shughuli ziliongezeka kwa kiasi kidogo cha 1.2% hii ikihusishwa zaidi na udhibiti wa gharama na ongezeko kidogo la gharama za wafanyakazi wakati pale benki iliongeza uwezo katika eneo la teknolojia ya habari (IT) kupitia wataalamu muhimu ili kufanikisha mkakati wa dijitail wa benki hii.

Kwa ujumla, Kundi lilirekodi faida kabla ya kodi ya Kes Bilioni 18.2 katika mwaka wa kifedha wa 2018, ikipanda kwa 10.7% kutoka Kes Bilioni 16.4 zilizopatikamna katika mwaka wa fedha wa 2017.

Sisi kama benki daima hutathmini jukumu letu kama mtoa huduma za kifedha katika kila kiwango ili kuendelea kuwa na ushindani katika mazingira haya yanayozidi kubadilika kila kukicha.

Mwelekeo wa kimkakati: Ajenda ya Mabadiliko iitwayo 'Soaring Eagle'

Tulianza safari yetu ya mabadiliko katika mwaka 2014 na tangu wakati huo, tumeshuhudia uboreshaji wa ajabu kote katika nyanja za uendeshaji shughuli na mifumo. Maeneo muhimu yalopewa kipa umbele yalikuwa na bado yangalipo: Kuimarishwa kwa Ufanisi wa Uendeshaji na upataji natija, Uzalishaji muhimu na Ufanisi wa kundi la mauzo, Uboreshaji uwiano wa Gharama na uapataji faida na Kuboreshwa kwa Usimamizi wa Utekelezaji.

Tumeendelea kuwekeza katika ubunifu ili kuendeleza ukuaji. Katika ulimwengu huu wa leo unaondeshwa na data, mahitaji ya uvumbuzi mpya na kupitishwa kwa teknolojia za kasi zinazopokewa kila siku. Ndiyo maana bado tunaendelea kudumu kwenye muhula wa mradi wa mabadiliko tukifanikisha natija nzuri hasa juu ya hatua zinazoendeshwa na za suluhisho la data. Kutoka kuwahudumia wateja wetu kwenye mifumo ya dijitali na kuimarisha kazi ze usaidizi wa nyuma, tunanuia kutumia kila nyanja ya mchakato wa biashara yetu ikijumuisha mauzo na uamuzi kupitia uchambuzi wa data. Tunafuatilia kuingiza na kutumia ubunifu, hasa katika njia mbadala, uchambuzi data na ufahamu wa biashara, ili kuongeza kasi ya ukuaji katika masoko na vitengo vya wateja.

Mnamo mwaka wa 2018, tulianzisha pendekezo la mradi wetu wa kuauni biashara ndogo na za kiwango cha kati yaani Micro Small na Medium (MSME) likileta natija ya uboreshaji mkubwa katika uzoefu wa wateja kwa huduma zetu, maendeleo mazuri katika ushiriki wa wafanyakazi, motisha na matokeo mazuri ya kifedha kukiwa na ukuaji mzuri wa kifedha na kuongezeka kwa faida.

Kudumisha Uzoefu Bora wa Wateja kwa huduma zetu

Tunaendelea kutumia rasilimali kubwa ili kuhakikisha wateja wetu wanafurahia uzoefu wao wa huduma zetu na kukidhi haja zao katiak vituo vyote vya huduma zetu. Muda wa foleni umeboreshwa kutoka Dakika 52 katika mwaka wa 2014 hadi chini ya Dakika 12 hivi sasa, 92% ya shughuli zinafanyika kwenye njia mbadala na uwiano wetu wa gharama na kipato umeongezeka hadi 54.6% katika 2018 kutoka 59% katika mwaka wa 2014. Jukumu la Washauri wa Huduma na Mahodari wa Huduma wameunganishwa kuwa kitengo kimoja ili kufanya vituo vya matawi yetu kuwa vituo bora vya mauzo na vya kutoa ushauri wa Huduma

Tunazidi kufanya uwekezaji mkubwa katika Biashara ya Udokuzi na Utathmini wa Data ili kuimarisha uzoefu wa wateja kwa huduma zetu, kuboresha uhusiano na wateja na kuboresha taarifa za usimamizi. Tunatekeleza haya yote kwa vile tuna imani kubwa ya kwamba Pendekezo la Thamani ya Wateja na Uzoefu wa Wateja kwa huduma zetu ni vigezo muhimu zaidi katika kupima utendaji wa biashara ya utoaji huduma kama hii yetu.

Lengo letu ni kuwezesha uzoefu mzuri wa wateja kwa huduma zetu kama kigezo cha utofautishaji wa ushindani. Hili lawezekana kutimia kupitia kujitolea kwa dhati a kwa timu nzima ya benki hii, kwamba ahadi zetu kwa wateja wetu zitatimizwa katika kila mwingiliano, kwa urahisi bila pingamizi kupitia sehemu zote na kila fursa itokeapo.

Usimamizi wa Dhima

Shirika hili linatekeleza zoezi la kutathmini kwa kina ya wasifu wake wa dhima na mahitaji ya mtaji kwa kila mwaka. Taswira yetu ya dhima inaendelea kukaririwa ili kutambua maeneo mapya au aina za dhima zinazoweka kutokea na kuweka hatua zinazofaa za kupunguza. Shirika hili la Benki ya Co-operative Bank halina nafasi ya utepetevu. Tuko katika hali ya tahadhari dhidi ya uwezekano wa dhima au hatari ya uhalifu kupitia mtandao kwetu kama benki na kwa wateja wetu.

Kundi hili lina mtaji kamilifu kuweza kufanikisha mfumo kifani wa biashara yake na hamu ya dhima kama ilivyoelezewa na Bodi ya Wakurugenzi (Bodi). Uwiano wa mtaji wa Kundi hili ni wa juu kuliko mahitaji ya chini yaliyowekwa kwenye mahitaji ya wote, ya Basel na ya Maono ya benki Kuu ya Kenya (CBK Prudential). Kundi hili linaamini kuwa msimamo wa sasa wa mtaji unatoa unyumbufu wa kutosha kufuatilia fursa ya ukuaji na upanuzi wa humu ndani na katika kanda, fursa za umilikaji, na malipo ya mgao.

Utaratibu wa utawala na usimamizi wa dhima unaenda sambamba na mahitaji kama inavyofafanuliwa katika muongozo wa usimamizi shirika wa Benki Kuu ya Kenya (CBK) na wa Mamlaka ya Masoko Makuu (CMA). Kundi limeazimia Mwelekeo Uliosanifishwa wa usimamizi wa dhima na udhibiti wa vipimo vya hatari ya soko na Njia ya Msimamo wa Kiashirio cha uthibiti wa hatari ya uendeshaji shughuli.

Utekelezaji na Kupambana na Uhalifu wa Fedha

Kundi limeweka msimamo wa kutovumilia kamwe tabia zisiyofaa za ukubwa wowote. Katika kipindi cha mwaka tunaoutathmini, timu nzima ya Shirika hili ilipata mafunzo na ikapata fursa ya kufanya majadiliano juu ya muongozo wa kupambana na Usafishaji wa Fedha Haramu na kupinga Fedha za kufadhili Ugaidi (AML / CFT). Isitoshe, Sheria ya Utekelezaji wa Kutoza Ushuru fedha za kutoka Nje (FATCA), mwongozo muhimu wa Marekani katika jitihada za kupambana na uhalifu wa kifedha wa kimataifa na ukwepaji kulipa kodi na wananchi wa Marekani wanaomiliki akaunti pamoja na rasilimali nyingine za kifedha nje ya taifa lao ni baadhi ya yaliojadiliwa kwa kina. Hatua hizo endelevu tunaamini zitaingiza utamaduni wa maadili na utekelezaji wa shughuli za benki kwa kuwajibika katika msingi wa taasisi yetu.

Thamani ya maadili na uwajibikaji ni jambo muhimu wakati wadau wetu wanazidi kuvutiwa katika kudumisha ushirikiano endelevu kote katika biashara yetu na masoko. Malengo yetu muhimu ya shirika ni kuwa mshiriki wa kibiashara anayezingatia maadili na anayebuni thamani bora kwa wadau wetu wote. Tunaamini zaidi katika kufuata kanuni na maadili ya utekelezaji katika shughuli zetu za kibiashara, na tutazidi kuimarisha jambo hili kwa wateja wetu wote pamoja na washirika wetu.

Mtazamo Angavu

Kundi hili linaendelea kuwasilisha ukuaji mzuri wa kupendeza kwenye nyanja zake zote ikisaidiwa kila sehemu na msingi thabiti uliowekwa kutoka miaka iliyopita. Mfano wetu wa uendeshaji shughuli umeandaa biashara hii na ujasiri imara wa kuweza kufikia malengo ya kimkakati yaliyowekwa hata kukiwepo vipindi vya changamoto.

Ni juu ya msingi huu imara ambapo tunazindukia mwaka wa 2019 na msisimko mkubwa. Benki ya Co-operative Bank imekuwa na ushawishi mkubwa katika sifa ya Mabenki ya Kenya na jumuiya, tayari sasa kwa miaka 50 sasa. Tunaposherehekea maadhimisho yetu ya miaka 50 na urithi tajika, tukia tumejawa na unyeyekevu tunatiwa moyo na mafanikio ya fursa zetu tulizofurahia tukichangia maendeleo ya jumuiya yetu.

Kutamatisha

Kwa niaba ya timu yote ya usimamizi na kwa niaba yangu mwenyewe, natoa shukrani zangu za dhati kwa wateja wetu kwa uaminifu wao na matumaini yao kwa Kikundi hili. Ningependa kushukuru Bodi kwa kuendelea kujitolea, kusaidia na kutoa ushauri wenye busara na kufanikisha shughuli za Kundi hili.

Shukrani maalum kwa Timu nzima ya Benki ya Co-op kwa msimamo na kujitolea kwao kuhudumu na kutumikia jambo ambalo linaendelea kufanya benki hii kuwa mhusika mkubwa katika sekta ya huduma za kifedha hapa nchini.

Vile vile napenda kwa usahihi kuwashukuru washirika wetu na wanahisa wetu kwa kufanya 2018 kuwa mwaka mwingine wa kutia moyo na wa maendeleo, na ninatarajia kuendelea kwa ushirikiano huu wetu na mafanikio ya pamoja katika mwaka wa 2019 na kwenda mbele.

Asanteni na Mungu awabariki zaidi.

Dr. Gideon Muriuki, CBS, MBS

Mkurugenzi Mkuu na Afisa Mkuu Mtendaji wa Kundi

Top Management Team

Dr. Gideon Muriuki, CBS, MBS
Group Managing Director & CEO (54)

He was appointed Managing Director in 2001. Joined the bank in 1996 as a Senior Corporate Manager then Director, Corporate and Institutional Banking in 1999. He holds a Bachelor of Science degree in Mathematics, is a Fellow of the Kenya Institute of Bankers and was awarded an Honorary Doctorate in Business Management. He has over 30 years experience in banking and finance. He is a Director of Kingdom Securities Limited, Vice-President Africa – International Co-operative Banking Alliance (ICBA), former Chairman, Governing Council of the Africa International University and former Chairman, African Rural and Agricultural Credit Association (AFRACA). He was decorated in 2005 with the award of Order of the Grand Warrior (OGW), in 2011 with the award of the Moran of the Order of the Burning Spear (MBS) and in 2017 with Chief of the Order of the Burning Spear first class (CBS) in recognition of his successful turnaround of the Bank and exemplary service to the nation. He was voted the CEO of the year Africa 2014 by the International Banker, 2016 Lion of Judah Award by Evangelical Alliance of Kenya and Mtumishi Bora Award - 2016 by the Kenya Christian Professionals Forum. In 2018, awarded Best Banking CEO Kenya by International Finance.

Anthony Mburu, Director, Credit Management (53)

He is a leading credit specialist in the banking industry with over 25 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.

Samuel Birech (Director Human Resource & Administration) (55)

He joined the bank in 2002. Sam was appointed Chief Operating Officer in December 2014 and is a career banker with over 23 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

Patrick Nyaga, Director, Finance & Strategy Division (51)

He joined the Bank in 2004 and has over 25 years experience mainly in banking and auditing. Previously worked at KPMG (EA), with the main focus being audit of financial institutions and especially banks in Kenya and the region. He then joined main-line banking where he has worked for over 15 years. He holds an MBA from Strathmore Business School, a Bachelor of Commerce degree in Accounting, is a Certified Public Accountant (K) and a member of ICPAK. He is also a Director of CIC General Insurance Limited.

Samuel M. Kibugi, Company Secretary (42)

He has over 16 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.

Lydia Rono, Director, Corporate & Institutional Banking Division (53)

She has held many senior positions at the Bank in over 32 years banking experience. She is responsible for crucial business growth in the Corporate & Institutional Banking division providing leadership in the various business units under her. She holds a Bachelor's Degree in Commerce and an MBA from University of Nairobi and has attended various courses.

Arthur Muchangi, Director Retail & Business Banking Division (49)

He joined the Bank in 2003. He is responsible for the Retail and Business Banking Division, focusing specifically on growing consumer banking, SME business as well as optimal delivery of the expansive branch network and other bank channels. He has over 24 years banking experience, spanning extensively across both corporate and retail banking. He holds a Bachelor of Arts Degree in Economics and has attended a number of courses both locally and internationally.

Vincent Marangu, Director, Co-operatives Banking Division (39)

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

William Ndumia, Director, Transformation (45)

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 13 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.

Charles Washika, AG Director Shared Services Division (42)

He joined the bank in 2015 and brings extensive experience in providing leadership in ICT, Innovation, Project Management and Change management of mission critical Financial Systems. He is responsible for Cooperative 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.

Robert Morris Aloo, Treasurer (40)

He joined the bank in 2013. He has over 13 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).

Edgar Mwandawiro, Chief Risk Officer (45)

He joined the Bank in January 2016. He has over 20 years banking experience mainly in risk management and banking operations. He previously worked for Commercial Bank of Africa for 10 years. Prior to joining Co-op Bank, he worked at Gulf African Bank for seven years as the Head of Risk. He is a holder of Master's Degree in International Banking and Finance from Birmingham University, England and Bachelor of Commerce degree from University of Nairobi. He has attended various risk management trainings both locally and internationally.

Nicholas Ithondeka, Managing Director, Co-op Trust Investments Services Ltd (36)

He joined Co-op Trust Investments Ltd (CISL) as the Managing Director & CEO in April 2016. Prior to joining CISL he served as Vice President, Pinebridge Investments (EA) Ltd and before that as a Portfolio Manager at Old Mutual Asset Managers (OMAM). He has over 13 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), ICIFA (Kenya) and is also a Certified Public Accountant of Kenya (CPA (K). He serves as the Chairman of the Alternative Investments Comm. in Fund Managers Association (FMA) and also a Board Member. He is a board member of Bond Markets Association (BMA) of Kenya. Nicholas has attended a number of courses in Investments and Strategy as well as received several awards both locally and internationally within investments banking industry.

Nicholas Kamonye, Head, Co-op Consultancy and Insurance Agency (39)

He 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.

Anthony Wangari, Managing Director, Kingdom Securities (42)

He joined Kingdom Securities Ltd as the Managing Director in April 2019. He has 20 years professional experience in the Kenyan capital market regulatory and investment industry. His experience includes market compliance and development, structuring and negotiating deals with investors and sponsors, negotiation, trading and distribution of both equity and debt instruments in the country. Anthony's previous roles include General Manager at Barclays Financial Services Ltd, Head of Fixed Income Securities at SBG Securities Ltd, and prior to that, held senior management roles at African Alliance, Suntra Investments Ltd. and the Nairobi Securities Exchange. He has an MBA in Strategic Management from United States International University, Nairobi.

Joseph Gatuni, Chief Internal Auditor (47)

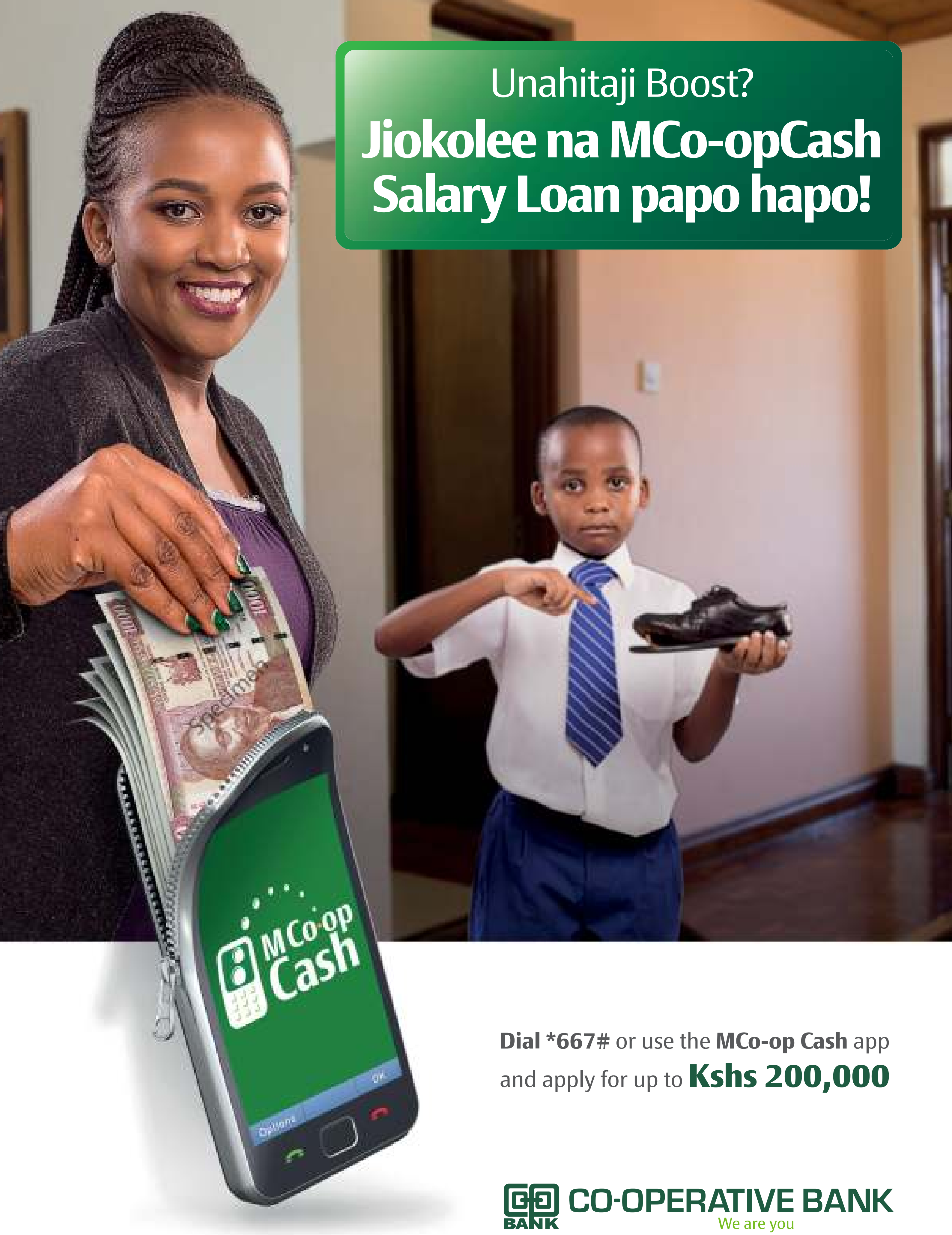
He is responsible for the Internal Audit function that evaluates the effectiveness of risk management, control and governance processes of the bank, its subsidiaries and related companies. He is an experienced professional in internal/external audits, consultancy and risk management. He holds a bachelor 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.

Henry Karanja, Head Compliance Department (42)

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

Dr. Peter Njuguna, Phd. Ag. Chief Information officer (45)

He Joined the bank in 2014. He has 19 years of experience in Information and Communication Technology. He is responsible for the Co-operative Bank's strategic technology direction and championing the use of information and communication technology and provides leadership in management and application of innovative systems in line with the bank's strategic objective. He has extensive experience is system development and project management and have successfully delivered a wide range of systems around Africa, Middle East and Asia. Prior to joining the bank, he worked with various Fintech companies where he advanced his technical and project management skills. He hold a PhD in Business Administration (JKUAT), Master of Business Administration (JKUAT) and a BSc. Computer Science (Egerton). He has also attended various technical courses and holds several certification and is a member of Kenya Institute of Management.



Dial ***667#** or use the **MCo-op Cash** app
and apply for up to **Kshs 200,000**

CO-OPERATIVE BANK
We are you

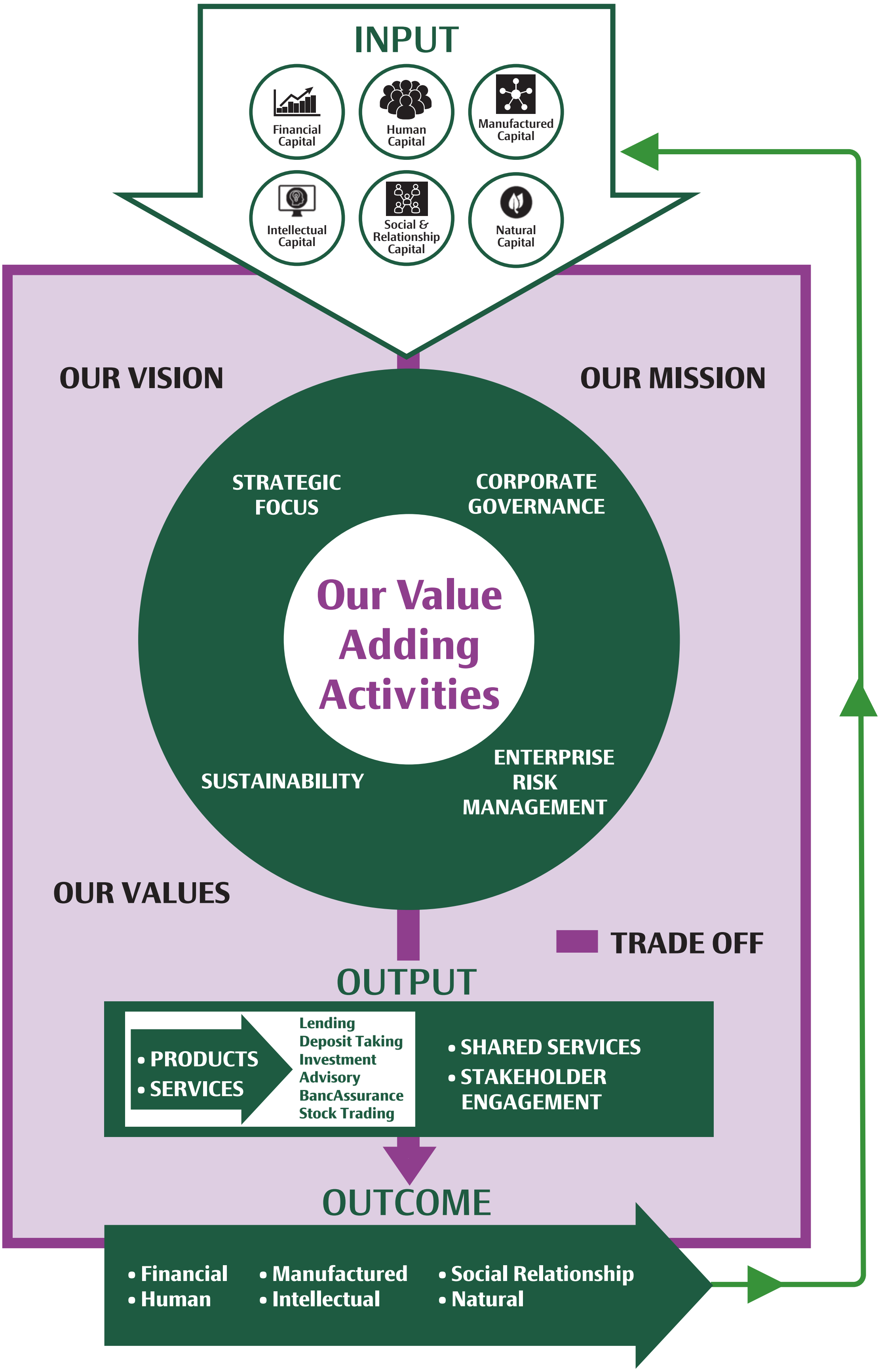
The Co-operative Bank is regulated by the Central Bank of Kenya

@Coopbankenya   Co-op Bank Kenya (Official)   The Co-operative Bank is regulated by the Central Bank of Kenya

The Co-op Bank Model

Our Business Model.

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



How we create value using the model.

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

Our Stocks of Capital at the beginning of 2018

Financial Capital
- Total Capital- Kshs.81.1 Billion : Dynamic, up to date ICAAP
- Liquidity- Over 33.8%
- Over Kshs. 55 Billion in retained earnings
- External Rating- B2 (stable outlook) by Moody's

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

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

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

Social & Relationship Capital
- Optimal engagement with all our stakeholders
- Strategic partnerships. Kshs. 25 Billion in long term funding from our partners.
- Socio – economic - Environmental Sustainability Initiatives supported by our Environmental and Social Management Policy and the Enterprise Risk Management Framework policies.

Natural Capital
- Electricity
- Water
- Paper / stationery
- Eco-social and eco-environmental lending. Kshs 4 Billion in special environmental credit lines

Our Capital Stocks

OUR VALUE ADDING ACTIVITIES

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

To carry out our activities optimally we carry out;

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

In order to create value for our stakeholders;

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

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

We provide channels and infrastructure. We have invested heavily in 155 Branches, Mcoop Cash, CoopNet, Coop kwa Jirani Agency to ensure our customers are able to access banking services anytime and from any device. We provide adequate ICT infrastructure for our stakeholders to access our services.

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

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

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

"Soaring Eagle" Transformation initiatives as enablers

KEY OUTPUTS

- Lending products
- Deposit taking product
- Optimal Customer experience
- Transactional services
- Payment solutions
- Foreign Exchange
- Banc assurance
- Trade finance
- Investment services
- Custodial services
- Advisory services
- Staff Performance and reward Management
- Staff Training
- Regulatory engagement
- Compliance and risk management
- Stakeholder engagement
- Investor relations
- Corporate strategy processes
- Shared and other support services

THE OUTCOMES OF OUR VALUE ADDING ACTIVITIES

Our Stocks of Capital at the end of 2018

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

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

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

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

Social & Relationship Capital
- Our engagement with all our stakeholders has been active and optimal
- Strategic partnerships has seen us grow our Long term funding to Kshs. 24 Billion
- Socio – economic - Environmental Sustainability Initiatives as described in the sustainability section of this report

Natural Capital
- We consumed Energy, Water and paper (Stationery)
- Eco-social and eco-environmental lending Book. Kshs 4 Billion in special environmental credit lines

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

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

Shareholders

Dividend of Kshs 1 per share held, Strong balance sheet Kshs. 413.7, Quarterly investor briefing on performance and strategy

Customers

Deposit taken – Over Kshs 306.6 Billion, Loans extended- Over Kshs 245 Billion, Increased Channel transactions - Over 132 Million, Digitalized and ethical processes and products

Employees

Salary and Bonus paid – Over Kshs. 11.5Billion, Jobs created – Total Staff 4251, Training spend - Kshs. 84 Million.

Co-operative Movement

Dedicated co-operative banking division, Specialized Co-operatives products, 20 dedicated consultants, Over 2600 consultancies since inception.

Strategic Partners

Over Kshs. 24Billion in Long term funding from our Partners: IFAD, EIB, AFD, IFC, D.E.G -(K.F.W). This funding has gone into MSME, Food Security, Renewable energy, Mortgages, Agribusiness, Corporate Banking.

Regulators

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

Suppliers

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

Community

Over 2600 Co-op consultancies done, 7002 Students supported by Co-op Foundation, Over Kshs.5 Billion in taxes to improve community, promoting economic social and environmental sustainability.

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

Our Operating Environment

Economic Growth

The Kenyan economy was on a growth path in 2018 supported by good weather, eased political uncertainty and strong private consumption. Real GDP growth is estimated at 5.9% to 6.1% in 2018, up from 4.9% in 2017. In addition, this growth was supported by pickup in tourism services, electricity and water supply and construction activities.

Kenya's GDP growth path in 2019 is expected to remain broadly in the current range of 6.1% in real terms (ex-inflation) and about 11% to 13% in nominal growth terms. There is no significant shift expected in regard to the level of economic activity in 2019. Some of the factors that will hold back the level of economic activity include;

- Commercial banks are not expected to lend significantly to the private sector given the interest rate capping law and increased credit risk.
- The National Government has already started fiscal consolidation hence tightening overall spending level.
- The County Governments have not been able to increase own revenue collections and still significantly rely on the exchequer allocations which are not budgeted to rise in 2019.

Ceteris paribus, we project favourable rainfall and weather pattern in 2019 which will result in good agricultural production and export. Likewise, Tourism earnings are expected to be significant in 2019 (unless the country experiences internal security shocks). This will help cushion the exchange rate and offer employment opportunities.

Interest Rate

Interest rates are currently regulated and thus lending rate by commercial banks are fixed at a maximum of Central Bank Rate (CBR) + 4%. The pricing of our lending products has thus remained broadly remain regulated. The money market remained fairly stable in the twelve months to December 2018. The yields on short term primary government paper have fallen during 2018. Interest rate on 91-days, 182-days and 364-days Treasury bills were 7.3%, 8.3% and 9.7%, respectively at the close of December 2018 compared to 8.1%, 10.6% and 11.2%, respectively at the close of 2017. In 2019, we project that credit growth will on average remain and will mostly be channeled towards households and business working capital loans.

Inflation

Overall inflation rate trended downwards in 2018 to average 4.7% compared to 8% in 2017. The main driver of the fall in overall inflation rate was lower food prices in 2018. We project overall rate of inflation to remain stable in the range of 5% to 8% in most of 2019. According to the November 2018 food security report; the country remains food secure into April 2019. In addition, the weather forecast into 2019 is favourable. However, crude oil price remain a key potential shock on inflation in 2019. Oil production is highly susceptible to geo-political events which are not easy to forecast.

Exchange Rate

The KES exchange rate has been relatively stable in 2018. Consequently, Central Bank of Kenya has not been very active in the forex market. This strength in the KES exchange rate was driven by a rise in diaspora remittances and tourism receipts, higher tea and horticultural exports, slower growth in imports (due to lower food and SGR–related equipment imports) and the decline in international oil prices.

The current weather pattern is favourable, both in time and space, and thus we do not project any weather shock that would significantly reduce quantity exported of tea and horticultural products. However, recently, the global financial market has had strong demand for US dollar denominated risk-free assets which has strengthened the dollar as well as the US Fed's rate hikes (175 bps) in 2018 and two hikes expected in 2019. This poses potential risk to the exchange rate in 2019.

Capital Markets

Activity in the capital market slowed down with NSE 20 Share Index declining to 2,834 points at the close of December 2018 from 3,712 points in December 2017. The depressed share prices resulted in lower market capitalization of KES. 2,102 Billion in December 2018 from KES 2,522 Billion in December 2017. The decline reflects trends in the global equities markets as investors shift to bond markets in expectation for a further hike in the U.S, interest rates on strong jobs and economic data.

Outlook on Global Economic Developments

After recording an economic growth rate of 3.7% in 2017 and 2018, global economic growth is expected to moderate around 3.5% in 2019 as major central banks gradually remove policy accommodation in form of quantitative easing and low interest rates, and the recovery of global commodity prices plateaus.

The uncertainty on Brexit is a key risk facing the economy in 2019, but assuming the U.K. exits the EU in a smooth and orderly fashion, the economy is likely to benefit. As uncertainty is lifted, some firms will probably feel more confident about undertaking investment projects. The likely strengthening of the pound should also offer a modest real income boost, hence consumption. For Kenya, this would mean higher export earnings for the direct exports to U.K. However, a "No Deal" Brexit would be a risk to trade flows and financial markets.

In 2019 we expect the trade war to dampen growth in both the US and China and to act as a drag on growth in the wider global economy. This will add to the risks facing emerging markets, which have come under growing pressure since April as a result of a strengthening US dollar and tightening global liquidity conditions.

Key Components of our Model

Our Capitals.

Financial Capital

This Capital enables us to deliver sustainable funding of our business activities and our loan book.The bank has mobilized a sufficient and diverse mix of financial resources to run its core activities. Our balance sheet has recorded a steady growth over the years to KShs. 413.4 Billion as at end of year 2018. The group has pursued a balanced funding strategy with an attractive dividend payout ratio (Averaging 37% over the last 5 years) that enables it to reward shareholders while at the same time reserving sufficient funds to fuel its growth strategy. This has seen shareholders' funds grow steadily to KShs. 69.4 Billion.

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

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

On our transformation project, the bank has pursued various strategies aimed at cost optimization. This has seen our cost to income ratio drop to 54.6% in 2018 from 59% in 2014 when our Transformation Project started.

Human Capital

The selection, management and development of our teams.

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

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

Manufactured Capital

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

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

Our Channels:

Mco-op cash:

MCo-op cash is our all-Telco, all products, mobile banking service that enables customers to enjoy access to a variety of banking services, money transfer and payment services. It is a virtual account with a simple menu where the customer's cell phone number acts as the account number and can be opened and operated end to end from the phone without having to visit the branch. Mco-op cash has continued to reach many customers who would have remained unbanked. Mcoop cash has over 4 Million customers who did over 37 Million transactions in 2018.

Agency Banking & Point of Sale (POS) Terminus

The Bank is at the forefront in implementation of agency banking model, currently working with over 12,000 agents countrywide. Our agents who include co-operative societies, supermarkets, ordinary shops, petrol stations among other outlets enable customers to access banking services including making withdrawals and deposits beyond official banking hours. Due to the greater geographical area covered by agents, customers also enjoy better convenience as services come closer to their most accessible location. Over 43 Million transactions were carried out through our agents in 2018.

Sacco-Link & FOSA Partnerships

The bank in partnership with various Saccos offers retail banking and related products through front-office service points (FOSAs) located at Sacco's premises and to date 180 licensed Saccos have over 464 FOSA branches in operation.

The bank has also invested in the SaccoLink Switch which has integrated the bank's and Saccos' systems, thereby enabling Sacco members access to ATMs, mobile banking, point of sale (POS) channels and internet banking. In this partnership, we offer wholesale banking services to cooperative societies who then provide to their members retail services complete with full technological capabilities. To date, over 164 SACCOs are enlisted in this partnership and over 1,094,166 ATM cards have been issued to co-operative members.

Internet Banking: CoopNet

This is the bank's internet-banking solution. With its high internet speeds and enhanced security features, it has contributed to growth in our customer base especially for Kenyans in the Diaspora and already serves over 82,492 clients. CoopNet enables customers to do full end to-end banking through a web-based channel. Services accessible via co-opNet include;

A 155-Branch Network and 581 ATMs:

This is our footprint across the region consisting 155 branches. In our branches our customers can access much more than banking services to include those offered by our subsidiaries. In Kenya ,we have 151 branches spread in 40 counties while 4 are in South Sudan. We also have 580 ATMS supporting our channels and distributed all over the country. Services accessed by customers in our ATMs includes cash withdraws and deposits, Balance inquiry, utility bill payment, Mpesa withdrawal and Mco-opcash registration & withdrawal.

ICT infrastructure:

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

1. Core banking Systems (BFUB, BankMaster – South Sudan, Loan Track and Credit Desk)
2. Customer Relationship Management (CRM)
3. Treasury systems
4. Channels:
    a) Mco-op cash
    b) Point of Sale
    c) Internet banking
    d) Queue Management System
    e) Teller Portal
    f) Avaya Call center
    g) Branchpower
5. Enterprise Resource Planning (ERP)
6. Debt management system
7. Business Process Management & Workflows
8. Data integration, quality and visualization
9. Risk Management system
10. Shared Services Service Desk Request System
11. Enterprise Service Bus- Service Oriented

Architecture

12. Wealth Management System

ICT Infrastructure enhancements in 2018

- B2B (Business-to-Business) 2.0 revamp to accelerate onboarding of corporate solutions through direct ERP integrations. 22 Institutions on boarded through integration in 2018
- MTO partnerships: Instant Cash –June 2018, WorldRemit – May 2018, and Xpress –June 2018
- Supply Chain Financing - May 2018
- Inua Jamii- Over 45,500 Accounts Opened
- E-Credit- April 2018
- MCo-op Cash upgrade
- M-Pesa on ATM- June 2018
- BPMS (Business Process Management System) Enhancements on Micro Credit Loan Enhancements- Jun 2018
- Trade Innovations – Feb 2018
- OPICS – Nov 2018
- CRM (Customer Relationship Management)- Nov 2018
- Data Analytics: Self-service –Aug 2018, Data Science –Oct 2018
- B2B integration to Internet Banking (Corporate Internet Banking) Mar 2018
- Bancassurance Upgrade- Feb 2018
- Sacco Managed Services-Jul 2018:
- Sacco API (Application Programming Interface) -May 2018

Intellectual Capital

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

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

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

We are geared to ensuring that we create positive customer experiences on every touch point. To this end, we have invested in a 24hour contact Centre which is currently handling over 1,200,000 customers, trained our teams on positive customer experience delivery (Distinctive Customer Experience) and other customer centric systems such as the Customer Relationship Management (CRM).

Enterprise risk management is at the core of all decision making hence forming an important part of our strategic focus and business model. We have a vibrant Enterprise Risk Management Framework that is detailed later in this report. We have a dynamic framework for Compliance that ensures compliance to all the set laws, rules and regulations.

This has enabled us to see and exploit opportunities that exist in compliance in order to create more value for our stakeholders.

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

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

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

We have clear Sourcing and ICT policies as detailed below;

Sourcing Policy

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

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

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

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

ICT Policy

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

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

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

ICT through which it shall apply best practices and develop strategic activities, namely:

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

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

Social & Relationship Capital

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

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

Natural Capital

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

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

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

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

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

Material Matters.

	Material Matter	Risks	Opportunities	Our Response
Strategic Focus: To be the dominant Bank in the Region Key stakeholder - Shareholder	• Interest rate capping • Growth and sustainability of shareholder returns. • Partnership with the Co-operative movement • Hyperinflationary Operating environment in South Sudan	• Lower interest margins • Hyperinflation environment and currency depreciation in south Sudan may leading to monetary loss (Kshs 30.8 Million loss compared to Kshs. 605.9 Million loss in 2017)	• Growth in volume business • 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 to ensure efficiency. • We have a dedicated Co-operatives division • Proactive risk management is in place in South Sudan
Strategic Focus: To enhance our overall customer experience Key stakeholder - Customer	• High expectations on service • Demand for Innovative, convenient and affordable digital solutions • Confidentiality and safety • Cyber security	• Customers may switch to competition due to poor experiences or lack of innovative products and services. • Increased penetration of digital banking comes with its own challenges of information security.	• Opportunity to offer a wider array of innovative products and services leading to higher customer satisfaction. • Opportunity to attract and retain customers	• We have invested in customer experience infrastructure such as CRM, 24 hour contact center, a customer centric business model and secure systems (SIEM application). • Optimum systems availability • 155 branches and a range of alternative digital channels • Proactive resolution of service exceptions. • We have a dedicated ICT Risk Unit.
Strategic Focus: To be the dominant Bank in the Region Key stakeholder - Staff	• Demand for specialized skill set in some areas • Staff retention • Staff training • Staff productivity	• Competition for specialized skill in ICT and Data Analytics.	Increased staff productivity due to; • Training and retention strategies in place • KPI based performance management and reward system • Competitive Employee Value Proposition	• Performance Rigor & Rhythms • High Performing Teams (HPT) Culture & Manager enablement • Performance-linked Rewards & Recognition • Talent Acquisition – deepening capabilities • Workforce stabilization
Strategic Focus : To ensure that our internal capabilities enable optimum value creation Key stakeholder - Enterprise	• Interest rate capping • Growth of income • Efficiency • Enhanced regulatory & compliance environment • Digital disruption • Fintech competition	• Interest rate capping may affect the margins • Rapid technological changes are costly • Increased competition by Fintechs, Telcos reducing market share	• IIFRS9 compliance has led to even better and proactive credit management. • More innovative products • Lower costs due to efficiency • Better regulatory compliance and improved stakeholder engagement	Continued Proactive Credit management Transformation project led initiatives around; • Improved Customer experiences • Branch Transformation & Channel migration • Enhanced Sales Force Effectiveness (SFE) • Shared Services & Digitization • Staff productivity • Enhanced Credit management framework • Reporting & Analytics • Micro, Small and Medium Enterprises (MSME) Transformation • Digital Bank initiatives
Strategic Focus: To ensure that the group operates as a responsible corporate citizen Key stakeholder - Community	Economical, social and environmental concerns; • 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 (7002 since inception) • Products and services available to all • Recycle, reuse, reduce model for resource efficiency • Green lending Book USD 34 Million in 2018 • Taxes paid- over 5 Billion in 2018 • Ongoing transformation project is geared towards efficiency and growth enabling us to create value into the long term.

Our stakeholders.

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

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

Customers

How we engage our customers

Co-op Bank has over 8 million customers ranging from Individuals to Micro, Small and medium enterprises, Corporates, Institutions and Government.

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

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

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

Key Expectations

The key expectations of our customers are as follows;

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

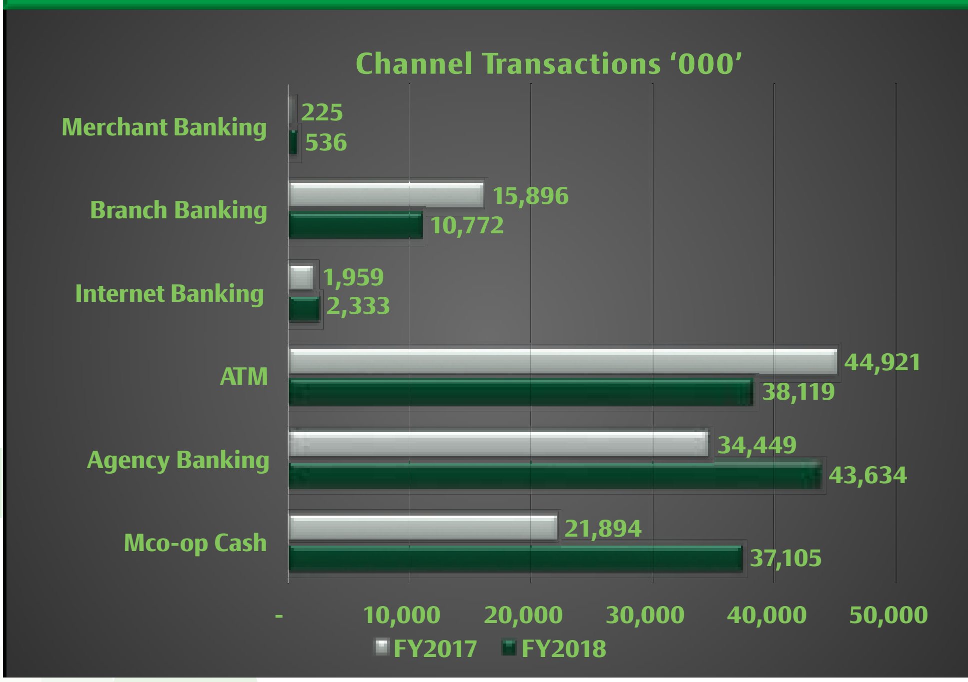
Chairman Co-opholdings Co-operative Society Mr. Macloud Malonza and Group Managing Director & CEO Dr. Gideon Muriuki presents a trophy to a top regional shareholder in Co-opholdings Co-operative Society.

How we respond to the key expectations

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

Our channels	Our customers
155 Branches	Over 8 Million growing direct account holders
Mcoop cash mobile banking (All telco, all products)	Over 4 Million Mcoop Cash Customers
Co-op Kwa Jirani – Over 12,000 agenta	Over 82,492 Internet banking Customers
Over 581 ATMs, leading debit card issuer	Over 1,094,166 Saccolink Customers
CoopNet – Internet Banking (Corporate & Retail)	Over 14,399 Diaspora Banking Customers
24 Hour Contact Centre	Over 1.3 million Facebook followers
Self service Kiosks in all our branches	Over 255,000 Twitter followers
Dedicates Diaspora Banking Department	Instagram followers, You Tube subscribers
464 FOSAs	Telegram self service customers
Subsidiaries offering advisory and investment services	
Social Media Banking	

Growing Digital Channels



92% of our Transactions are on alternative Channels

1.4 Million loans have been given through Mobile

20 Billion has so far been disbursed

E-Credit lending key focus area in 2019.

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

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

We are currently implementing branch transformation that will see our customers get more value added products through product bundling.

3. Over 600 Sales and Service Advisors who engage in Branch service and operations support, Business growth and development.
4. Processes improvement for increased efficiency and hence enhanced customer experience.
5. Proactive and fair dispute resolution.
6. Proactive cyber security management to ensure customer information security. To this end, we have the SIEM (Security information and event management) system. We also have a dedicated ICT information security department with specialized skills to ensure optimal safeguard of our customers.

Shareholders

How we engage our shareholders

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

Key Expectations

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

How we respond to the key expectations

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

1. Annual general meetings.

2. Four international conferences and roadshows where we met various existing and potential shareholders.
3. Four local conferences with our investment professionals.
4. Quarterly investor briefings.
5. Over 400 local and foreign investors engaged.
6. Over 230 one on one meetings with the investment professionals.
7. Information on our website that regards to our performance and strategy.
8. Press briefings released every quarter.
9. Analyst Research notes published on our website.

Our Staff

How we engage our Staff

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

We engage our staff in the following ways;

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

Key Expectations

Our staff have the following expectations;

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

How we respond to the key expectations

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

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

Co-operative Movement

How we engage the Co-operative movement

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

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

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

1. Face to face discussions with our dedicated Co-operatives relationship managers.
2. Face to face discussions with our Business Bankers in all our 155 Branches.
3. Visits to their offices.
4. Discussions and engagement through our consultants in the Co-op Consultancy & Insurance Agency subsidiary.
5. Telephone discussions.
6. Participation in their meetings and events.
7. E-mail correspondence.
8. Through our 24 hour contact center.
9. Service feedback questionnaire.

Key Expectations

1. Excellent customer experience.
2. Innovative banking products/solutions/services.
3. Convenient access to banking.
4. Responsible banking.

5. Value banking that is competitive and transparent in pricing.
6. Fair treatment and trusted financial partner.
7. Consultancy services.

How we respond to the key expectations

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

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

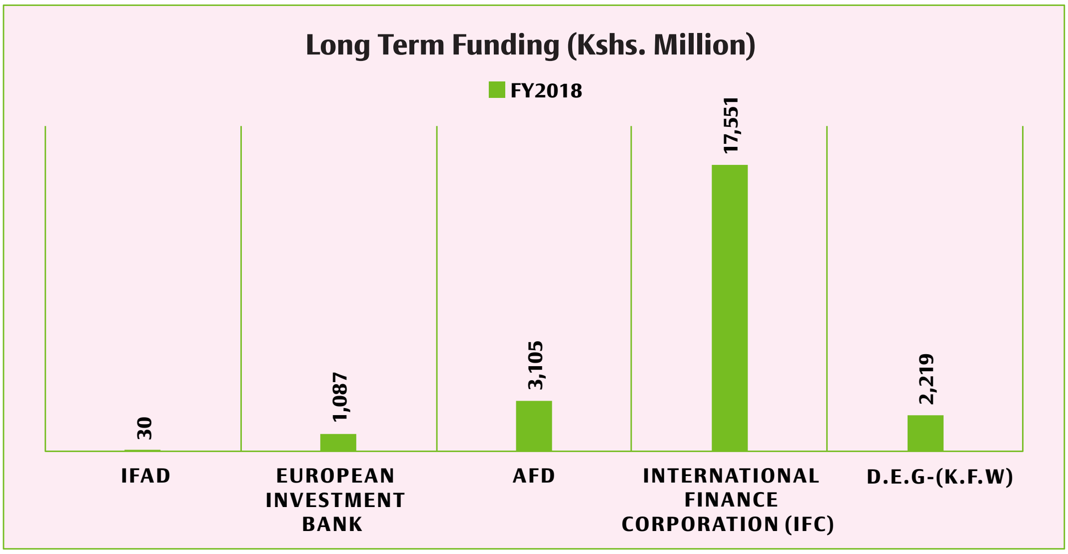
We also ensure that we;

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

Strategic Partners

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

Sustainable Financing from our Development Partners



Funding Purpose;

- SME
- Energy Efficiency
- Renewable energy
- Agribusiness
- Construction
- Mortgage
- Corporate
- Horticulture

How we engage our Strategic Partners

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

Key Expectations:

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

How we respond to the key expectations:

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

Regulators and Policy makers

How we engage our regulators and policy makers

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

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

Key Expectations

Our regulators and policy makers expect the following from us;

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

How we respond to the key expectations

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

Suppliers

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

We have 1314 Local suppliers and 45 foreign suppliers. In 2018, we paid over Kshs 11 Billion to our suppliers. Of this amount, 91% was paid to local suppliers.

Sourcing and Facilities management is anchored on the following;

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

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

How we engage our suppliers

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

Supplier relationship engagement takes the following two forms;

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

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

Key Expectations

Our suppliers expect;

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

How we respond to the key expectations

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

The Community

How we engage the community

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

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

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

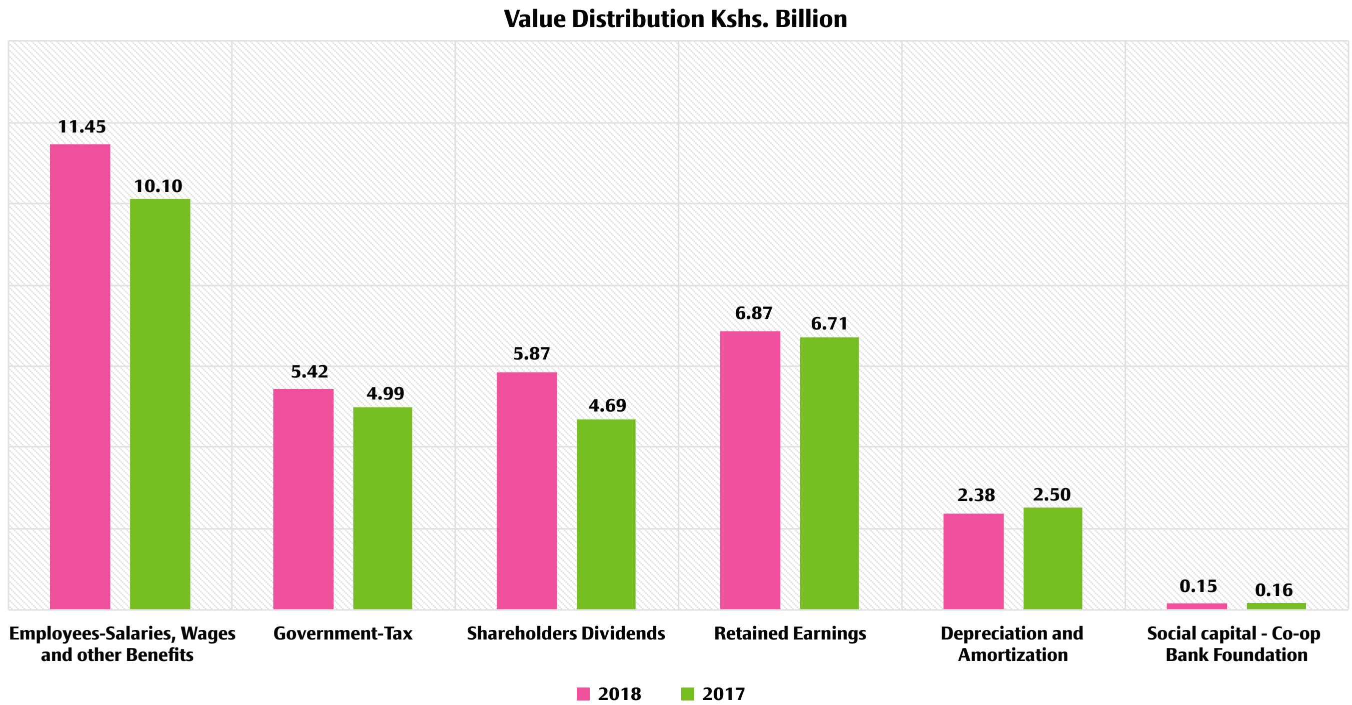
Key Expectations

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

How we respond to the key expectations

1. Accessible and affordable product offering through numerous channels and the co-operative movement.
2. Over 2600 consultancies done at concessionary rates.
3. Over 7002 bright and needy students supported through our fully funded co-op foundation.
4. Financing green initiatives. Renewable energy lending USD 34 Million.
5. Efficiently Managing company resources both financial and non-financial.
6. Protecting Kenya's forest cover through tree planting initiatives.
7. Supporting employee CSR activities that positively impact the environment.
8. Credit is the fuel of economic engine; over the last 5 years our net loans and advances to customers has grown to over 245 Billion.
9. We contribute to the creation of prosperity and to the stability of our country through paying taxes. In 2018, the Group Paid over 5 Billion Kenya Shillings in corporate taxes.
10. As part of the wider community in which we operate, the bank collaborates with various stakeholders involved in poverty eradication, advancement of education, inadequate access to health services and financial services and various other activities addressing local challenges.
11. In an effort to improve the use of modern agricultural technology in the Coconut Sector, we collaborated with Amiran Kenya. To extend the quality of health services offered to citizenry, the bank collaborated with the Kenya Diabetes Management and Information Centre as well as the Kenya Psychological Association. The bank takes part in activities of national importance and we supported the Kenya National Assembly Prayer Day. We partnered with First Lady's Half Marathon (Kshs. 20 Million)

Value distribution.



Value Added Statement.

	2018	2017
Value Added:	**KShs'000**	**KShs'000**
Interest Income, Fees, Commission and Other Revenues	55.92	53.87
Net impairment losses on loans and advances	- 1.84	-3.60
Interest Paid to Depositors and Cost of Other Services	-20.76	-19.82
Interest paid on borrowings	-1.35	-1.41
Share of profit in associate	0.17	0.13
Wealth Created	32.14	29.16
Distribution of Wealth:		
Employees-Salaries, Wages and other Benefits	11.45	10.10
Government-Tax	5.42	4.99
Shareholders Dividends	5.87	4.69
Retained Earnings	6.87	6.71
Depreciation and Amortization	2.38	2.50
Social capital - Co-op Bank Foundation	0.15	0.16
Wealth Distributed	32.14	29.16

Dr. Gideon Muriuki Group Managing Director & CEO is joined by Directors Lydia Rono, Director Corporate and institutional Banking, Arthur Muchangi, Director Retail and Business Banking, William Ndumia, Director Transformation and Chairlady Staff Welfare Jacquelyne Waithaka to cut a cake at the annual staff appreciation/Christmas dinner.

Creating sustainable value.

SUSTAINABLE BANKING MODEL

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

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

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

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

Our sustainability approach aims to balance social, economic and environmental risks and opportunities through the deliberate use of our products and services, collaboration and partnership, and by managing our own impact.

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

and Risk Management Framework.

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

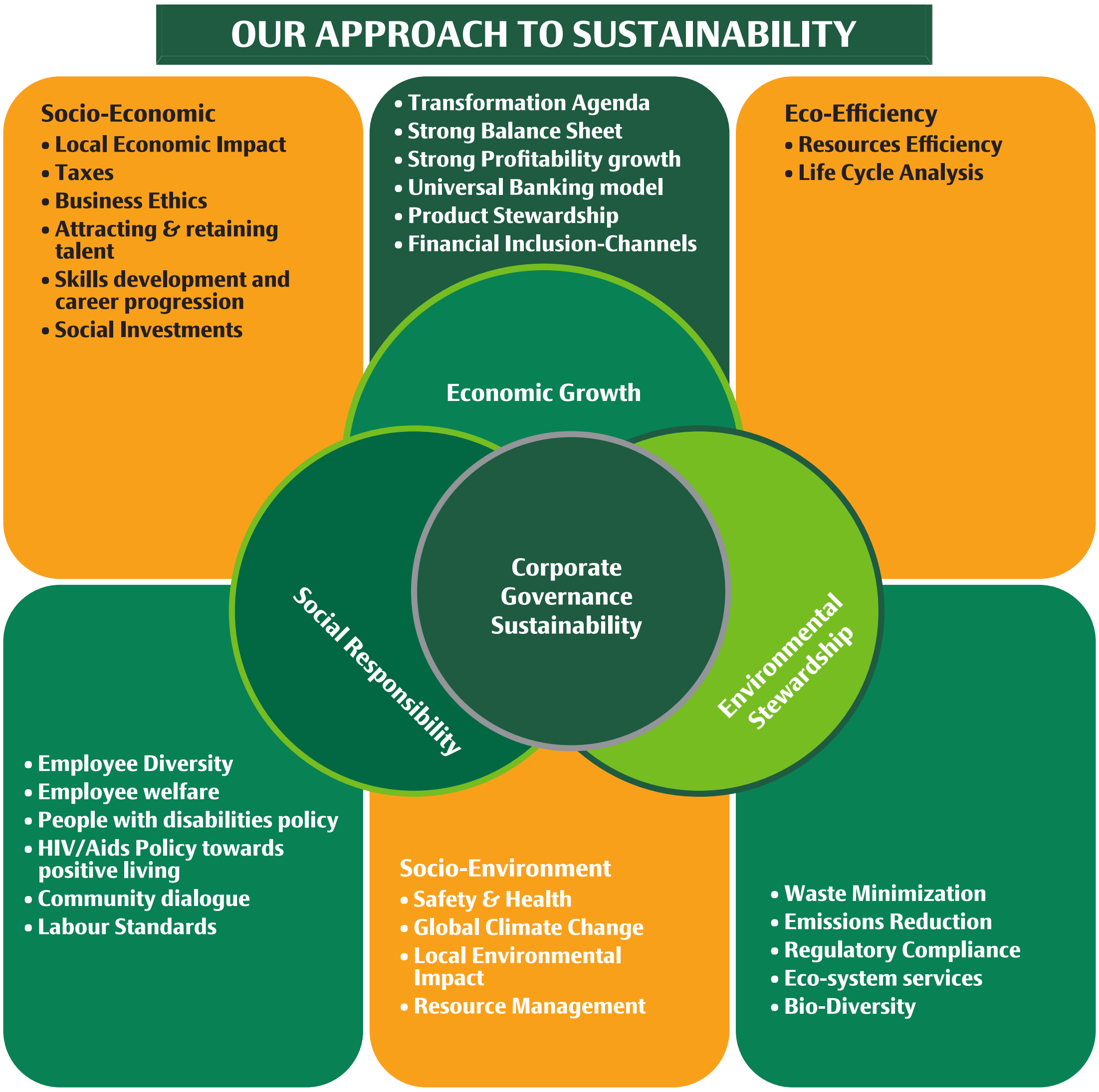
1. Kenya Bankers Association Sustainable Finance Initiatives guidelines
2. IFC Sustainable Development Goals
3. Kenya's Vision 2030
4. Our Corporate Strategic Plan 2015-2019

The policy incorporates best practice by ensuring:

1. We have an Environment and Social Management System that is integrated in our day to day activities.
2. We have a formal E&S Policy that guides us in our day to day functions.
3. We apply the E&S policy in conjunction with other policies within our enterprise risk management framework hence assuring of a holistic approach to risk.
4. The E&S Policy and ESMS are governed and owned right from the Board of Directors level hence in line with our strategic objectives, mission and vision.
5. We have referred to the guidelines provided by IFC in developing our policy, which we have customized based on our views of our portfolio, structure and responsibilities.
6. We have adopted the Kenya Bankers Association Sustainable Finance guiding principles and minimum standards in totality.
7. We invest directly on E&S by partnering with development partners up to Kshs. 24 Billion to provide special credit lines that promote E&S sustainability.
8. We ensure continuous training for all our staff to ensure best practice.
9. We have leveraged on technology to ensure that all the covenants reached in the projects we lend to are tracked electronically hence making sure they are all achieved.
10. We conduct our own activities with regard to the environment and the communities within which we operate.

Ms Silvia Mithamo (centre) guides Form Four students Dennis Bundi murimi (left) and Fraciah Njoki Muchiri through a Chemistry experiment. Silvia is a Second Year Actuarial Science student at Egerton University sponsored by the Co-op Bank Foundation, and volunteers at Gatugura Mixed Secondary in Kirinyaga during college vacations. The Co-op Bank Foundation has supported over 7,000 gifted but needy students from all over Kenya with full academic scholarships for secondary and university education.

The following are our sustainability priority areas:



In Summary:

1. ECONOMIC

1.1. SOCIO-ECONOMIC

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

1.2. ECO-EFFICIENCY

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

2. SOCIAL SUSTAINABILITY INITIATIVES

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

3. SOCIO-ENVIRONMENTAL

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

4. ENVIRONMENTAL

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

In detail:

1. ECONOMIC

As significant players in a wide economic ecosystem, we know our actions impact the wider economy. We run our business in a way that ensures that our growth is sustainable in the long run and leaves minimal impact on natural resources and the environment for the future generations. We have distributed over Kshs. 32 Billion in economic value as detailed in the Value distribution section of this integrated report.

1.1. SOCIO-ECONOMIC

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

- **Local Economic Impact**
  - We recognize that for there to be economic growth we have to offer sustainable financial intermediation in the economy by connecting the surplus (Deposits) and the deficit (Loans). We are an agent of economic growth.
  - Credit is the fuel of economic engine; over the last 5 years our net loans and advances to customers has grown at a Compounded Annual Growth Rate (CAGR) of 6%; as at December 2018, KShs. 245.4 Billion was outstanding as net loans and advances to public and private enterprises.
  - The Government also borrows from us in order to realize the achievement of sustainable development projects.
  - We have spurred economic growth through our strong balance sheet growth over the years as detailed in the Financial performance section of this report.
  - As one of Kenya's Top corporations, we contribute to the country's economic growth through provision of responsible, innovative banking products and services through our various channels.
  - The Kenya Bankers association, in its 2017 Catalyst Awards recognizing catalytic finance that impacts industry, economy and society declared us the most sustainable Bank and awarded us;
    - Overall Winner
    - **1ST**- Client Case Study – Financing Commercial Clients
    - **1ST**- Bank Case Study – Bank Operations & Policy
    - **2ND** -Best Practice in Sustainable Finance
    - **3RD** - Sustainability Through Policy & Governance
    - **3RD**- Client Case Study – Financing Micro, Small & Medium-Sized Companies
  - Banker Africa Awards: Best Retail Bank – Kenya, Best SME Bank – Kenya, Best Investment Institution – Kenya
  - International Finance Awards: Best Retail Bank – Kenya, Dr. Gideon Muriuki (CBS, MBS) - Best Banking CEO Kenya
  - EMEA Finance African banking Awards 2017 declared us the Best Bank in Kenya and Best product launch- MCo-op Cash (Version 4.0 update)
  - We have 1269 Local suppliers and 45 foreign suppliers. In 2018, we paid over Kshs 11 Billion to our suppliers. Of this amount, 91% was paid to local suppliers. Sourcing and Facilities management is anchored on the following; Sourcing and Facilities management Manual, Sourcing and Facilities Management Policy, ICT Sourcing Policy.
  - Co-operative Bank today represents the number one point of financial intermediation contact for Kenya's over 14 million member strong Co-operative movement with mobilized savings of over Kshs 305.3 Billion; equivalent to 30% of national savings.
- **Through Partnerships:**
  - Development finance is required for long-term investment and economic growth. We had long term borrowing of up to Kshs 24 Billion.
- **Taxes**
  - We contribute to the creation of prosperity and to the stability of our country through paying taxes. Taxes provide essential public revenues for governments to meet economic and social objectives. We view taxation as a mainstream part of our corporate social responsibilities. In 2018, the bank paid over 5.4 Billion Kenya Shillings in corporate taxes.
  - The bank is also KRA's appointed agent to assist the taxman in collection of various taxes across the country.
- **Business Ethics**

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

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

- **Through employment**

Co-operative Bank has employed 4251 staff members, a young and energetic team with over 87% being under 40 years. This has provided a livelihood and positive contribution to our economy. The staff contributed over Kshs.2.5 Billion in taxes in 2017.

- **Social Investments**

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

1.1.1 Co-op Bank foundation

Coop foundation was founded in 2007 in recognition of the need to enhance the existing Corporate Social Investment (CSI) initiatives by the bank. It was established to complement public effort's to increase access to education for the young people both at secondary school and university level by offering scholarships. The bank also offers mentorship and internship programmes to the beneficiaries to provide them with the necessary exposure to work skills and environment. The secondary scholarship program has grown from an initial sponsorship of 30 students per region, to 60 students per region and another 5 students per county, currently. Since inception the foundation has spent Ksh.1.03 Billion to support a total of 7,002 students; 6,492 in Secondary school education, 208 at university level, 34 to Co-operative University College and 268 in vocational institutions. In 2018 alone, the Foundation invested Kes.149.6 Million. Currently there are 2826 students undertaking there education under the programme support, 2677 in Secondary schools, 145 in University and 4 in college.

The foundation has attracted international partners to support its exemplary work by way of training, including The Ford Foundation; training on Research on Financial Inclusion of Persons with Disabilities and The Embassy of Finland; Career and entrepreneurship program for youth empowerment where 400 youth under co-op foundation were trained.

1.1.2 Co-op Consultancy & Insurance Agency Ltd

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

Since founding CCIA has successfully conducted over 2600 business advisory mandates since inception. In 2018, 3219 people with a majority of them drawn from 273 societies were trained with an estimated Kes.5 Million in concession value. Over 70% of CCIA staff costs are absorbed by the bank. The consultancy has 20 consultants and a small compliment of support staff. The bank has partnered with various donor partners including AGRA- Profit Project, We-Effect, KCEP-CRAL, DGRV and Global Communities who supported the consultancy with Kes.31 Million in 2018.

The work of CCIA is a creative and smart partnering with the societies who are our key stakeholders and focuses on key areas of impact between business and society and develops creative solutions that draw on the complementary capabilities of both to address major challenges that affect each partner.

1.1.3 Co-op Bank Staff welfare Teams

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

1.2. ECO- EFFICIENCY

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

- **Resource Efficiency**

We have a four-way approach towards resource efficiency:

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

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

- Construction or physical improvements related to energy and water performance.
- Improvements of at-risk public lands, forests and waterways and the general cleanup.
- Creating awareness of the benefits of energy and water conservation/efficiency and solid waste recycling amongst our staff.
- In 2016, we conducted energy audits in our major establishments to gauge our resource efficiency, identify gaps and areas of improvement.

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

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

Our Energy objectives

We are in the process of establishing an energy policy. A draft policy is under review. The policy contain commitments, objectives and targets that the bank has set to achieve. The objectives are outlined as follows;

- Maximise energy performance, reduce operating expenses and increase shareholder value by actively and responsibly managing energy consumption.
- Measure and understand our energy consumption in all its forms, to understand the drivers of that consumption, to inform and educate all our people about it and set ourselves achievable goals for reducing it.
- Demonstrate commitment to our community and leadership in our industry, by reducing environmental impacts associated with energy use.

Some of the recommendations contained in the energy audit report Short term/Medium Term

- LED Installations
- Controls in Lighting
- Energy Efficiency in HVAC Systems
- Energy Management Trainings
- Plug loads management
- Solar System Installations

Long Term energy management Measures

- Building Automation/Management Systems

Energy Consumption (expenses) for 2018 and 2017

	2018 (KES Million)	2017 (KES Million)	2011-2018 (Average)
Electricity Cost (KES)	265	204	224
Diesel Costs (KES)	26	25	29

Measures outlined to contain energy expense

- Active energy and cost monitoring month to month
- Connecting branches/facilities to fuel card
- Monitoring generator fuel consumption through CPH governance

Transformation Project resource efficiency gains;

Less Paper

- Customer Relationship Management (CRM) System for bankers- CRM system with automated diaries for sales Appointments and follow-ups has eliminated the need for hard copy diaries.
- E-Loans- Digitization of credit processing via MCoop Cash E-Flexi and Flexi plus loans eliminating paper use. The e-loan book has grown from 59,000 loans in Q12015 to 1,389,000 loans in FY2018.
- Proactive Stationery and equipment management-Overproduction waste: Branch printers' settings standardized to hold and back to back enforced to reduce unnecessary printing and usage of excess paper. Identification and repatriation of all unused /excess stationery and equipment in branch stores for redeployment.
- Service champions driving customer migration to alternative channels- Through experiential marketing; guiding customers to carry out transactions through convenience channels namely MCoop cash, Agency and Internet banking.
- 92% (2017- 87%) of transactions are now handled outside the branch, reducing paper previously used for these transactions.
- Email statements and Internet banking has saved on statement printing paper.
- Cash and check drop boxes- Self-service cash and cheque deposit channel uses SMS notification cutting deposit receipts by 50%.
- Customer service phones- Installation of customer service phones with a direct line to the call center- Customers can use phones for balance enquiry, ATM blocking, PIN resets and regeneration etc. reducing stationary used to print statements and requisition forms.
- Q-Matic machines for in-branch marketing-The Q-matic kiosk with TV screens running ads have reduced use of paper marketing fliers.
- Automated Real- time service floor reports have eliminated the need for performance and customer questionnaire survey on paper.
- Business intelligence (BI) reports- Branch daily reports previously printed have now been automated through BI reports cutting paper and printing costs.
- Sales call reports automated for Relationship Managers hence no need to maintain paper documentation.
- Instant Issuing- Inventory waste: Instant card issuing has saved the cost of wasted unclaimed cards which have to be destroyed after 6 months.

Less Electricity

Proactive branch time management brought by branch transformation- Effective branch closure time 45 minutes after

doors close has resulted to saving electricity across our branch network.

Less Fuel

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

Life-cycle analysis

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

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

2. SOCIAL SUSTAINABILITY INITIATIVES

2.1. Employee Diversity

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

We closed 2018 with a staff compliment of 4251 that encompasses the breadth and depth of our diversity as shown here:

Performance Indicator	2018	2017
Total permanent staff	3638	3405
Total contract staff (Includes Sales Staff)	613	664
Totals	**4251**	**4069**
% of Foreign staff in Kenya	0.0%	0.0%
% of Foreign staff in South Sudan – (Staff on Secondment to COBSS)	0.5%	18.7%
Staff attrition (%) – Voluntary	3.8%	4.9%
Staff attrition (%) – involuntary	3.2%	3.8%
Sick off days	14,293	15,472
% Female staff members	44.2%	43.9%
% male staff members	55.8%	56.1%
% of our staff who are younger than 40 years	87.1%	90.2%
% of our staff who have a tenure of more than 10 years	17.3%	17.0%
% of our staff who have a tenure of more than 5 years	54.9%	53.3%
% of our staff who have disabilities	0.3%	0.5%
% Permanent staff	85.6%	83.7%
% Contract staff	14.4%	16.3%
No. of paternity applicants (actual taken)	282	347
No. of Maternity applicants (actual taken)	203	246
Average Increase in staff salaries	4.9%	4.8%

100% of the staff in Co-operative bank of Kenya are local. In Co-operative Bank of South Sudan 0.5% of the staff are Kenyans on secondment while the rest are all South Sudan Nationals.

2.2. Employee Welfare

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

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

We invest in out-of-office staff activities such as sports events, team-building and CSR activities in reflection of our deep commitment to staff wellbeing.

In 2018 184 teams undertook various team building activities and 42 teams did corporate social activities to support the less fortunate in their communities. The bank was ranked position 5 overall out of 34 in the 34th annual KIB inter-banks games for Nairobi region.

2.3. HR Policy Framework

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

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

Average work hours policy.

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

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

Whistle-blowing policy

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

The Whistleblowing policy is intended to encourage and enable employees to raise serious concerns within the bank rather than overlooking a problem or simply reporting it outside of the defined channels within the Bank This policy aims to:

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 victimization for "whistleblowing" in good faith.

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

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

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

People with Disabilities Policy

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

2.4. Attracting and Retaining Talent

- The Bank has a recruitment policy that guides all the recruitment efforts in terms of the guiding principles, processes and procedures. The policy is reviewed as and when there are any changes effected on the recruitment process. Internally though, all policies are to be evaluated and reviewed every two years. Where the policy is changing, it is taken through an approval process, which involves key stakeholders including Board of Management.
- At Co-op Bank, we have made it a priority to improve on our lead position as an employer of choice. We do this by primarily attracting and retaining the best talent in the market through appropriate investment in human capital development, inculcating high performance culture, rewarding outstanding performance, competitive remuneration packages and encouraging and appreciating innovations.
- To achieve this, we have implemented Flight Risks assessments for critical roles as part of talent management interventions.
- We have succession planning in place for various talent benches for critical and flight-risk roles with at least 3 ready-now candidates per talent bench.
- Of our staff, a high degree of professionalism and integrity is demanded. We are an equal opportunity employer with an inclusive and conducive environment for work-life integration.
- We achieved a retention rate of 93% in 2018. Group-wide voluntary attrition was only 3.82% and 3.17% was involuntary.
- Our target is an employee satisfaction rate of at least 92% and maintain a job offer acceptance rate of 95%.

2.5. Skills Development and Career Progression

- We believe that human capital is the most valuable asset of a great company, hence our commitment to the development and success of our staff through first-class continuous training, leadership building and skills enrichment.
- There is a clear effort in managing the careers of our employees through coaching and mentoring processes, role specific trainings as well as stretch assignments as part of growing our employees.
- The Bank has a clear and robust Training Policy, which spells out the guidelines around up-skilling of our employees. In addition, there is a Talent Management and Development framework.
- In managing or ending careers, there is a Talent Management and Development framework in place. There is a clear effort in managing the careers of our employees through coaching and mentoring processes, role specific trainings as well as stretch assignments as part of growing our employees. There are also proactive retention initiatives as part of the talent management agenda.
- Our Leadership and Management Centre (LMC) is tasked with up skilling, re-skilling and developing our people. In 2018, 14,595 people underwent training in LMC over a cumulative 843 days.
- We have Premium training and exposure for retention of key critical skills areas and capabilities e.g. Productivity & Engagement Coach programs, Data Analytics exposure visits and training, Digital capabilities exposure & premium training (design thinking and agile methodology)
- Since 2015 we've had in place a robust Key Performance Indicators (KPI) focused performance management process with clear linkages to rewards and better

accountability mechanisms. The introduction of fewer KPIs focused on core deliverables, performance dialogues and daily huddles keep staff focused on their performance at all times , ensure that they focus on core deliverables and provide better ways to measure and ultimately reward great performance. The Bank has a detailed performance management policy in place, which guides our performance management process for all employees as well as guidelines on rewards.

- As a result, in 2018 Staff productivity as measured by staff cost to Total operating income increased to 26.2% from 24.3% in 2017 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 87% being under 40 years. This has further enhanced internal mobility of talent.

2.6. Community Dialogue

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

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

2.7. Labor standards

We practice the virtuous value of mindfulness in appreciating the need for work-life balance for our staff and we have created an inclusive and conducive environment to cater for their different requirements. We support staff in childrearing responsibilities by providing time off work for male and female staff in line with existing labour laws and best practice for enhanced productivity and employee engagement. In 2018, a total of 485 staff took time off to attend to their new-borns, of which 282 were men and 203 women.

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

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

2.8. Responsible competition

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

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

2.9. Responsible supply chain and supplier relations

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

1. Provide Workers' compensation and employer's liability insurance as required by law.

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

2. Criminal Background Checks to the extent permitted by local law.
3. Supplier should not assign Supplier personnel whose background checks show any of the following:

a. Felony or misdemeanor convictions involving dishonesty (e.g. bribery, fraud, embezzlement, theft, violations of securities laws), violence (including but not limited to sexual or child abuse crimes), or computer related crimes and/or convictions that are employment-related;
b. The existence of restrictions (such as court orders) that would prevent, or impose limitations on, a personnel's ability to provide the Services contemplated by the agreement.
c. Presents a higher than normal security risk to the Bank.

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

2.10. Responsible marketing and advertisement

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

The bank adheres to these principles both in letter and spirit and we actively seeks to confirm rather than seek to ingeniously go round code. As a principle all our marketing communication conforms to the Marketing Operations Manual approved by the bank and which ensures communication doesn't violate any of our national laws. Specifically, the bank communication is deliberately structured to communicate honestly and truthfully. As a result, communication involving words like Free and New are only used where, in truth and fact, the offer is absolutely free of cost or there is something never offered before. All images used in the banks' advertising are legally obtained and models are compensated appropriately.

The bank therefore does not for example compel staff of other associates to offer free services. In the use for promotions where prizes are to be won, Betting Control and Licensing Board authority and supervision is invited to oversee the process of drawing winners and awarding them to ensure that all the time, every time the promotions remain ethical and forthright. In circumstances where prizes are not claimed for whatever reason, such prizes are handed over to the Betting Control and Licensing Board for onward transmission to charitable institutions.

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

2.11. Product Stewardship

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

3. SOCIO-ENVIRONMENTAL

3.1. Health, Safety & Wellness Programme

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

Staff Wellness program uptake was on track and achieved 90% uptake by end 2018 with several initiatives such as - Health Awareness sessions, Enrollment of staff for nutritional health programs, Psychological support and awareness, Campaign on chronic disease awareness, Substance abuse awareness and Rehabilitation Program, Lactation training programs, Men`s Health forums.

In regards to work related injuries there have been none reported in 2018.

3.2. Global Climate Change

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

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

3.3. Local environment Impact

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

4. ENVIRONMENTAL

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

4.1. Waste Minimization/ resource management

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

SWEET SALAD: Faith Amondi Mlanga (centre) lends a hand to Saada Abdalla (left) Salama Awadh in preparing a meal at the Mama Fauzia Children's Home in Kasarani, Nairobi recently. Faith is 4th Year Bachelor of Economics & Statistics student at the University of Nairobi, sponsored by the Co-op Bank Foundation, and volunteers at the children's home during college vacations. The Co-op Bank Foundation has supported over 7,000 gifted but needy students from all over Kenya with full academic scholarships for secondary and university education.

us having used less paper, electricity and diesel since we began our Transformation project.

4.2. Emissions Reduction

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

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

4.3. Regulatory Compliance

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

4.4. Ecosystem Services

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

4.5. Biodiversity

Biodiversity underpins life on Earth. Biodiversity ensures the sustainable productivity of soils and provides the genetic resources for all crops, livestock, and marine species harvested for food. We recognize the global threat posed by environmental issues such as climate change and loss of biodiversity. We ensure preservation of biodiversity by requiring our customers to provide requisite approvals from authorities tasked with environmental protection such as National Environmental Management Authority (NEMA) before we give them financing. As an organization, we promote biodiversity in areas where we operate. The Co-operative movement, which is one of our key strategic stakeholder, supports biodiversity in promoting best practice especially the agricultural, Fisheries, and Livestock Co-operative Unions.

Brookside Dairy Milk Procurement and Extension Services General Manager Emmanuel Kabaki, Director Co-operatives Banking at Co-operative Bank, Vincent Marangu and Kirima Slopes Dairy Co-operative Chairperson Mary Muthoni at a recent training for leaders of dairy co-operatives in Nairobi. Brookside Dairy has partnered with the Bank to Train the managers on corporate governance.

Strategic Focus

The Eagle Soars On! : Our Transformation Journey.

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

1. **Branch Transformation: Customer Experience & Retail SFE (Sales Force Effectiveness)**

   The focus of Branch Transformation 1.0 was to Re-orient our branches to focus on customers and not products, Migration of customers to our alternative/Self-service channels, Automation of branch customer service systems, increase cross selling opportunities, increase sales at the branch level, enhance efficiency through reengineered processes and increase optimum-priced and stable deposits. We have successfully finished Branch Transformation 1.0 and embarked on Branch Transformation 2.0 which seeks to establish our branches as Centers of excellence offering sales and advisory services.

2. **Enhanced Sales Force Effectiveness (SFE).**

   The focus of SFE 1.0 was to enhance adoption of a collaborative product ownership by empowering our sales teams to be more customer focused as opposed to product focused thereby promote cross selling, we also focused on training on the use of sales force tools and efficiency in sales. We have successfully finished SFE 2.0 and embarked on SFE 3.0.

3. **Shared Services & Digitization.**

   We implemented a shared services model and grouped all support services under the office of the Chief Operations Officer (COO). We have since then focused on digitization and automation of our processes, optimization of our systems uptime and enhancements of systems to optimize processing capacity. Digital Bank: This initiative is geared towards optimizing agility to market dynamics, innovation and digitization for value creation.

4. **Staff productivity.**

   This involved effective performance management. To this end, we successfully introduced the Key Performance Indicator (KPI) based performance management system that has been key in effective performance measurement in our quarterly appraisals. We have also focused on having a HR model that is dedicated towards customer centricity, we are also ensuring a dynamic human capital that is empowered through training, motivation, and performance linked rewards.

Director Retail and Business Banking at Co-operative Bank Arthur Muchangi (left) and the managing director Isuzu East Africa, Rita Kavashe sign the asset financing partnership.

5. **Enhanced Credit management framework.**

   The focus has been to maintain a robust credit management system that has involved enhanced frontline support, collaboration and establishment of regular touch-points and provision of advisory services, enhancing systems processes and tooling to support credit management, proactive collections and curing and aggressive remedial action and follow-up.

6. **Reporting & Analytics.**

   The focus has been to enhance frontline accountability, enhance proactive credit management, proactive lead generation, enhance data management and drive data architecture for analytics in order to optimize the opportunities that are within our 'big data'.

7. **Micro, Small and Medium Enterprises (MSME) Transformation.**

   MSME transformation project started in November 2016 with the support of International Finance Corporation (IFC) – Consultancy arm. This project is designed to leverage and unlock the huge and lucrative potential of the MSME segment. MSME was successfully launched in 2018. 11126 MSMEs have been onboarded to our new MSME packages

   The above 'Soaring Eagle' Transformation initiatives are aimed at achieving the Bank's growth and profitability objectives for year 2019 and beyond for the benefit of all our stakeholders into the long term.

Our Strategic Focus.

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 key focus is to create value for all our stakeholders and position ourselves for sustainability into the long term.
The following is a summary of our key strategic achievements for 2018.

	Key Strategic Focus	Key stakeholder impacted	Key Strategic Performance Indicator	Key Achievement
1.	To be the dominant Bank in the Region	Our Shareholders	• DPS • ROA • ROE • Market Share	• Dividend per share Kshs.1 • Return on Assets 3.2% • Return on Equity 18.3% • 3rd Largest Bank, Market Capitalization Kshs. 83.3B • Most sustainable Bank (Catalyst Awards 2018)
2.	To enhance our overall customer experience	Our Customers	• Customer centricity • Staff training	• Customer centric model implemented • 942 staff trained on Distinctive Customer Expe-rience. • Focus on digitization of customer journeys.
3.	To be the employer of choice	Our Employees	• Performance • Reward • Wellness	• Robust skills, performance management and Reward mechanism. • 95.4% staff members achieved and exceeded their targets. • Staff Wellness program uptake on track and achieved 90% uptake by end 2018
4.	To ensure that our internal capabilities enable optimum value creation for all our stakeholders	Our Enterprise	• CIR	• Digitization, operational efficiency, Proactive Risk management has led to cost management, revenue generation and optimal risk uptake. • Our cost to income ratio has fallen to 54.6% from 59% in 2014.
5.	To ensure that the group operates as a responsible corporate citizen	Our Community	Responsible citizenship • Social • Economic • Environmental	• Over 2600 consultancies carried out by our subsidiary: Co-op Consultancy and insurance. • 7002 students supported since the inception of Co-op Foundation. • Employee parity and wellness ensured. • Green lending – USD 34B as at 31.12.2018

5 Year Financial Performance: Key Numbers

Key Financial Position Numbers

			Dec 2018	Dec 2017	Dec 2016	Dec 2015	Dec 2014
	5Yr CAGR	YoY	KSHS.B	KSHS.B	KSHS.B	KSHS.B	KSHS.B
Loans and advances to customers (net)	6%	-3%	245.4	253.9	236.9	208.6	179.5
Total Assets	8%	7%	413.7	386.9	351.9	342.5	285.4
Customer deposits	7%	7%	306.1	287.4	260.2	265.4	217.7
Borrowed funds	6%	13%	23.9	25.2	19.8	19.3	18.3
Total Liabilities	7%	8%	342.9	317.1	290.7	292.7	242.0
Total Shareholders' Funds	10%	0%	69.4	69.1	61.3	50.2	43.3

Key Profitability Numbers

			Dec 2018	Dec 2017	Dec 2016	Dec 2015	Dec 2014
	5Yr CAGR	YoY	KSHS.B	KSHS.B	KSHS.B	KSHS.B	KSHS.B
Total Interest Income	8%	7%	43.0	40.4	42.3	36.8	29.4
Total Interest Expenses	9%	0%	12.2	12.3	12.8	13.6	8.1
Net Interest Income	8%	10%	30.8	28.1	29.5	23.2	21.3
Fees and commissions on loans and advances	-23%	-78%	0.6	2.6	2.3	2.3	2.1
Other Fees and commissions	6%	24%	8.9	7.2	7.5	7.2	6.6
Foreign exchange trading income	10%	2%	2.3	2.2	1.8	3.2	1.4
Total Non-Interest Income	4%	-4%	12.9	13.5	12.8	13.2	10.8
TOTAL OPERATING INCOME	6%	5%	43.7	41.6	42.3	36.4	32.1
Loan loss provision	9%	-49%	1.8	3.6	2.6	2.0	1.2
Other operating expenses	4%	9%	8.1	7.4	8.6	6.5	6.7
Total Operating Expenses	5%	1%	25.7	25.3	24.6	21.4	20.1
Profit Before Tax	11%	11%	18.2	16.4	17.7	15.4	10.9
Profit After Tax	10%	12%	12.7	11.4	12.7	11.7	8.0

Key Ratios

	Dec 2018	Dec 2017	Dec 2016	Dec 2015	Dec 2014
Capital Adequacy Ratios					
Core capital (Tier 1) to Total Deposits	19.3%	20.0%	19.7%	17.5%	15.7%
Core capital (Tier 1) to Total risk weighted assets	16.0%	15.8%	16.1%	15.7%	13.5%
Total capital / Total risk weighted assets	16.4%	22.0%	22.7%	22.4%	20.5%
SHEQ Capital / Average Assets	17.5%	18.8%	17.7%	16.0%	16.8%
Debt to Equity Ratio (Total Debt / SHEQ)	34.3%	30.4%	32.3%	38.4%	42.2%
Asset Quality Ratios					
Coverage Ratio	54.7%	54.3%	0.0%	0.0%	29.9%
Cost of Risk	0.7%	1.5%	1.2%	1.0%	0.7%
Non-Performing Loans in Total Loans	11.2%	7.1%	4.6%	3.8%	4.3%
Earnings and Efficiency Ratios					
Return on Average Asset (ROAA)	3.2%	3.1%	3.7%	3.7%	3.1%
Return on Equity (ROAE)	18.3%	17.4%	22.7%	25.0%	20.0%
Net Interest Margin	9.4%	8.9%	10.5%	10.3%	11.9%
FX/Non Funded	17.7%	16.5%	14.1%	24.2%	13.1%
Non - Funded to Total Operating Income	29.5%	32.4%	30.2%	36.2%	33.7%
Cost Income Ratio (With provision)	58.8%	60.9%	58.3%	58.8%	62.6%
Cost Income Ratio (Without Provision)	54.6%	52.2%	52.1%	53.2%	59.0%
Liquidity Ratios					
Liquidity ratio	41.1%	33.8%	33.7%	37.1%	33.8%
Total Loans to Total Deposits	80.1%	88.2%	89.9%	77.6%	81.3%
Loans /(Deposits+Borrowed Funds)	74.0%	82.0%	84.0%	72.0%	75.0%
Other Key Ratios					
Total asset growth rate	7.0%	10.0%	3.0%	20.0%	23.0%
Loan growth rate	-3.0%	7.0%	14.0%	16.0%	31.0%
Total Deposit growth rate	7.0%	9.0%	-2.0%	22.0%	22.0%
Earning growth rate	12.0%	-10.0%	8.0%	46.0%	-12.0%

Integrated Risk Management Review

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

Group Philosophy on Enterprise Risk Management

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

Risk management is at the core of the operating structure of the Group. We seek to limit adverse variations in earnings and capital by managing risk exposures within agreed levels of risk appetite. Our risk management approach includes minimizing undue concentrations of exposure, limiting potential losses from stress events and ensuring the continued adequacy of all our financial resources. Our risk management processes proved effective throughout the year, , despite a tough economic environment and the capping of interest rates in Kenya. The Board of Management was closely involved in important risk management initiatives, which focused particularly on preserving appropriate levels of liquidity and capital, and effectively managing the risk portfolios. Responsibility and accountability for risk management resides at all levels within the Group, from the Board of Directors, business unit managers to all staff who have been sensitized and appraised of this expectation. Risks are controlled at the level of individual exposures and at portfolio level, as well as across all businesses and ris types.

Enterprise Risk Management Framework

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

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

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

Risk Governance

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

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

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

Risk Governance Structure

Strong independent oversight is in place at all levels throughout the group. Various committees allow the Board of management and the Board to evaluate the risks faced by the Group, as well as the effectiveness of the Group's management of these risks. These committees are integral to the Group's risk governance structure. Figure 3 depicts our risk governance structure.

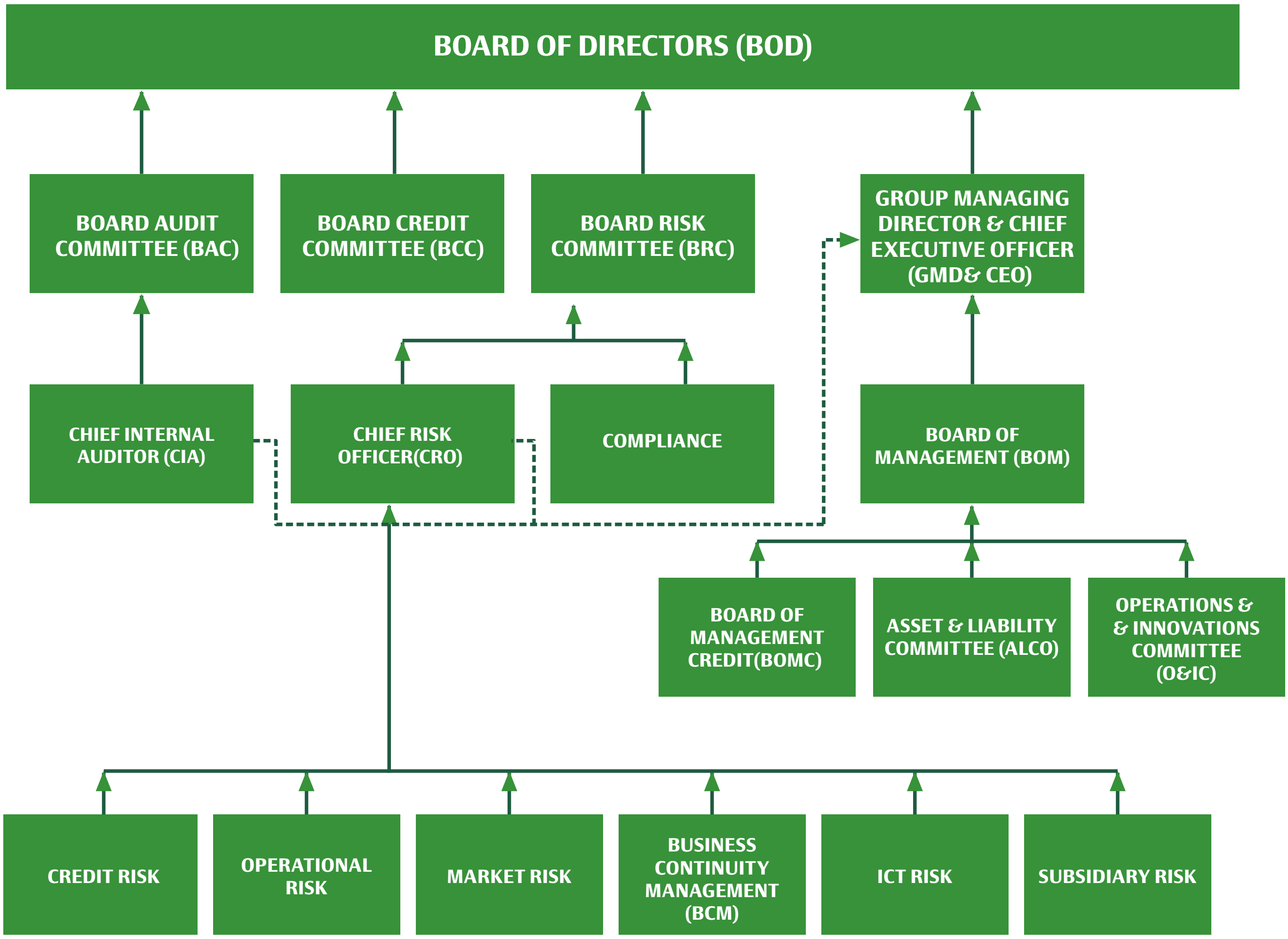


Figure 3: Risk Governance Structure

Risk Governance Standards, Policies and Procedures

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

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

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

Risk Management Lines of Defense in the Group

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

Risk Management Processes

Our risk management processes include:

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

Risk Appetite Framework & Statement

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

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

Our Risk Universe

TYPES OF RISKS THAT WE FACE	KEY RISK INDICATORS	2018 Risk Review	Outlook 2019 and Beyond
PILLAR I RISKS			
Credit	• Loan Book Growth • Non- performing loan Book growth • Cost of risk • Coverage	• Loan Book Growth -3% (CAGR +6%) • Total Non- performing loan Book +41% (CAGR 27%) • Cost of risk +26% • Coverage +1%	• Ensure credit growth through Sales Force Effectiveness. • Proactive implementation and review of our Credit Policy. • Adherence to credit Risk Appetite and limits, credit risk early warning indicators, proper credit appraisal and approval mechanisms, KYC, AML due diligence, segregation of duties in credit analysis, administration, disbursement, collection, portfolio management, valuation and general collateral management, and remedial, proper grading and classification of facilities, restructuring, and proactive NPL management. • Stress testing & sensitivity analysis of credit risks scenarios. • Environmental & Social Policy – guides advances affecting the environment & social impacts. • Training – all credit approvers undertake training courses to acquire and upskill on credit approvals. This is delivered via external trainers like Omega and internally through our online E-Learning portal. • Adherence to the CBK regulations stipulated in this regard
Market	• Maturity gap • Value at Risk • Position limits • Stop loss limits	The indicators were within our risk appetite	• Proactive models such as duration analysis, PV01, simulation, value at risk and stress testing to describe the uncertainties in the future values of the market risk indicators and ensure appropriate actions are implemented.

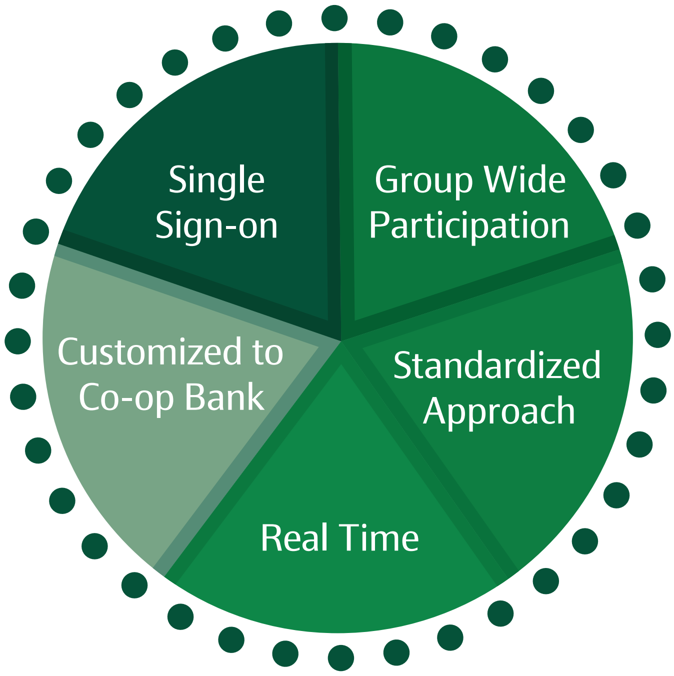
TYPES OF RISKS THAT WE FACE	KEY RISK INDICATORS	2018 Risk Review	Outlook 2019 and Beyond
Operational	Gaps that may be identified in People, Processes or Technology especially; • New Products • Security (staff and assets) • ICT infrastructure efficiency and Cyber security • Staff empowerment and productivity. • Business Continuity Plans • Code of Business Conduct • Insurance adequacy • Outsourcing engagements • Fraud and forgeries • Agency Banking • Mobile Banking • Internet banking • Reputation • Customer satisfaction index	Within our risk appetite. We ensured; Operational Risk was kept at the lowest level possible taking into account business strategy, market sentiment, regulatory requirements and the capacity to absorb losses through earnings and capital.	• Enhanced Operational Risk and Control Self-Assessments (RCSA) • Proactive Operational Risks Incident and Loss data Management • Proactive Internal control policies and procedure guidelines; • Service Quality Charter for both internal and external clients; and • Stress testing on identified Key Risk Indicators.
PILLAR II RISKS			
Concentration	Large exposures (Individual, Geographic, Industry / Sector, foreign currency loans or collateral)	Within our Risk Appetite The Bank through its risk monitoring tools assesses and monitors concentration risk in both its Banking and Trading Books. The Group now leverages on the Herfindahl-Hirschman index (HHI) to assess the concentration levels.	• Leveraging on internal systems and procedures to identify, assess, control and monitor any substantial credit risk concentrations. • The Bank will continue with strict limitation of concentration. The same will apply to the deposit profile and Bank investments where efforts are made to ensure that there is proper diversification. • Risk limits have been set on industry concentration and incorporated in the Bank's approved Risk Appetite Statement
Interest Rate Risk in Banking Book (IRRBB)	The Bank's 12 months repricing maturity gap between rate sensitive assets and liabilities	We are positively gaped in the aforementioned band (12 months) hence within our risk appetite	• IRRBB is managed by risk-taking business units. • Independent IRRBB monitoring and measurement • ALCO will continue to steer and integrate IRRBB risk management across the Bank

TYPES OF RISKS THAT WE FACE	KEY RISK INDICATORS	2017 Risk Review	Outlook 2018 and Beyond
Liquidity	• Liquidity Ratio • Maturity gaps • LCR • NSFR	Our liquidity, LCR, NSFR ratios have been within our internally set limits and the regulatory limits. The liquidity ratio has been above 30% (2018 - 41.1%) since 2013.	• Managing liquidity risks will continue to be an integral part of Co-op Bank's business operation. Thus, liquidity risk is continuously forecasted and analyzed using different time horizons, with the aim of ensuring that the Group is able to meet its obligations optimally • The group's liquidity risk & contingency planning management framework will be reviewed on a regular basis.
Legal and Contractual	Litigation- net overall bank exposure (settlement amounts in Kshs) in respect to pending litigations against and for the Bank	Was within our Risk Appetite The cases are in our favour and we do not envisage the exposure materializing against us.	• All potential issues of legal and contractual nature stemming from the business activities with counterparties will be continually tracked, recorded and analyzed for any potential legal risks by the Legal Team and reported to the Company Secretary and Risk Management Department.
Compliance & Regulatory AML/ CTF adherence	Penalties and fines levied by the regulatory bodies to which the Bank and its subsidiaries companies adheres to i.e. CBK, CMA, RBA, IRA, KRA etc.	We have sustained our compliance with the statutory and regulatory requirements. IFRS9 implementation is progressing well as per our roadmap Interest rates capping law was fully implemented	• Co-op Bank is committed to adhere to statutory, regulatory requirements and follow best practices and market standards in the areas of accountability, transparency and business ethics. The Bank aims at a zero tolerance of misconduct and corruption.
Strategic	Current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.	The Group has a Corporate Strategic Plan (2015 – 2019). The objectives and goals enshrined in the Plan have been formulated in a KPI format and these were used to align the Bank's activities to its vision and strategy, improve internal and external communications, and monitor performance against strategic goals. The Bank used budgets and modeling tools to measure strategic risk. These tools amongst others are provided in the Group's Strategic Risk Management Policy.	• To continue with strategic response to changes in the industry. • To enhance and update the Strategic Risk Register.

TYPES OF RISKS THAT WE FACE	KEY RISK INDICATORS	2018 Risk Review	Outlook 2019 and Beyond
Systemic	Such risks are caused by factors such as a significant bank run, bank closures, significant interbank exposures through bankruptcy of a counterparty, significant credit exposures in the banking book, significant exposures/ losses in the trading book and macro-economic shocks such as high inflation, significant CBR rate reduction, economic recessions, significant FX structural exposures and collapse of key institution banks within the industry	We conducted a systemic risk assessment as part of our ICAAP process and outcome affirmed the Bank's posture within our risk appetite.	• The Bank through the Risk Management Team and the Investor Relations Team in Finance will continue to identify, assess, measure and manage systemic risk. • Stress testing both on a sensitivity analysis and scenario – based analysis will be conducted on a quarterly basis and based on the results of the tests, appropriate actions will be undertaken to inform strategies that need to be put in place to manage the adverse exposures.

Leveraging on risk data and infrastructure

R-Universe Risk System



In addition to the above defined processes, our risk management program provides for key risk indicators and triggers, which are embedded within our internally developed enterprise risk management application system, named

'R-Universe'. These indicators and triggers are generated from a number of periodic Risks and Controls Self-Assessment (RCSA) processes/ activities that have been conducted targeted at the Group businesses, departments, and units with the outcomes being modelled in Risk Registers and Heat Maps for effective decision making which will ultimately lead to optimum value creation for all our stakeholders.

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

Risk Communication

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

Risk communication in 2018 took the following forms;

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

Proactive management of risk through our Risk Appetite Framework.

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

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

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

In the Stress Testing program, we conduct quarterly stress testing exercises leveraging three sets of scenario cases namely, Exceptional but Plausible, Moderate and Extreme stressful cases. We have conducted the tests for all the quarters in 2018 and the outcomes have informed the various measures that the Group has undertaken to ensure that our capital structure and levels, liquidity and business priorities/ activities are sound. The stress testing reports are also submitted to our regulator, The Central Bank of Kenya (CBK) on a quarterly basis.

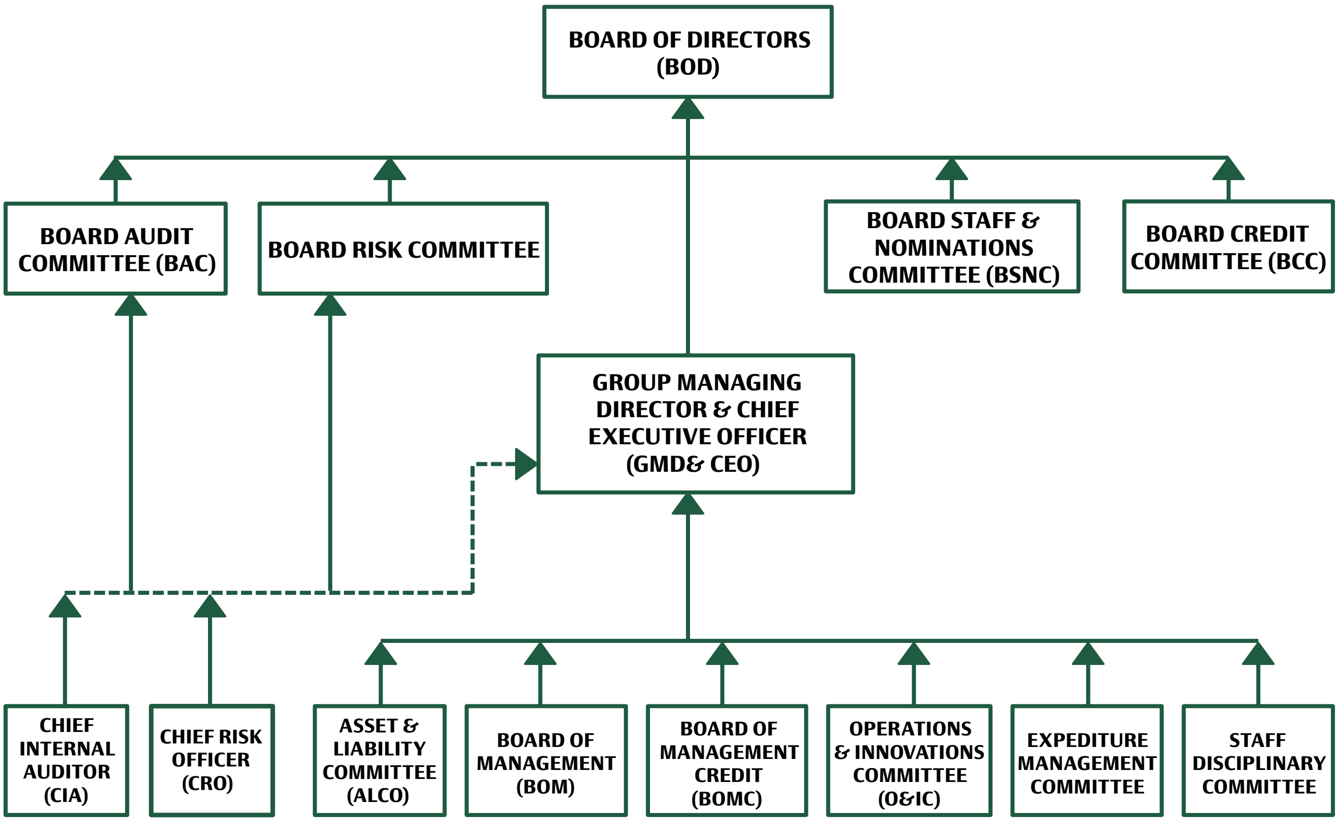
Outlook -2019 and Beyond Risk Priorities

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

Corporate Governance

Governance Structure

Our Governance structure is as follows;



Key Board of Directors Issues

Statement on Corporate Governance

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

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

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

Code of Conduct

The Board has approved 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 in the best interests of the Bank group. The Code guides activities in dealing with directors, managers, employees, customers, suppliers, competitors, shareholders, regulators, government and the community at large. This code is in addition to compliance with the Central Bank of Kenya and CMA Code of Conducts.

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

The Board of Directors

Board Composition

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

		Independent 92%	Directors in Coop Holdings 58%	Skills
1	John Murugu (OGW), Chairman (68)			• Banking • Public Finance • Organizational Change and Development • Business administration • Management Information Systems • Strategic Planning • Public Secretarial • Strategic Leadership • Corporate & institutional Banking • Mathematics • Business Management • Coffee Industry Management • Human Resource Management • Accounting • Education management • Co-operative Management • Tax • Economics • Foreign affairs • Finance
2	Macloud Malonza (HSC), Vice-Chairman (50)			
3	Dr. Gideon Muriuki, CBS, MBS, Group Managing Director & CEO (54)			
4	Patrick K. Githendu, Director (65)			
5	Rose Simani (Mrs.), Director, Independent (60)			
6	Lawrence Karissa, Director, Independent (63)			
7	Julius Sitienei, Director (64)			
8	Benedict W. Simiyu, Director (57)			
9	Richard L. Kimanthi, Director (62)			
10	Wanyambura Mwambia, Principal Secretary - National Treasury appointee (63)			
11	Wilfred Ongoro (HSC), Director (63)			
12	Godfrey K. Mburia, Director (62)			

Appointments and induction to the Board

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

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

- Setting the strategic direction of the Group and putting in place appropriate policies, systems and structures for their successful implementation;
- Establishing and maintaining the Bank's overall systems of planning, accounting and internal controls that facilitate prudent risk assessment and management;
- Setting policy guidelines for management and ensuring competent management of the business including the selection, supervision and remuneration of Senior Management;

- Ensuring that the business of the Bank is conducted in compliance with relevant laws and regulations; and
- Monitoring the Bank's performance and reporting this to shareholders especially at the Annual General Meeting.

Board and Strategy Meetings

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

Board Chairman and Group Managing Director

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

Board Performance Evaluation

The Board is responsible for ensuring that an evaluation of its performance and that of its committees and individual directors is carried out each year. This involves a self-review of the Board's capacity, functionality and effectiveness of performance against its set objectives. Evaluation enables directors to suggest how Board procedures may be improved by assessing strengths and weaknesses and addressing its balance of skills, knowledge and experience. This is done by way of both peer and self-evaluations, after which results are submitted to the Central Bank of Kenya (CBK). The Board and all its committees conducted evaluations during the year (2018) and no material concerns were expressed.

Internal Control and Audit

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

Risk Management and Compliance

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

Conflict of interest

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

Board training

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

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

Board Committees

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

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

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

Board Credit Committee

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

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

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

Board Audit Committee

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

- Mrs. Rose Simani - Chairperson
- Mr. Lawrence Karissa
- Mr. Patrick K.Githendu
- Mrs. Wanyambura Mwambia - PS Treasury appointee
- Director HR & Administration

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 Karisa
- Mrs. Rose Simani
- Mr. Patrick K.Githendu
- Director HR & Administration

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

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

Board Staff and Nomination Committee

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

- Mr. Lawrence Karissa - Chairman
- Mr. Godfrey Mburia
- Mr. Julius Sitienei
- Mr. Benedict W. Simiyu
- Dr. Gideon Muriuki, CBS, 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.

The Head of Business Banking Moses Gitau responds to customers' questions at Co-op Bank's SME Customer Engagement Forum hosted at Sarova Woodlands Nakuru on Friday 8 March 2019. The Bank has rolled out a nationwide program to train and equip business owners with skills to navigate the changing operating environment in the economy.

Board attendance summary

Directors-2018 Board Meetings Attendance	Co-operative Bank Group				Co-operative Bank of Kenya Ltd Board Sub-committees			
	Co-operative Bank of Kenya Ltd	Co-op Consultancy & Insurance Agency Ltd	Co-optrust Investment Services Ltd	Kingdom Securities	Audit Committee	Staff and Nomination Committee	Credit Committee	Risk Committee
Schedule of meetings:								
John K. Murugu -Chairman (appointed on 01 October 2017)	7						3	
Macloud Malonza, HSC - Vice Chairman (appointed on 01 October 2017)	7	5	5				3	
Dr. G. Muriuki, CBS, MBS - Group Managing Director & CEO	7	5	5			3	3	
Lawrence C. Karissa	7				5	3		4
Rose Simani (Mrs)	7				5			4
W. Ongoro, HSC	7						3	
W. J. Mwambia – representing PS ministry of Finance	6				5			4
Julius Sitienei	7			6		3		
Richard L. Kimanthi	7						3	
Benedict W.Simiyu	7					3		
Godfrey K. Mburia	7					3		
Patrick K. Githendu	7			6	5			4
Scholastica Odhiambo (Mrs)		5	5					
James N. Njiru		5	5					
David M. Muthigani		5	5					
Mary N. Mungai (Mrs.) OGW		5	5					
Francis Ngone		4	4					
Geoffrey M'Nairobi		4	4					
Dr. James Kahunyo		3	3					
Boaz Ouma Awitti				6				
Mwangi Kariuki				5				
Anthony Mburu				6				
Patrick Ndonye				3				

Co-op Bank South Sudan			
	Full BOD	Audit	Risk & Finance
Schedule of meetings:			
ENG. William W. Mayar	5		2
John K. Murugu, OGW	5	2	
Macloud Malonza, HSC	5		2
Dr. G. Muriuki, CBS, MBS – Group Managing Director & CEO	5	2	2
Elijah Wamalwa – Managing Director	5	2	2
Prof. Mathew Gordon Udo	5	2	
Wani Buyu Dyori	3		
Rosemary M. Githaiga (Mrs.)	3		
Hon. Ocum Genes Karlo	2		

The Board of Directors at the Co-operative Bank stand at the Agriculture Society of Kenya Mombasa International Trade Fair, after a successful strategy session. The Bank was rated Best Bank at the key forum.

Board Remuneration

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

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

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

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

As at 31 December 2018 loans to Non-Executive Directors or companies controlled by Directors amounted to KShs 450.9 million (2017; KShs 124.1 million). All loans to directors were made in the ordinary course of business and substantially same terms including collateral as those prevailing at the same time for comparable transactions with other persons. No allowances for impairment were recognized in respect of the loans to Directors. (2017: KShs. Nil). 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. (2017 KShs. Nil)

Management Committees/Executive Committees

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

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

Directors Shareholdings

Directors' interest in the ordinary share capital of the Company on 31 December 2018 was as follows:

Name	No. of Shares	%
John Murugu (OGW) - Chairman	1,895,040	0.03
Macloud Malonza, HSC - V. Chairman	5,160,000	0.09
Dr. Gideon Muriuki, CBS - GMD	105,083,700	1.79
Rose Simani (Mrs)	-	-
Benedict Simiyu	3,360	0.00
Wilfred Ongoro, HSC	8,400	0.00
Lawrence Karissa	3,860	0.00
Richard L. Kimanthi	-	-
Julius Sitienei	4,042,639	0.07
Wanyambura Wambia	-	-
Patrick Gitendu	86,415	0.00
Godfrey K. Mburia	2,300,000	0.04
Samuel M. Kibugi - Company Secretary	88,460	0.00
Francis Ngone	-	-
David Muthigani Muriuki	11,592	0.00
James N. Njiru	1,680	0.00
Scholastica Odhiambo	1,825,524	0.00
Mary N. Mungai	-	-
Geoffrey M'Nairobi	67,420	0.00
TOTAL	**120,578,090**	**2.06**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RENT OVERDUE!!!
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CO-OPERATIVE BANK
We are you
The Co-operative Bank is regulated by the Central Bank of Kenya
@Coopbankenya
Co-op Bank Kenya (Official)
The Co-operative Bank is regulated by the Central Bank of Kenya

Financial Statements

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2018.

1. INCORPORATION

The company is domiciled in Kenya where it is incorporated as a public company limited by shares under the Kenyan Companies Act, 2015. The address of the registered office is set out on page 215.

2. PRINCIPAL ACTIVITIES

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

3. GROUP OPERATIONS

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

4. RESULTS

The results of the Group for the year are set out from page 94.

5. RECOMMENDED DIVIDEND

The directors recommend payment of a first and final dividend of KShs 1 (2017 - KShs 0.80) for every ordinary share of KShs 1. The dividends will be paid on or about 7 June 2019 to the shareholders registered on the Bank's register at the close of business on 29 April 2019. The register will remain closed for one day on 30 April 2019 for the preparation of dividend warrants.

6. RESERVES

The movement in the Group's reserves is shown on page 100 of these financial statements.

7. GROUP DIRECTORS

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

Co-operative Bank of Kenya and Kenyan subsidiaries:-

J. K. Murugu, OGW	- Chairman
M. Malonza, HSC	- Vice Chairman
Dr. G. Muriuki, CBS, MBS	- Group Managing Director & CEO
L. C. Karissa	- Chairman, Staff and Nominations Committee
R. Simani (Mrs)	- Chairperson, Board Audit Committee
W. Ongoro, HSC	
Wanyambura Mwambia	- Representing PS, National Treasury (Chairman, Board Risk Committee)
J. Sitienei	
R. L. Kimanthi	
S. Odhiambo (Mrs)	
Dr.J.Kahunyo	- Retired on 1st September 2018
P.K. Githendu	
G. K. Mburia	
B.W. Simiyu	
J.N. Njiru	
D.M. Muthigani	
M. N. Mungai (Mrs), OGW	- Commissioner of Co-operatives
F. Ngone	- Appointed on 22nd May 2018
G. M'Nairobi	- Appointed on 22nd May 2018

Report of the Directors (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

7. GROUP DIRECTORS (continued)

Co-operative Bank of South Sudan: -

William Mayar Wol*	Chairman
Elijah Wamalwa	Managing Director
Prof. Mathew Gordon Udo*	
Hon. Wani Buyu Dyori*	Retired on 8th November 2018
Hon. Ocum Genes Karlo*	Appointed on 8th November 2018
John K Murugu OGW	
Macloud Malonza, HSC	
Dr. Gideon Muriuki, CBS, MBS	
Rosemary Majala Githaiga (Mrs)	

**South Sudanese*

8. BUSINESS REVIEW

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

Our Business Model

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

Through our subsidiaries we offer Fund Management, Co-operatives Movement consultancy & capacity building, Insurance Brokerage, Stock brokerage and the latest new business of leasing.

Our customer base has grown by 13% to 8 Million accounts in 2018. Our 155 branch network (4 in South Sudan) covers 40 counties in Kenya, with our alternative channels growing: M-Co-op Cash (3.98 Million customers), Internet banking (82,492 customers), over 580 ATM's, Over 12,000 Co-op Kwa Jirani Agents and a 24 hour Contact Centre.

The 2015-2019 Business Plan and Strategy is founded on the 'Soaring Eagle Transformation Project". The Key Pillars of Transformation are;

1. Branch Transformation: Customer Experience & Retail Sales Force Effectiveness
2. MSME Transformation
3. Sales Force Effectiveness (SFE)
4. Shared Services & Digitization 'The Digital Bank'
5. NPL Management & Credit processes
6. Cost Management
7. Data Analytics
8. Staff Productivity

Report of the Directors (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

8. BUSINESS REVIEW (continued)

The Key achievements of the transformation journey are;

- ✓ Customer Centric Model away from product centricity.
- ✓ Reduced customer Queue time to below 15 Minutes, enhanced our overall customer experience (NPS score to over 60)
- ✓ Achieved 92% Migration of our customers to digital Channels.
- ✓ Implementation of SFE toolkits and rhythms for Retail, Corporate and Co-operatives segments.
- ✓ Implementation of our key strategic focus towards deepening our penetration in the MSME market segment.
- ✓ Implementation of a Proactive credit management and process review
- ✓ Continued free up time for sales teams through digital initiatives.
- ✓ Implementation of key Digital tools Namely: Customer Relationship Management (CRM) Platform, Account Planning system, E-Collect and Data analytics
- ✓ Full rollout of the banks E-Credit product offering.
- ✓ Implementations of a high level digital banking strategy notably supported by the following high value projects: Omni Channel, Open banking, Business Process Management System (BPMS).
- ✓ Lean KPI with Differentiated performance and high reward mechanism as well as coaching.

Financial Review

Despite the challenges in 2018, the Group made a profit before tax of Kshs18.16 billion compared to Kshs16.4 billion in 2017. The bank's loan book declined by 3% to Kshs 245 billion whereas total deposits grew by 6.5% to Kshs 307 billion. Government securities increased by 15.9% to KShs 80.27 billion. The bank closed the year with a solid capital base with a core capital to risk weighted assets of 15%, which is 4.5% above the statutory minimum of 10.5%.

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

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

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

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

10. TERMS OF APPOINTMENT OF THE AUDITORS

Ernst & Young LLP continues in office in accordance with the company's Articles of Association and Section 719 of the Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditors' appointment and the related fees. The agreed group auditor's remuneration of KShs 21 million has been charged to profit or loss in the year.

11. APPROVAL OF FINANCIAL STATEMENTS

The Board of Directors approved the financial statements on 20 March 2019.

By order of the Board

Group Managing Director & CEO

Statement of Directors' Responsibilities

FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

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

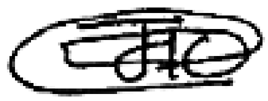
(ii) selecting suitable accounting policies and applying them consistently; and

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

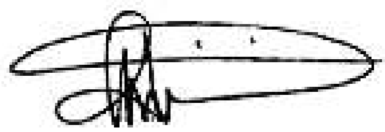
Having made an assessment of the Bank's and its subsidiaries ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the company's ability to continue as a going concern.

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

Approved by the board of directors on 20 March 2019 and signed on its behalf by:

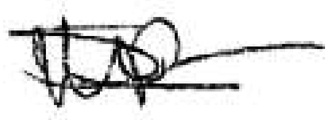


CHAIRMAN



VICE CHAIRMAN

GROUP MANAGING DIRECTOR & CEO



COMPANY SECRETARY

Directors' Remuneration Report

FOR THE YEAR ENDED 31 DECEMBER 2018

The Bank's Directors Remuneration Policy

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

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

The board of directors as mandated by the shareholders establishes and reviews remuneration of the directors from time to time. At every Annual General Meeting (AGM), shareholders pass a resolution authorizing the Board to fix the directors' remuneration, emoluments and compensation appropriately as per industry practice. At the Annual General Meeting held on 25th May 2018 the shareholders authorized the Board to fix the directors remuneration by show of hands.

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

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

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

Transport Facilitation

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

Share Options

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

Loans to Directors

As at 31st December 2018 loans to Non-Executive Directors or companies controlled by Directors amounted to Kshs 451M (2017: KShs.124M). All loans to directors were made in the ordinary course of business and substantially same terms including collateral as those prevailing at the same time for comparable transactions with other persons. No allowances for impairment were recognized in respect of the loans to Directors. (2017: Nil)

Contract of service

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

Directors' Remuneration Report (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

Directors Remuneration Schedules

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

Amounts in KShs Million

	Monthly Retainer	Sitting Allowance	Travelling Facilitation	Honorarium	Responsibility Allowance	Housing Allowance	CEO Annual remuneration	Total 2018	Total 2017
John K. Murugu, OGW - Chairman	4.71	1.29	0.1	4.67	6.17	2.98	-	**19.92**	**10.06**
Macloud M. Malonza, HSC	4.93	1.86	0.11	4.24	2.5	1.28	-	**14.92**	**8.71**
Patrick K. Githendu	1.85	1.33	0.64	3.79	2.22	1.02	-	**10.85**	**7.11**
Julius Sitienei	1.63	0.95	1.05	3.79	-	-	-	**7.42**	**7.41**
Wanyambura Mwambia	1.63	1	0.33	3.79	-	-	-	**6.75**	**6.78**
Rose K. Simani (Mrs)	1.63	1.13	0.35	3.79	-	-	-	**6.9**	**6.89**
Lawrence C. Karissa	1.63	1.11	1.72	3.79	-	-	-	**8.25**	**8.18**
Benedict Simiyu	1.63	0.78	1.18	3.79	-	-	-	**7.38**	**7.53**
Richard L. Kimanthi	1.63	0.78	1.12	3.79	-	-	-	**7.32**	**7.36**
Wilfred Ongoro, HSC	1.63	0.85	0.86	3.79	-	-	-	**7.13**	**6.77**
Godfrey Mburia	1.63	0.89	1.03	3.79	-	-	-	**7.34**	**6.99**
Mary N. Mungai (Mrs), OGW	2.27	0.85	0.22	3.79	-	-	-	**7.13**	**6.55**
Scholastica Odhiambo (Mrs)	2.27	0.85	0.22	3.79	-	-	-	**7.13**	**6.66**
James N. Njiru	2.27	0.85	0.52	3.79	-	-	-	**7.43**	**7.00**
David M. Muthigani	2.27	0.89	0.54	3.79	-	-	-	**7.49**	**6.97**
Francis Ngone	1.56	0.89	0.47	3.79	-	-	-	**6.71**	**-**
Geoffrey M'Nairobi	1.56	0.85	0.52	3.79	-	-	-	**6.72**	**-**
Dr. James Kahunyo	1.58	0.62	0.18	20.92	-	-	-	**23.3**	**6.66**
Mr. Stanley C. Muchiri, EBS	-	-	-	-	-	-	-	**-**	**21.91**
Mr. Julius Riungu	-	-	-	-	-	-	-	**-**	**6.88**
Dr. G. Muriuki, CBS, MBS - GMD & CEO	-	-	-	-	5.7	-	99.76	**105.46**	**99.8**
	38.31	**17.77**	**11.16**	**86.68**	**16.59**	**5.28**	**99.76**	**275.53**	**246.22**

Directors' Remuneration Report (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

b) Kingdom Securities Limited (60% Owned)

Amounts in KShs Million

Amounts in KShs Million	Monthly Retainer	Sitting Allowance	Travelling Facilitation	Total 2018	Total 2017
Julius Sitienei - Chairman	0.72	0.33	0.40	**1.45**	**0.51**
Patrick K. Githendu	0.36	0.27	0.17	**0.80**	**0.24**
B. M. Ouma-Awiti	0.36	0.27	0.44	**1.07**	**0.85**
Samuel M. Kariuki	0.36	0.19	0.07	**0.62**	**0.67**
Mr. Stanley C. Muchiri, EBS	-	-	-	**-**	**0.69**
Mr. Julius Riungu	-	-	-	**-**	**0.43**
	1.8	**1.06**	**1.08**	**3.94**	**3.39**

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

Amounts in KShs Million

	Monthly Retainer	Sitting Allowance	Travelling Facilitation	Responsibility Allowance	Housing Allowance	Total 2018	Total 2017
Eng. William Mayar Wol - Chairman	2.42	0.34	1.68	3.65	3.94	**12.03**	**15.09**
John K. Murugu, OGW	1.51	0.26	-	-	-	**1.77**	**0.51**
Prof. Mathew Gordon Udo	1.51	0.19	1.27	-	-	**2.97**	**3.12**
Macloud M. Malonza, HSC	1.51	0.23	-	-	-	**1.74**	**0.56**
Hon. Ocum Genes Karlo	0.69	0.08	0.39	-	-	**1.16**	**-**
Hon. Wani Buyu Dyori	0.81	0.19	0.89	-	-	**1.89**	**3.48**
Rosemary Githaiga (Mrs)	1.51	0.16	-	-	-	**1.67**	**2.26**
Dr. G. Muriuki, CBS, MBS - GMD & CEO	1.51	0.09	-	-	-	**1.6**	**2.35**
Mr. Stanley C. Muchiri, EBS	-	-	-	-	-	**-**	**1.81**
Mr. Julius Riungu	-	-	-		-	**-**	**1.79**
	11.47	**1.54**	**4.23**	**3.65**	**3.94**	**24.83**	**30.97**

Five (5) Year Summary of Directors Emoluments

Amounts in KShs'000	2018	2017	2016	2015	2014
Directors emoluments	198,843	180,790	163,742	148,257	161,129

Directors' Remuneration Report (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

Executive Management Compensation

The Bank has undergone tremendous Growth and Transformation; from a sectoral, for many years, a loss making Bank with no returns to shareholders, the Bank has boldly transformed to one of the Top Banks in the region with Asset base of over Kshs 413.7 billion and Profit Before tax of KShs 18.2 billion in a fast changing and highly competitive market environment, thereby maximizing on shareholder value. The Bank is now the largest Cooperative Bank in Africa, and 5th largest company by Market Capitalization at the Nairobi Securities Exchange.

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

Under the performance driven culture, it is noteworthy that the Bank has progressively improved profitability from a huge loss of KShs2.3 billion in year 2000 and an asset base of KShs22.3 billion to the current profit before tax of over KShs18.2 billion and asset base of over KShs 413.7 billion.

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

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

2011

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

2012

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

2013

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

2014

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

2015

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

2016

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

Directors' Remuneration Report (continued)

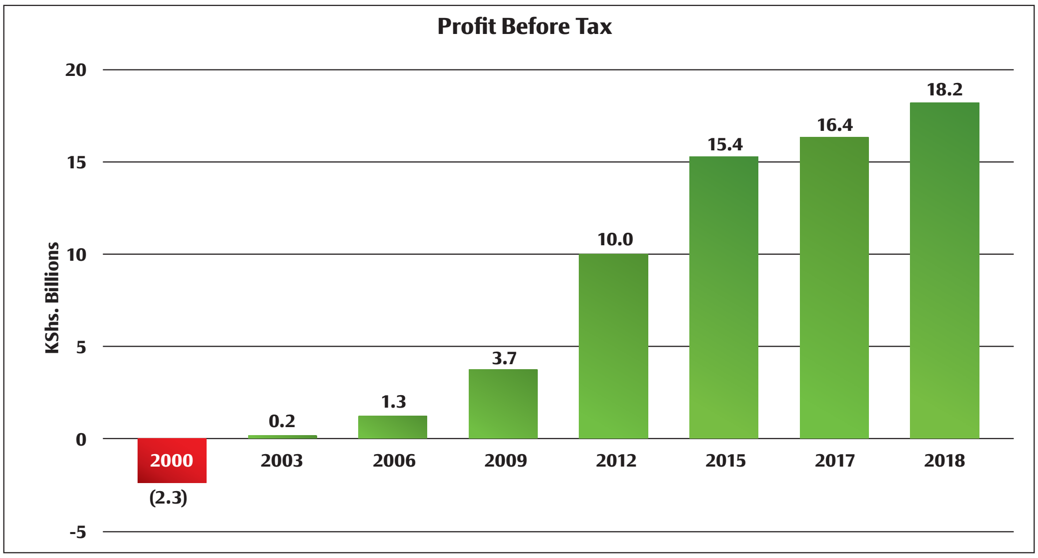
2017 Awards

- EMEA African Banking Awards: Best Bank in Kenya
- Social Bankers: Most Socially Devoted Bank
- KBA CATALYST AWARDS 2017 Overall Winner
  - 1ST - Client Case Study – Financing Commercial Clients
  - 1ST - Bank Case Study – Bank Operations & Policy
  - 2ND - Best Practice in Sustainable Finance
  - 3RD - Sustainability Through Policy & Governance
  - 3RD - Client Case Study – Financing Micro, Small & Medium-Sized Companies
- FIRE Awards: 1st Runners-up in Corporate Social Investment reporting

2018 Awards:

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

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



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

Amount in KShs' Million	Salaries	Bonus/Gratuity	Fees, Other allowances and Honorarium
Board of Directors	-	-	198.84
Executive Management*	482.22	409.34	-
*Group MD & CEO	105.46	271.01	-

By the order of the board.

Samuel M. Kibugi
Company Secretary

Independent Auditors' Report

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

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of The Co-operative Bank of Kenya Limited ("the Bank") and its subsidiaries (together, "the Group"), set out on pages 94 to 214, which comprise the consolidated and separate statement of financial position as at 31 December 2018, and the consolidated and separate statement of profit or loss and other comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and the Bank as at 31 December 2018, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

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

Key Audit Matters

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

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

Independent Auditors' Report (continued)

<table>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td>Expected Credit Losses (ECLs) on loans and advances to customers</td><td></td></tr>
<tr><td>
IFRS 9 introduces new impairment rules which prescribe a new, forward looking, expected credit loss ('ECL') impairment model which takes into account reasonable and supportable forward looking information, which will generally result in the earlier recognition of impairment provisions.
As described in notes Note 2c(ii), 2(n), 3(a) and 13(c) to the financial statements which give a description of the accounting policies and an analysis of credit risk, the expected credit losses have been determined in accordance with IFRS 9 Financial Instruments.
We focused on this area because there are a number of significant management-determined judgements including:

The assumptions to apply in the expected credit loss models
Determining the criteria for a significant increase in credit risk
Interpretation of the impairment requirements of IFRS 9
Application of additional overlays such as future economic assumptions to reflect external factors not captured in the Group's ECL models
techniques used to determine the Probability of Default ('PD') and Loss Given Default ('LGD')

These judgements required new models to be built and implemented to measure the expected credit losses on loans and advances to customers.
The IFRS 9 Day 1 ECL adjustment arising from the differences between the carrying amounts previously reported under IAS 39 and the new carrying amounts of loan and advances to customers as of 1 January 2018 of KShs 7.4 billion has been recognised in the opening retained earnings.
We also considered the disclosures on the new accounting policies and the analysis of credit risk under IFRS 9 to be important to the users' understanding of the financial statements.
</td><td>
We obtained an understanding of the relevant controls management had in place and newly implemented in relation to the adoption of the new standard and tested for implementation. We performed the following procedures; -

We obtained an understanding of the Company's process for estimating the ECL;
We analyzed the expected credit loss models against IFRS 9 guidelines;
We tested the design effectiveness of the ECL models to understand the key assumptions behind the models.
We tested the key controls over the administration of the expected credit loss model
We tested the completeness of financial assets evaluated to determine whether all assets were included in the calculations by evaluating the assets included on the statement of financial position and whether they met the definition of a financial asset.
We picked a sample and performed procedures to determine accuracy for exposures assessed on an individual basis
For forward looking assumptions used by the Group, we held discussions with management and corroborated the assumptions using both internal and publicly available information; and
We assessed the accuracy of the relevant disclosures in the financial statements.

</td></tr>
</table>

Independent Auditors' Report (continued)

Key Audit Matter	How the matter was addressed in the audit
Reporting in hyperinflationary economies by Co-operative Bank of South Sudan	
With effect from 2016, the South Sudan economy was considered to be hyperinflationary in accordance with International Practices Task Force (IPTF) which required all registrants in South Sudan to report in accordance with International Accounting Standard (IAS) 29 -Financial Reporting in Hyperinflationary Economies. As a result, the financial statements of Co-Operative Bank of South Sudan, which are included in the Group financial statements, have been restated to reflect the changes in general purchasing power of the South Sudanese Pound as required by International Accounting Standard (IAS) 29. 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 statements are the consumer price index (CPI) between 2017 and 2018 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 Report of Directors as required by the Kenyan Companies Act of Kenya, 2015 which we obtained prior to the date of this report and the Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

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

Independent Auditors' Report (continued)

Responsibilities of the directors for the consolidated and separate financial statements

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

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

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

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

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

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

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

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

Independent Auditors’ Report (continued)

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

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

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

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

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

i) in our opinion, the information given in the report of the directors on pages 80 to 82 is consistent with the consolidated and separate financial statements; and,

ii) in our opinion, the auditable part of directors’ remuneration report on page 84 to 88 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

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

EY

Nairobi, Kenya

29 March 2019

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2018

	Notes	2018 KShs'000	2017 KShs'000
ASSETS			
Cash and balances with Central Banks	7	32,478,601	24,260,196
Deposits and balances due from banks	8	18,081,648	7,730,354
Held-for-trading investments	9	-	639,952
Available-for-sale investments	10	-	28,698,765
Debt instruments at fair value through other comprehensive income	10	30,572,358	-
Equity instruments at fair value through other comprehensive income	10	164,081	-
Derivative financial instruments	11	664,514	763,540
Other assets	12	19,678,552	14,104,561
Loans and advances to customers	13(a)	245,410,302	253,861,644
Held-to-maturity investments	14	-	43,983,288
Debt instruments at amortised cost	14	52,092,150	-
Tax recoverable	24(b)	18,172	156,695
Investments in associates	16	2,161,475	2,143,347
Intangible assets	17(a)	2,497,243	2,018,875
Prepaid lease rentals	18	35,132	35,742
Property and equipment	19(a)	6,614,048	7,493,574
Deferred tax asset	20	3,202,434	967,124
TOTAL ASSETS		**413,670,710**	**386,857,657**
LIABILITIES			
Deposits and balances due to banks	21	443,260	373,464
Customer deposits	22(a)	306,117,046	287,371,708
Loans and borrowings	23	23,949,611	25,156,054
Tax payable	24(b)	321,453	-
Provisions	25	151,147	187,793
Other liabilities	26	11,213,590	3,475,686
Government grants	27	461,892	480,367
Deferred tax liability	20	257,496	-
TOTAL LIABILITIES		**342,915,495**	**317,045,072**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT			
Share capital	28	5,867,180	5,867,180
Share premium	29	1,911,926	1,911,926
Revaluation reserve	30(a)	1,292,735	1,296,498
Retained earnings	30(b)	53,976,280	55,329,786
Fair value reserve	30(c)	(438,161)	(733,149)
Statutory reserve	30(d)	1,013,587	718,617
Foreign currency translation reserve	30(e)	(88,609)	-
Proposed dividends	31	5,867,180	4,693,744
		69,402,118	**69,084,602**
Non-controlling interest	32	1,353,097	727,983
TOTAL EQUITY		**70,755,215**	**69,812,585**
TOTAL LIABILITIES & EQUITY		**413,670,710**	**386,857,657**

The financial statements were approved by the Board of Directors on 20 March 2019 and signed on its behalf by: -

J. K. Murugu, OGW - Chairman

M. Malonza, HSC - Vice Chairman

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

S. M. Kibugi - Company Secretary

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 KShs'000	2017 KShs'000
Interest and similar income	33	43,540,568	36,272,613
Interest and similar expense	34	(12,240,115)	(12,269,219)
NET INTEREST INCOME		**31,300,453**	**24,003,394**
Fees and commission income	35	8,941,686	9,815,411
Fees and commission expense	35	(111,322)	(94,600)
NET FEES AND COMMISSION INCOME		**8,830,364**	**9,720,811**
Net trading income	36	2,343,734	5,352,939
Amortisation of government grants	27	18,475	18,475
Write back of credit Loss on other financial assets		131,290	-
Other operating income	37	935,373	2,500,390
TOTAL OTHER INCOME		**3,428,872**	**7,871,804**
OPERATING INCOME		**43,559,689**	**41,596,009**
Credit loss expense on loans and advances	13(c)	(1,722,167)	(3,601,252)
Amortisation of intangible assets	17(a)	(562,328)	(549,307)
Amortisation of leasehold land	18	(610)	(610)
Depreciation of property and equipment	19(a)	(1,817,946)	(1,951,027)
Employee costs	38	(11,449,964)	(10,100,351)
Other operating expenses	39	(10,020,959)	(9,124,728)
OPERATING EXPENSES		**(25,573,974)**	**(25,327,275)**
OPERATING PROFIT		**17,985,715**	**16,268,734**
Share of profit of associates	16	171,416	129,904
PROFIT BEFORE TAX		**18,157,131**	**16,398,638**
Income tax expense	24(a)	(5,424,645)	(4,993,573)
PROFIT FOR THE YEAR		**12,732,486**	**11,405,065**
Attributable to:			
Equity holders of the parent		12,788,882	11,693,958
Non-controlling interest		(56,396)	(288,893)
		12,732,486	**11,405,065**
Basic earnings per share (KShs)	40	2.18	1.99
Diluted earnings per share (KShs)	40	2.18	1.99

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 KShs'000	2017 KShs'000
PROFIT FOR THE YEAR		**12,732,486**	**11,405,065**
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net movement on debt instruments at fair value through other comprehensive income	41	253,859	-
Net movement on available-for-sale investments	41	-	512,969
Share of other comprehensive income of associates			
- Fair value gain on available for sale investments		-	(73,946)
- Fair value gain on debt instruments at fair value through other comprehensive income		25,018	-
-Exchange differences on translation of a foreign operation		(78,094)	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation gains/(losses) on equity instruments at fair value through other comprehensive income		11	-
Share of other comprehensive income of associates			
- Revaluation of building		13,467	24,188
OTHER COMPREHENSIVE INCOME, NET OF TAX		**214,261**	**463,211**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF INCOME TAX		**12,946,747**	**11,868,276**
Attributable to:-			
Equity holders of the parent		13,005,808	12,134,025
Non-controlling interest		(59,061)	(265,749)
		12,946,747	**11,868,276**

Bank Statement of Financial Position

AS AT 31 DECEMBER 2018

	Notes	2018 KShs'000	2017 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	7	29,884,170	22,541,500
Deposits and balances due from banks	8	17,596,366	7,739,831
Held-for-trading investments	9	-	150
Available-for-sale investments	10	-	28,515,665
Debt instruments at fair value through other comprehensive income	10	30,572,358	-
Equity instruments at fair value through other comprehensive income	10	35,151	-
Derivative financial instruments	11	664,514	763,540
Other assets	12	19,571,309	14,068,733
Tax recoverable	24(b)	-	207,583
Loans and advances to customers	13(a)	243,546,383	252,361,773
Held-to-maturity investments	14	-	43,827,327
Debt instruments at amortised cost	14	51,935,363	-
Investments in subsidiaries	15	2,512,920	2,512,920
Investments in associates	16	755,118	755,118
Intangible assets	17(b)	2,093,951	1,605,973
Prepaid lease rentals	18	35,132	35,742
Property and equipment	19(b)	5,971,546	6,811,963
Deferred tax asset	20	3,129,344	1,081,822
TOTAL ASSETS		**408,303,625**	**382,829,640**
LIABILITIES			
Deposits and balances due to banks	21	839,621	423,701
Customer deposits	22(a)	303,753,161	285,566,236
Loans and borrowings	23	23,949,611	25,156,054
Tax payable	24(b)	294,555	-
Provisions	25	147,582	184,297
Other liabilities	26	11,000,074	3,272,206
Government grants	27	461,892	480,367
TOTAL LIABILITIES		**340,446,496**	**315,082,861**
EQUITY			
Share capital	28	5,867,180	5,867,180
Share premium	29	1,911,926	1,911,926
Revaluation reserve	30(a)	1,198,144	1,227,294
Retained earnings	30(b)	52,376,129	53,954,407
Fair value reserves	30(c)	(298,944)	(625,616)
Statutory reserve	30(d)	935,514	717,844
Proposed dividends	31	5,867,180	4,693,744
TOTAL EQUITY		**67,857,129**	**67,746,779**
TOTAL LIABILITIES & EQUITY		**408,303,625**	**382,829,640**

The financial statements were approved by the Board of Directors on 20 March 2019 and signed on its behalf by:-

J. K. Murugu, OGW - Chairman

M. Malonza, HSC - Vice Chairman

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

S. M. Kibugi - Company Secretary

Bank Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 KShs'000	2017 KShs'000
Interest and similar income	33	43,160,536	36,028,099
Interest and similar expense	34	(12,200,735)	(12,232,701)
NET INTEREST INCOME		**30,959,801**	**23,795,398**
Fees and commission income	35	7,569,878	8,635,149
Fees and commission expense	35	(111,322)	(94,600)
NET FEES AND COMMISSION INCOME		**7,458,556**	**8,540,549**
Net trading income	36	2,052,864	5,030,221
Amortisation of government grants	27	18,475	18,475
Write back on credit loss		44,109	-
Other operating income	37	993,083	2,571,488
TOTAL OTHER INCOME		**3,108,531**	**7,620,184**
OPERATING INCOME		**41,526,888**	**39,956,131**
Credit loss expense on loans and advances	13(c)	(1,706,753)	(3,547,235)
Credit loss expense on other financial assets and commitments		(99,680)	-
Amortization of intangible assets	17(b)	(488,392)	(499,330)
Amortisation of leasehold land	18	(610)	(610)
Depreciation of property and equipment	19(b)	(1,612,198)	(1,786,069)
Employee costs	38	(10,953,108)	(9,614,810)
Other operating expenses	39	(9,079,389)	(8,005,896)
OPERATING EXPENSES		**(23,940,130)**	**(23,453,950)**
PROFIT BEFORE TAX		**17,586,758**	**16,502,181**
Income tax expense	24(a)	(5,177,681)	(4,866,651)
PROFIT FOR THE YEAR		**12,409,077**	**11,635,530**
Basic earnings per share (KShs)	40	2.11	1.98
Diluted earnings per share (KShs)	40	2.11	1.98

Bank Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 KShs'000	2017 KShs'000
PROFIT FOR THE YEAR		**12,409,077**	**11,635,530**
OTHER COMPREHENSIVE INCOME:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net loss/gain on debt instruments at fair value through other comprehensive income	41	326,661	-
Net loss/gain on available-for-sale investments	41	-	463,218
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation gains/(losses) on equity instruments at fair value through other comprehensive income		11	-
OTHER COMPREHENSIVE INCOME, NET OF TAX		**326,672**	**463,218**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		**12,735,749**	**12,098,748**

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to the equity holders of the parent										
	Share capital	Share premium	Revaluation reserve	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Proposed dividends	Retained earnings	Total	Non-controlling interest	Total equity
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January 2017	**4,889,317**	**2,889,789**	**1,338,103**	**736,418**	**(1,158,031)**	**-**	**3,911,453**	**48,208,633**	**60,815,682**	**(195,557)**	**60,620,125**
Profit /(loss) for the year								11,693,958	11,693,958	(288,893)	11,405,065
Other comprehensive income	-	-	15,185	-	424,882	-	-	-	440,068	23,144	463,211
Total comprehensive income	**-**	**-**	**15,185**	**-**	**424,882**	**-**	**-**	**11,693,958**	**12,134,025**	**(265,749)**	**11,868,276**
Transfer of excess depreciation			(29,150)	-	-		-	29,150	-	-	-
Deferred tax on excess depreciation	-	-	-	-	-			12,493	12,493		12,493
Exchange difference on hyperinflationary economy	-	-	(27,640)	(17,801)	-	-	-	79,296	33,854	221,515	255,370
Issue of bonus shares	977,863	(977,863)	-	-	-	-	-	-	-	-	-
Issue of additional shares								-	-	967,774	967,774
2016- Dividends paid	-	-	-	-	-		(3,911,453)	-	(3,911,453)	-	(3,911,453)
Proposed dividends	-	-	-	-	-	-	4,693,744	(4,693,744)	-	-	-
At 31 December 2017	**5,867,180**	**1,911,926**	**1,296,498**	**718,617**	**(733,149)**	**-**	**4,693,744**	**55,329,786**	**69,084,602**	**727,983**	**69,812,585**
At 1 January 2018	**5,867,180**	**1,911,926**	**1,296,498**	**718,617**	**(733,149)**	**-**	**4,693,744**	**55,329,786**	**69,084,602**	**727,983**	**69,812,585**
Impact of adopting IFRS 9(Note 2(cc))	-	-	-	-	-	-	-	(8,302,566)	(8,302,566)	(159,988)	(8,462,554)
Restated opening balance under IFRS 9	**5,867,180**	**1,911,926**	**1,296,498**	**718,617**	**(733,149)**	**-**	**4,693,744**	**47,027,220**	**60,782,036**	**567,995**	**61,350,031**
Profit /(loss) for the year	-	-	-	-	-	-	-	12,788,882	12,788,882	(56,396)	12,732,486
Other comprehensive income	-	-	10,549	-	294,987	(88,609)	-	-	216,927	(2,666)	214,261
Total comprehensive income	**-**	**-**	**10,549**	**-**	**294,987**	**(88,609)**	**-**	**12,788,882**	**13,005,809**	**(59,062)**	**12,946,747**
Transfer of excess depreciation			(29,150)	-		-	-	29,150	-	-	-
Deferred tax on excess depreciation			-	-	-	-	-	12,493	12,493	-	12,493
Transfer to statutory reserve	-	-	-	291,875	-	-	-	(291,875)	-	-	
Exchange difference on hyperinflationary economy	-	-	14,838	3,095	-	-	-	277,590	295,523	171,237	466,760
Issue of additional shares	-	-	-	-	-	-	-	-	-	672,927	672,927
2017- Dividends paid	-	-	-	-	-	-	(4,693,744)	-	(4,693,744)	-	(4,693,744)
Proposed dividends	-	-	-	-	-	-	5,867,180	(5,867,180)	-	-	-
At 31 December 2018	**5,867,180**	**1,911,926**	**1,292,735**	**1,013,587**	**(438,162)**	**(88,609)**	**5,867,180**	**53,976,280**	**69,402,118**	**1,353,097**	**70,755,215**

Bank Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Share premium	Revaluation reserve	Statutory reserve	Fair value reserve	Proposed dividends	Retained earnings	Total
	KShs'000		KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
As at 1 January 2017	**4,889,317**	**2,889,789**	**1,256,445**	**717,844**	**(1,088,834)**	**3,911,453**	**46,970,978**	**59,546,992**
Profit for the year	-	-		-		-	11,635,530	**11,635,530**
Other comprehensive income	-	-	-	-	463,218	-	-	**463,218**
Total comprehensive income	**-**	**-**	**-**	**-**	**463,218**	**-**	**11,635,530**	**12,098,748**
Issue of bonus shares	977,863	(977,863)	-	-	-	-	-	**-**
Transfer of excess depreciation	-	-	(29,150)	-	-	-	29,150	**-**
Deferred tax on excess depreciation	-	-	-	-	-	-	12,493	**12,493**
2016- Dividends paid	-	-	**-**	-	-	(3,911,453)	-	**(3,911,453)**
Proposed dividends	-	-	-	-	-	4,693,744	(4,693,744)	**-**
At 31 December 2017	**5,867,180**	**1,911,926**	**1,227,294**	**717,844**	**(625,616)**	**4,693,744**	**53,954,407**	**67,746,780**
At 1 January 2018	**5,867,180**	**1,911,926**	**1,227,294**	**717,844**	**(625,616)**	**4,693,744**	**53,954,407**	**67,746,780**
Impact of adopting IFRS 9 (Note 2(cc))	-	-	-	-	-	-	(7,944,149)	**(7,944,149)**
Restated opening balance under IFRS 9	**5,867,180**	**1,911,926**	**1,227,294**	**717,844**	**(625,616)**	**4,693,744**	**46,010,258**	**59,802,631**
Profit for the year	-	-		-		-	12,409,077	**12,409,077**
Other comprehensive income	-	-	-	-	326,672	-	-	**326,672**
Total comprehensive income	**-**	**-**	**-**	**-**	**326,672**	**-**	**12,409,077**	**12,735,749**
Transfer of excess depreciation	-	-	(29,150)	-	-	-	29,150	**-**
Deferred tax on excess depreciation	-	-	-	-	-	-	12,493	**12,493**
Transfer to statutory reserve	-	-	-	217,670	-	-	(217,670)	**-**
2017- Dividends paid	-	-	-	-	-	(4,693,744)	-	**(4,693,744)**
Proposed dividends	-	-	-	-	-	5,867,180	(5,867,180)	**-**
At 31 December 2018	**5,867,180**	**1,911,926**	**1,198,144**	**935,514**	**(298,944)**	**5,867,180**	**52,376,129**	**67,857,129**

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 KShs'000	2017 KShs'000
Cash generated from operating activities	42	38,558,045	12,597,091
Tax paid	24(b)	(5,483,342)	(6,440,474)
Net cash from operating activities		**33,074,703**	**6,156,617**
CASH FLOWS FROM INVESTING ACTIVITIES: -			
Purchase of property and equipment	19(a)	(789,813)	(838,088)
Purchase of intangible assets	17(a)	(977,506)	(713,692)
Proceeds from disposal of property and equipment		7,297	10,026
Purchase of amortised cost/ held-to-maturity investments	14	(10,868,530)	(17,864,906)
Maturity of amortised cost / held-to-maturity investments	14	2,039,900	11,040,380
Dividend from an associate	16	83,287	72,876
Net cash used in investing activities		**(10,505,365)**	**(8,293,404)**
CASH FLOWS FROM FINANCING ACTIVITIES:-			
Proceeds from borrowings	23	7,638,458	9,669,984
Repayment of borrowings	23	(8,562,857)	(3,755,281)
Dividends paid to equity holders of the parent		(4,693,744)	(3,911,453)
Additional capital by non-controlling interest		672,927	967,774
Net cash (used in) / from financing activities		**(4,945,216)**	**2,971,024**
Net movement in cash and cash equivalents		17,624,122	834,237
Effect of foreign exchange difference		42,489	(312,801)
Cash and cash equivalents at the beginning of the year		17,507,216	16,985,780
Cash and cash equivalents at 31 December	**42**	**35,173,827**	**17,507,216**

Bank Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 KShs'000	2017 KShs'000
Cash generated from operating activities	42	37,103,692	12,409,917
Tax paid	24(b)	(5,186,165)	(6,341,065)
Net cash from operating activities		**31,917,527**	**6,068,852**
CASH FLOWS FROM INVESTING ACTIVITIES: -			
Purchase of property and equipment	19(b)	(774,340)	(818,490)
Purchase of software	17(b)	(975,733)	(695,147)
Proceeds from disposal of property and equipment		6,914	10,002
Purchase of amortised cost / held-to-maturity investments	14	(10,868,530)	(17,864,906)
Maturity of amortised cost / held-to-maturity investments	14	2,043,371	11,041,109
Net cash used in investing activities		**(10,568,318)**	**(8,327,432)**
CASH FLOWS FROM FINANCING ACTIVITIES:-			
Proceeds from borrowings	23	7,638,458	9,669,984
Repayment of borrowings	23	(8,562,857)	(3,755,281)
Dividends paid		(4,693,744)	(3,911,453)
Net cash from financing activities		**(5,618,143)**	**2,003,250**
Net movement in cash and cash equivalents		15,731,066	(255,330)
Cash and cash equivalents at the beginning of the year		16,381,622	16,636,952
Cash and cash equivalents at 31 December	42	**32,112,688**	**16,381,622**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL INFORMATION

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

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

2. ACCOUNTING POLICIES

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

(a) Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except for debt and equity financial assets and contingent consideration that have been measured at fair value , derivative financial instruments, financial assets and liabilities designated at fair value through profit or loss and land and buildings carried under the revaluation model.

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

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

(b) Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries and associates as at 31 December 2018. 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 2018

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

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018 as disclosed in note 2(cc).

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

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

New and amended standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

(i) Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires 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 of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortized cost) have been replaced by:

- Debt instruments at amortized cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on de-recognition.
- Equity instruments at FVOCI, with no recycling of gains or losses o profit or loss on de-recognition
- Financial assets FVPL

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

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

(ii) Changes in Impairment calculation

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Upon the adoption of IFRS 9, the Group recognised additional impairment on the Group's Trade receivables and Debt instruments at fair value through OCI, respectively, which resulted in a decrease in Retained earnings. Impairment losses do not reduce the carrying amount of debt instruments at fair value through OCI in the statement of financial position, which remains at fair value.

IFRS 7

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Group has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in Notes 2(cc), detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in the notes 3(a).

Reconciliations from opening to closing ECL allowances are presented in Note 13. IFRS 7R also requires additional and more detailed disclosures for hedge accounting even for entities opting to continue to apply the hedge accounting requirements of IAS 39.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

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

New and amended standards and interpretations (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

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

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

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

The Group adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company elected to apply the standard to all contracts as at 1 January 2018.

The Group performed impact assessment of IFRS 15 and the standard did not have any material impact on the Group's and Bank's financial statements. Revenues for the Group and the Bank are mainly in form of services from fees and commissions, interest income and foreign exchange income. Interest income and foreign exchange income are not in the scope of this standard. See more detail on fees and commissions on note 1(f).

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (Continued)

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

Standards issued but not yet effective

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

IFRS 16 Leases

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

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

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

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group plans to adopt IFRS 16 using modified retrospective approach on 1 January 2019. The Group will elect the practical expedient on determining the discount rate at portfolio approach. The tax impact on adoption of IFRS 16 is yet to be established.

In summary the impact of IFRS 16 adoption is expected to be, as follows:

Impact on the statement of financial position (increase/(decrease)) as at 31 December 2018:

	KShs'000
Assets	
Right to use ("ROU") asset	7,282,720
Liabilities	
Lease Liabilities	7,277,013
Asset Retirement Obligations	-
Net impact on equity	(5,707)

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (Continued)

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

Standards issued but not yet effective (Continued)

IFRS 17 Insurance Contracts

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

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

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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

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

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

The interpretation specifically addresses the following:

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (Continued)

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

Standards issued but not yet effective (Continued)

Amendments to IFRS 9: Prepayment Features with Negative Compensation

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

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

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. The Group will apply these amendments when they become effective.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (Continued)

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

Standards issued but not yet effective (Continued)

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

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

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

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

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

IFRS 3 *Business Combinations*	Previously held Interests in a joint operation • The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including re-measuring previously held interests in the assets and liabilities of the joint operation at fair value. • In doing so, the acquirer re-measures its entire previously held interest in the joint operation. • An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted..
IFRS 11 *Joint Arrangements*	Previously held Interests in a joint operation • A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not re-measured. • An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (Continued)

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

Standards issued but not yet effective (Continued)

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

IAS 12 *Income Taxes*	Income tax consequences of payments on financial instruments classified as equity • The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. • An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.
IAS 23 *Borrowing Costs*	Borrowing costs eligible for capitalization • The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. • An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. • An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (Continued)

(d) Significant accounting estimates and assumptions

The preparation of the Group'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 Group. Such changes are reflected in the assumptions when they occur.

Going concern

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

Fair value of financial instruments

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

Impairment losses on Financial assets

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

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

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(d) Significant accounting estimates and assumptions (continued)

Impairment of non-financial assets

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

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.

(e) Recognition of interest income

i) The effective interest rate method

Under IFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 are also recorded by using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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

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

ii) Interest and similar income/expense

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

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

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(e) Recognition of interest income

ii) Interest and similar income/expense (continued)

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

iii) Presentation of interest income

With effect from 1 January 2018, paragraph 82(a) of IAS 1 requires interest revenue calculated using the eWith effect from 1 January 2018, paragraph 82(a) of IAS 1 requires interest revenue calculated using the effective interest rate (EIR) method to be presented separately on the face of the income statement. This implies that interest revenue calculated using the EIR method is to be differentiated and presented separately from interest revenue calculated using other methods.

The Group has also elected to present its interest expense in a manner consistent and symmetrical with interest income. Therefore, it separates interest expense on liabilities measured at amortised cost from other interest expense. This change was applied prospectively, and the 2017 comparatives have not been restated accordingly. The Group's accounting policies in respect of interest income/expense and the effective interest method are set out in note 2(e) (i) and (ii) above.

(f) Fee and commission income

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(f) Fee and commission income (continued)

Fees and commission income from services where perfomance obligations are satisfied over time (continued)

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

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

Fee and commission income from services where performance obligations are satisfied at a point in time

Services provided where the Group's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These include fees and commissions arising from brokerage, banc assurance, consultancy and training services.

The Group typically has a single performance obligation with respect to these services, which is to successfully complete the transaction specified in the contract.

Brokerage fees: The Group buys and sells securities on behalf of its customers and receives a fixed commission for each transaction. The Group's performance obligation is to execute the trade on behalf of the customer and revenue is recognised once each trade has been executed (i.e., on the trade date). Payment of the commission is typically due on the trade date.

Banc assurance: These fees are received for issuance of insurance covers on behalf of the appointed insurance company. The Group's performance obligation is to issue insurance cover notes and remit the premiums collected every month. The Group recognises revenue as per the fixed rates of commission per premium per insurance class.

Consultancy: These fees arise from provision of advisory services and Front Office Services Activities (FOSA). The Group's performance obligation is to conduct the assignment and issue a report. The Group recognises revenue after the report has been issued as per the fees agreed in the consultancy agreements.

Training: These fees arise from training services rendered to Savings and Credit Co-operative Societies. The Group's performance obligation is to complete the training of the courses specified in the training invites in the period specified. Payment for the training is typically due at the end of the training. The Group recognises revenue after the training has been attended as per the fees indicated in the training invites.

(g) Net trading income

Net trading income includes all gains and losses from changes in fair value and the related interest income or expense and dividends, for financial assets and financial liabilities held for trading.

(h) Property 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.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(h) Property and equipment (continued)

An annual transfer from the asset revaluation surplus to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being disposed is transferred to retained earnings.

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

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

Depreciation

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

Buildings	40 years	2.5%
Fixtures	8 years	12.5%
Furniture and equipment	5 years	20.0%
Motor vehicles	5 years	20.0%
Office machinery	5 years	20.0%
Computers	5 years	20.0%

Leasehold land is depreciated over the remaining period of the lease. Buildings on leasehold land are depreciated over the remaining period of the lease subject to a maximum of forty years. Buildings on freehold land are depreciated over forty years. Freehold land is not depreciated.

The asset's residual values, useful lives and methods of depreciation are reviewed, at each financial year end and prospectively adjusted as a change in estimate, if appropriate.

(i) Business combinations and goodwill

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

If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, the discount on acquisition is recognised directly in profit and loss in the year of acquisition.

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(i) Business combinations and goodwill (continued)

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.

(j) Intangible assets

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

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

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

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

(1) Computer software licences

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

(2) Other intangible assets

Other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. Other intangible assets consist of the NSE trading right and Business rights. The Business rights relate to the costs incurred in negotiating the a business arrangement with the Government of South Sudan. Under the agreement, the Group acquired certain rights that are identifiable e.g., business relationships with the government and co-operative movement.

NSE trading right, which gave participants the right to trade at Nairobi Securities Exchange (NSE) was initially measured at cost and classified as an intangible asset with an indefinite useful life. After initial recognition, the seat was carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated impairment losses. The revaluation was non-recurring due to non-volatility of the fair values of the NSE seat.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(j) Intangible assets (continued)

(2) Other intangible assets (continued)

Effective September 2014 and upon demutualization of Nairobi Securities Exchange (NSE), the NSE Seat was replaced with a trading right which gives participants a right to trade at NSE. The trading right serves the same function as the Seat. The trading right was attached a value of KShs 25 million by NSE Board, which has been taken as its fair value. The shares were all recognised at available for sale financial instruments under IAS 39 which is why they were previously revalued. After the demutualisation the shares were replaced by a right to trade and the shares which is currently held at FVOCI under IFRS 9

The trading right is carried as an intangible asset with an indefinite useful life at the value of KShs 25 million, less any subsequent accumulated impairment losses. The right is not subject to annual renewal and can be transferred to another party. Management tests the trading right for impairment by comparing its recoverable amount with its carrying amount annually and whenever there is an indication that the right may be impaired. The Group bases its impairment calculation on market information and the value of the right when a transaction between two parties takes place.

The value is based on available data from binding sales transactions, conducted at arm's length. In determining the fair value, recent market transactions are taken into account. Any impairment losses are accounted for through profit or loss. Refer to note 2(t) on impairment of non-financial assets.

Other intangible assets are stated at cost less amortisation and provisions for impairment, if any, plus reversals of impairment, if any. They are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(k) Investments in associates

An associate is an entity over which the Group and the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group and the Bank's investments in its associates are accounted for using the equity method and at cost in the separate financial statements.

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(l) Finance and operating leases

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

i) Operating leases:

Where: -

Group is the lessee

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

Group is the lessor

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

ii) Finance leases:

Group as lessee

A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

(m) Financial assets (Policy applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(m) Financial assets (Policy applicable from 1 January 2018) (continued)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes loans and advances to customers, due from banks financial investments at amortised cost and trade receivables.

Due from banks, Loans and advances to customers, Financial investments at amortised cost

Before 1 January 2018, Due from bank and Loans and advances to customers, included non–derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Bank intended to sell immediately or in the near term
- That the Bank, upon initial recognition, designated as at FVPL or as available-for-sale
- For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(m) Financial assets (Policy applicable from 1 January 2018) (continued)

Due from banks, Loans and advances to customers, Financial investments at amortised cost (continued)

From 1 January 2018, the Bank only measures Due from banks, Loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

Financial assets at amortised cost (debt instruments)

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(m) Financial assets (Policy applicable from 1 January 2018) (continued)

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling

And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. The ECL calculation for Debt instruments at FVOCI is explained in Note 10.

The Group's debt instruments at fair value through OCI includes investments in treasury bonds and corporate bonds included under other non-current financial assets.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its listed equity investments under this category.

Derivative financial instruments

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

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

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(m) Financial assets (Policy applicable from 1 January 2018) (continued)

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 Group has credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and result in market risk exposure.

Swaps

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

Financial guarantee, letter of credit and undrawn loan commitment

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. These are written by the Group to support performance by a customer to third parties. The Group will only be required to meet these obligations in the event the customer defaults. Financial guarantee contracts are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. 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 subsequently accounted for at the higher of the amortised amount and the ECL.

Financial assets (policy applicable before 1 January 2018)

Measurement categories of financial assets.

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

(i) Financial assets at fair value through profit or loss

This category comprised 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 was 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 consisted of treasury bonds and equity instruments. They were 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 were re-measured at fair value. Gains and losses arising from changes in fair value are included directly in profit or loss. Interest income and dividend income and expenses on financial assets held-for-trading are also included in profit or loss.

(ii) Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities were classified as held-to-maturity when the Group had the positive intention and ability to hold to maturity. After initial measurement held-to-maturity investments were 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 included treasury bills, treasury bonds and corporate bonds.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(m) Financial assets (Policy applicable before 1 January 2018) (continued)

(iii) Loans and receivables

Loans and receivables were non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables were 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.

(iv) Available-for-sale financial assets

Available-for-sale investments were financial assets that were 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 was derecognised at which time the cumulative gain or loss is recognised in profit or loss or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the income statement.

(n) Impairment of financial assets (Policy applicable from 1 January 2018)

(i) Overview of the Expected Credit Loss (ECL) principles

As described in Note c(ii), the adoption of IFRS 9 has fundamentally changed the Group's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments and other financial assets held at FVPL are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note n (ii). The Group's policies for determining if there has been a significant increase in credit risk are set out in Note 3(a).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 3(a).

Based on the above process, the Group categorises its loans into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: When loans are first recognized, the Group recognizes an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired (as outlined in Note 3(a). The Group records an allowance for the LTECLs.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(n) Impairment of financial assets (Policy applicable from 1 January 2018)

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

(ii) The calculation of ECLs

The Group calculates ECLs based on four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- *Probability of Default (PD):* The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio. The concept of PDs is further explained in Note 3(a)
- *Exposure at Default (EAD):* The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in in Note 3(a).
- *Loss Given Default* (LGD): The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 3(a).

When estimating the ECLs, the Group considers four scenarios (a base case, an upside, a mild downside ('downside 1') and a more extreme downside ('downside 2')). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out below, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value

Provisions for ECLs for undrawn loan commitments are assessed as set out below. The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards is explained below.

The mechanics of the ECL method are summarised below:

Stage 1:

The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.

Stage 2:

When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(n) Impairment of financial assets (Policy applicable from 1 January 2018) (continued)

Stage 3:

For loans considered credit-impaired (as defined in Note 3(a)), the Group recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

Loan commitments and letters of credit

When estimating LTECLs for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised in other liabilities.

Financial guarantee contracts

The Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within Provisions. Financial guarantee contracts are subsequently accounted for at the higher of the amortised amount and the ECL.

(iii) Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

(iv) Credit cards and other revolving facilities(Overdraft)

The Group's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Group has the right to cancel and/or reduce the facilities with one day's notice. The Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group's expectations of the customer behaviour, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Group's expectations, the period over which the Group calculates ECLs for these products, is five years for corporate and seven years for retail products.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in usage.

The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, as explained in Note 3(a) on a collective basis. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(n) Impairment of financial assets (Policy applicable from 1 January 2018)

(v) Forward looking information

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:

- Inflation Rate "Inflation"
- Brent Crude Oil in USD/Barrel "Oil"
- Lending Rate "Lending"

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 3(a).

(vi) Forborne and modified loans

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Group's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

From 1 January 2018, when the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 3 (i). The Group also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 6-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities has to be considered performing
- The probation period of 6 months has passed from the date the forborne contract was considered performing

Impairment of financial assets (Policy applicable from 1 January 2018)

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(n) Impairment of financial assets (Policy applicable from 1 January 2018) (continued)

(1) Financial assets carried at amortised cost

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

For loans and advance impairment losses were computed based on:

i) International Accounting Standard (IAS) 39

Financial assets accounted for at amortised cost were assessed for objective evidence of impairment and required allowances are estimated in accordance with IAS 39. Impairment existed 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 consisted 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 made 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 was assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable were independently approved by the Credit Risk Department. Collectively assessed impairment losses on loans and advances cover credit losses inherent in portfolios of claims with similar economic characteristics where there is objective evidence to suggest that they contain impaired claims but the individual impaired items cannot yet be identified. In assessing the need for collective allowance on impairment losses, directors consider factors such as credit quality, portfolio size, concentrations, and economic factors.

In order to estimate the required allowance for impairment, assumptions were 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 depended 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.

ii) Central Bank of Kenya Prudential Guidelines

This policy did not change with the adoption of IFRS 9. The Group reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognised in the profit or loss. In particular, judgement by the directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

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

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(n) Impairment of financial assets (Policy applicable from 1 January 2018) (continued)

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

ii) Central Bank of Kenya Prudential Guidelines (continued)

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. The practise continues with the adoption of IFRS 9.

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

The Group assessed 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 existed 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 were not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increased and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was 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.

(o) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Group also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset Or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement

Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Group cannot sell or pledge the original asset other than as security to the eventual recipients

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(o) Derecognition of financial assets (continued)

- The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipient.

A transfer only qualifies for derecognition if either:

- The Group has transferred substantially all the risks and rewards of the asset

  Or

- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group's continuing involvement, in which case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Group would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(p) 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 (2017: nil).

(q) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

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

Financial liabilities at amortised cost

i) Customer deposits

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(q) Financial liabilities (continued)

Financial liabilities at amortised cost (continued)

ii) Deposits from/ to other banks

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

iii) Other borrowed funds

Borrowings are financial liabilities and measured initially at fair value and subsequently at amortised cost using the effective interest rate method.

iv) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are recognized as an expenses when incurred. The Group did not have any qualifying assets during the year.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in or loss.

(r) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(s) Offsetting

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

(t) Impairment of non-financial assets

The carrying amounts of the group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, an appropriate valuation model is used.

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

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(t) Impairment of non-financial assets (continued)

If such indication exists, the group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Assets with an indefinite useful life and intangibles not yet brought into use are also tested for impairment annually.

(u) Foreign currency

i) Transactions

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

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

ii) Group companies

With effect from 2016, the South Sudanese economy is considered to be hyperinflationary in accordance with criteria in *International Accounting Standards (IAS) 29-Financial Reporting in Hyperinflationary Economies.*

On consolidation, the statements of profit or loss and financial position of foreign operations whose functional currency is the currency of a hyperinflationary economy are translated into the group's functional currency at the closing rate at the reporting date. The exchange differences arising on translation for consolidation are recognised directly through equity.

Where the functional currency is changed to a currency that is not under hyperinflationary economy, the exchange difference arising on translation is recognised through translation reserve.

(v) Employee benefits

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

Short-term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services (i.e. free medical check-ups, counselling and medical complementary follow-ups)

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the reporting date.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(w) Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of reporting period. Current tax relating to items recognised outside profit or loss is recognised outside profit or loss. Current tax items are recognised in correlation to the underlying transaction either in profit or loss, other comprehensive income or directly in equity.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

(i) where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

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

(ii) or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(iii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each end of the reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of reporting period. Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in profit or loss, other comprehensive income or directly in equity.

Value Added Tax

Revenues, expenses and assets are recognised net of the amount of value added tax except where the value added tax incurred on a purchase of assets or services is not recoverable from the Kenya Revenue Authority (KRA), in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to tax authorities is included as part of accounts receivables or payables in the statement of financial position.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(x) 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.

(y) Cash and cash equivalents

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

(z) 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.

(aa) 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.

(bb) Fair value

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

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

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

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

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

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

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(cc) Transition disclosures

The following pages set out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows:

GROUP		**IAS 39 Measurement**					**IFRS 9**	
Financial Assets	**Ref**	**Category**	**Amount KShs'000**	**Re-classification KShs'000**	**Re-measurement ECL KShs'000**	**Other KShs'000**	**Amount KShs'000**	**Category**
Cash and balances with central banks		L&R	24,260,196	-	(371,249)	-	24,631,445	AC
Deposits and balances due from banks		L&R	7,730,354	-	(9,500)	-	7,720,854	AC
Loans and Advances to customers		L&R	253,861,644	-	(7,451,352)	-	246,410,292	AC
Debt instruments at amortised cost		N/A	-	50,695,753	(597,196)	-	50,098,557	AC
From: Financial Investments-HTM	C			47,466,179				
From: Financial Investments-AFS	B		-	3,229,574				
		L&R	**285,852,194**	**50,695,753**	(8,529,492)	-	328,018,455	
Financial Investments-AFS			**28,713,065**	**(28,713,065)**			N/A	
To: Debt instruments at FVOCI	E			(25,271,182)		(400,303)		
To: Equity instruments FVOCI	F			(212,709)				
To: Debt instruments at amortised cost	B			(3,229,174)				
		AFS	**28,713,065**	**(28,713,065)**	**-**	**-**	**N/A**	
Financial Investments-HTM		HTM	47,466,179	(47,466,179)			N/A	
To: Debt instruments at amortised cost	C			47,466,179			-	
		HTM	**47,466,179**	**47,466,179**	**-**	**-**	**N/A**	
Equity instruments at Fair Value through OCI			N/A	212,709			212,709	FVOCI
From: Financial Investments-AFS	F			212,709				
			N/A	**212,709**	**-**	**-**	**212,709**	FVOCI
Debt instruments at fair value through OCI			N/A	25,270,782	(400,303)	400,303	25,270,782	FVOCI
From: Financial investments-AFS	E			25,270,782	-	-	-	
			N/A	**25,270,782**	**(400,303)**	**400,303**	**25,270,782**	
Derivative Financial Instruments		FVPL	763,540	-	-	-	763,540	FVPL(mandatory)
Financial assets held for trading		FVPL	639,952	-	-	-	639,952	FVPL(mandatory)
Other Financial Assets		L&R	14,227,213		(267,854)	-	13,959,359	AC
			15,630,705	**-**	**(267,854)**	**-**	**15,362,851**	
Non-Financial Assets								
Deferred tax asset		N/A	967,124	-	-	1,567,178	2,534,302	N/A
Total financial and non-financial assets			**378,629,267**	**-**	**(9,197,649)**	**1,567,178**	**370,998,796**	
Financial Liabilities								
Due to banks		FVPL	373,464	-	-	-	373,464	AC
Customer deposits		FVPL	287,371,708	-	-	-	287,371,708	AC
Loans and borrowings		FVPL	25,156,054	-	-	-	25,156,054	AC
Other liabilities		FVPL	17,620,408	-	(832,083)	-	16,788,325	AC
Total liabilities			**330,521,634**	**-**	**(832,083)**	**-**	**329,689,551**	

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(cc) Transition disclosures (Continued)

BANK		**IAS 39 Measurement**					**IFRS 9**	
Financial Assets	**Ref**	**Category**	**Amount KShs'000**	**Re-classification KShs'000**	**Re-measurement ECL KShs'000**	**Other KShs'000**	**Amount KShs'000**	**Category**
Cash and balances with central banks		L&R	22,541,500	-	-	-	22,541,500	AC
Deposits and balances due from banks		L&R	7,739,831	-	(9,500)	-	7,730,331	AC
Loans and Advances to customers		L&R	252,361,773	-	(7,502,965)	-	244,858,808	AC
Debt instruments at amortised cost		N/A	-	50,539,391	(594,565)	-	49,944,826	AC
From: Financial Investments-HTM	C			47,310,217				
From: Financial Investments-AFS	B		-	3,229,174				
		L&R	**282,643,104**	**50,539,391**	**(8,107,030)**	**-**	**325,075,465**	
Financial Investments-AFS			**28,529,965**	**(28,529,965)**			N/A	
To: Debt instruments at FVOCI	E			(25,270,782)		(400,303)		
To: Equity instruments FVOCI	F			(30,009)				
To: Debt instruments at amortised cost	B			(3,229,174)				
		AFS	**28,529,965**	**(28,529,965)**	**-**	**(400,303)**	**N/A**	
Financial Investments-HTM		HTM	47,310,217	(47,310,217)			N/A	
To: Debt instruments at amortised cost	C			(47,310,217)			-	
		HTM	**47,310,217**	**(47,310,217)**	**-**	**-**	**N/A**	
Equity instruments at Fair Value through OCI			N/A	30,009			30,009	FVOCI
From: Financial Investments-AFS	F			30,009				
			N/A	**30,009**	**-**	**-**	**30,009**	FVOCI
Debt instruments at fair value through OCI			N/A	25,270,782	(400,303)	400,303	25,270,782	FVOCI
From: Financial investments-AFS	E			25,270,782	-			
			N/A	**25,270,782**	**(400,303)**	**400,303**	**25,270,782**	
Derivative Financial Instruments		FVPL	763,540	-	-	-	763,540	FVPL(mandatory)
Financial assets held for trading		FVPL	150	-	-	-	150	FVPL(mandatory)
Other Financial Assets		L&R	14,227,213	-	(129,139)	-	14,098,074	AC
			14,990,903	**-**	**(129,139)**	**-**	**14,861,764**	
Non-Financial Assets								
Deferred tax asset		N/A	1,081,822	-	-	1,524,406	2,606,228	N/A
Total financial and non-financial assets			**374,556,011**	**-**	**(8,636,472)**	**1,524,406**	**367,443,945**	
Financial Liabilities								
Due to banks		FVPL	423,701	-	-	-	423,701	AC
Customer deposits		FVPL	285,566,236	-	-	-	285,566,236	AC
Loans and borrowings		FVPL	25,156,054	-	-	-	25,156,054	AC
Other liabilities		FVPL	17,620,408	-	(832,083)	-	16,788,325	AC
Total liabilities			**328,766,399**	**-**	**(832,083)**	**-**	**327,934,316**	

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(cc) Transition disclosures (Continued)

B As of 1 January 2018, the Group has classified a portion of its previous corporate bonds under AFS portfolio as debt instruments at amortised cost. These instruments met the SPPI criterion, were not actively traded and were held with the intention to collect cash flows and without the intention to sell. The fair value of these instruments that Bank still held at 31 December 2018 was KShs 2,391,121. Their change in fair value over 2018, that would have been recorded in OCI had these instruments continued to be revalued through OCI, would have been minimal.

C As of 1 January 2018, the Group did not have any debt instruments that did not meet the SPPI criterion within its held-to-maturity portfolio. Therefore, it elected to classify all of these instruments as debt instruments measured at amortised cost.

E As of 1 January 2018, the Group has assessed its liquidity portfolio which had previously been classified as AFS debt instruments. The Bank concluded that, apart from a small portion of the AFS debt instruments, these instruments are managed within a business model of collecting contractual cash flows and selling the financial assets. Accordingly, the Group has classified these investments as debt instruments measured at FVOCI.

F The Group has elected the option to irrevocably designate some if its previous AFS equity instruments as Equity instruments at FVOCI.

J The impact of adopting IFRS 9 on deferred tax is set out on the as below and in Note 20.

The impact of transition to IFRS 9 on retained earnings is as follows

	Group KShs'000	Bank KShs'000
Closing balance under IAS 39 (31 December 2017)	69,812,586	53,954,407
Reclassification adjustments in relation to adopting IFRS 9	-	-
Impact of recognising credit risk for financial liabilities designated at FVPL in Own credit reserve	-	-
Re-measurement impact of reclassifying financial assets held at amortised cost to FVPL	-	-
Re-measurement impact of the reclassification of financial liabilities at FVPL reclassified to amortised cost	-	-
Investment securities (debt and equity) from available-for-sale to FVPL	-	-
Recognition of IFRS 9 ECLs including those measured at FVOCI (see below)	(10,029,732)	(9,468,555)
Deferred tax in relation to the above	1,567,178	1,524,406
Opening balance under IFRS 9 (1 January 2018)	**61,350,032**	**46,010,258**
Total change in equity due to adopting IFRS 9	**(8,462,554)**	**(7,944,149)**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. ACCOUNTING POLICIES (continued)

(cc) Transition disclosures (Continued)

Set out below is the reconciliation of the ending impairment allowances in accordance with IAS 39 to the opening loss allowances determined in accordance with IFRS 9:

GROUP

In KShs'000	Loan loss provision under IAS 39/IAS 37 at 31 December 2017	Remeasurement	*ECLs under IFRS 9 at 1 January 2018*
Impairment allowance for Loans and receivables and held to maturity securities per IAS39/ Financial assets at amortised cost under IFRS 9	10,442,329	9,158,402	**19,600,731**
Available-for-sale debt investment securities per IAS 39/debt financial assets at Amortised cost under IFRS 9	-	39,247	**39,247**
	10,442,329	**9,197,649**	**19,639,978**
Financial guarantees	-	30,084	30,084
Letters of credit for customers	-	782,903	782,903
Other commitments	-	19,096	19,096
	-	**832,083**	**832,083**
	10,442,329	**10,029,732**	**20,472 061**

BANK

In KShs'000	Loan loss provision under IAS 39/IAS 37 at 31 December 2017	Remeasurement	*ECLs under IFRS 9 at 1 January 2018*
Impairment allowance for Loans and receivables and held to maturity securities per IAS39/ Financial assets at amortised cost under IFRS 9	10,349,622	8,597,223	18,946,845
Available-for-sale debt investment securities per IAS 39/debt financial assets at Amortised cost under IFRS 9	-	39,247	39,247
	10,349,622	**8,636,470**	**18,986,092**
Financial guarantees	-	30,084	30,084
Letters of credit for customers	-	782,903	782,903
Other commitments	-	19,096	19,096
	-	**832,083**	**832,083**
	10,349,622	**9,468,553**	**19,818,175**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. FINANCIAL RISK MANAGEMENT

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk & Finance Committee, which is responsible for developing and monitoring Group risk management policies in their specified areas. All Board committees, with exception of Board Audit Committee, have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board Audit Committee is responsible for monitoring compliance with the Group's risk policies and procedures, and for reviewing their adequacy. The Board Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk controls and procedures, the results of which are reported to the Board Audit committee.

The Group has exposure to the following risks from its use of financial instruments:
(a) Credit risk
(b) Liquidity risk
(c) Market risks
(d) Operational risks

Below is the information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. There is no significant difference between the Group and Bank balances in assessment of the various risks facing the Group.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's loans and advances to customers, other banks and investment securities and cash and balances with central bank. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

Management of credit risk

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

(1) Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
(2) Establishing the authorisation structure for the approval and renewal of credit facilities.
(3) Reviewing and assessing credit risk.
(4) Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks.
(5) Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types.
(6) Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

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 2018

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Management of credit risk (continued)

The table below summarizes the maximum exposure to credit risk and indicates the worst-case scenario, without taking into consideration collateral, other credit enhancements or provisions of impairment.

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Items recognised in the statement of financial position:				
Balances with Central Bank	22,669,211	15,872,744	20,820,071	14,826,206
Items in the course of collection	722,345	804,779	450,856	804,779
Deposits and balances due from banking institutions	18,081,648	7,730,354	17,596,366	7,739,831
-Derivatives	664,514	763,540	664,514	763,540
-Held-to-maturity investments	-	43,983,288	-	43,827,326
Debt instruments at amortised cost	52,092,150	-	51,935,363	-
-Held-for-trading investments	-	639,952	-	150
-Available-for-sale investments	-	28,486,056	-	28,485,656
Debt & equity instruments at fair value through other comprehensive income	30,572,358	-	30,572,358	-
Interest receivable	2,847,811	3,606,257	2,847,811	3,606,257
Loans and advances to customers	**373,060,339**	**355,748,614**	**368,433,722**	**352,415,518**
Items not recognised in the statement of financial position (note 47)	19,633,909	17,455,140	19,633,909	17,455,140
	392,694,248	**373,203,754**	**388,067,631**	**369,870,658**

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 80.1 billion (2017- KShs 71.1 billion). All other facilities are secured by collateral in the form of charges over cash, land and buildings, marketable securities, plant and machinery among others.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(i) Impairment assessment (Policy applicable from 1 January 2018)

The references below show where the Group's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the accounting policies on note 2(l).

Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Group considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Group also has an early warning system, (EWS), which considers a variety of parameters that may indicate unlikeliness of the customer to pay. EWS accounts are carefully reviewed and decisions made that result in treating customer as either stage 2 or stage 3 for ECL calculations such parameters include:

- Changes in account turnovers
- Adverse industry information
- Missed covenants and conditions especially of financial information or ratios
- Missed monthly payments
- Reduced monthly payments
- The borrower requesting emergency funding from the Group
- Bouncing cheques
- A material decrease in the borrower's turnover or the loss of a major customer
- Suspension of the debtor at the primary exchange because of rumours or facts about financial difficulties
- The borrower having past due liabilities to public creditors or employees.
- Increase of frequency of overdraft.
- Several requests on restructure.
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- The debtor filing for bankruptcy application/protection
- Employee retrenchment
- Diversion of funds

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for six to twelve consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the stage sub segment and the updated credit grade, at the time of the cure, and whether this indicates there has been a significant improvement in credit risk compared to the stage 3 recognition.

The Group's internal rating and PD estimation process

The Group's Credit risk division operates its internal rating models. The Group runs separate models for its key portfolios in which its customers are rated from AAA to F using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behaviour. Where practical, we also build on information from credit reference bureaus. The internal credit grades are assigned based on these Basel III based grades. PDs are then adjusted for IFRS 9 ECL calculations to incorporate historically collected loss behaviour data and forward-looking information and the IFRS 9 Stage classification of the exposure.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(i) Impairment assessment (Policy applicable from 1 January 2018)

The Group's internal rating and PD estimation process

(i) Treasury, trading and interbank relationships

The Group's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, investment banks and stock brokers. For these relationships, the Group's credit department analyses available information such as financial information and other external data, e.g., the rating of credit reference bureaus, ratings by moody or other credible agencies and assigns the internal rating, as shown in the table below.

(ii) Corporate and Co-operatives, small and medium business lending

For above segments of customers, the borrowers are assessed by specialised credit risk analysis employees of the Group. The credit risk assessment is based on a mix of expert assessment and credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Group and the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated on basis of behaviours opposed to using an application score and are being migrated to digital channels for more efficient management.

(iii) Consumer lending and other retail advances

Consumer lending comprises unsecured personal loans, credit cards, salary advances, asset finance and mortgages. These products are assessed on basis of product probability of default history and are driven for ECL by an automated tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest
- repricing
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(i) Impairment assessment (Policy applicable from 1 January 2018)

(i) The Group's and the Bank's internal credit rating grades

Grade	Classification
1	Normal
2	Watch
3	Substandard
4	Doubtful
5	Loss

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments.

To calculate the EAD for a Stage 1 loan, the Group and the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and Stage 3, the exposure at default is considered for events over the lifetime of the instruments.

The Group and the Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Group's and the Bank's models.

Loss given default

For corporate financial instruments, LGD values are assessed at the end of every month, reviewed and approved by the Bank's specialized risk department. The risk assessment is based on a standardized LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realized from any collateral held.

For Corporate, Co-operatives, Small and Medium lending as well as Asset finance and mortgages, the value of securities and expected future cash flows as well as recovery histories are taken into consideration in arriving as specific loss given default to apply to the ECL calculations.

The Group and the Bank segments its retail lending products like unsecured loans, credit cards, mobile loans into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data.

Under IFRS 9, LGD rates are estimated for the stage 1, stage 2 and stage 3 IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and where possible, calibrated through back testing against recent recoveries.

The Group estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2 and Stage 3 IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(i) Impairment assessment (Policy applicable from 1 January 2018)

Significant increase in credit risk

The Group and the Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group and the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Group and the Bank considers an exposure to have significantly increased in credit risk when the IFRS 9 lifetime PD has doubled since initial recognition and has increased by more than 20 bps a year.

When estimating ECLs on a collective basis for a group of similar assets, the Group and the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Grouping financial assets measured on a collective basis

The Group and the Bank calculates ECLs either on a collective or an individual basis. Asset classes where the Group and the Bank calculates ECL on an individual basis include:

- Top 50 Corporate
- Composite (SME, MCU, Asset Finance, Mortgage Finance, Corporate Loans)
- Overdraft
- Mobi-Loans
- Credit Card
- Guarantee
- Letters of Credit
- SACCO & Agri Business

Asset classes where the Group and the Bank calculates ECL on a collective basis include:

- Retail unsecured

The Group and the Bank consolidates these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, as described below:

- Repayment Type
- Repayment Frequency
- Contract Start Date
- Date of First Repayment
- Expiry date
- Product Type
- Effective Interest Rate
- Days Past Due Band

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(i) Impairment assessment (Policy applicable from 1 January 2018)

Analysis of inputs to the ECL model under multiple economic scenarios

The macroeconomic factor forecasts - for the three scenarios, best estimate, optimistic and downturn - are used to create forecasted values for each of the principal components. These factors are first differenced and lagged, where applicable, and then standardised. Thereafter, the principal components are derived through vector multiplication of the principal components, using the weights for each factor. Lastly, for each scenario, the forecasted index is constructed using the weights.

Data on inflation interest rates etc is obtained from Central Bank of Kenya website and Kenya Bureau of Statistics to come up with the various scenarios that is used to overlay the ECLs.

The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for "Subsequent years" represent a long-term average and so are the same for each scenario

Macroeconomic Overlays

Date	Base scenario	Growth Scenario	Down side scenario	Probability Weighted
31-12-17	1.059081027	1.059081027	1.059081027	1.059081027
31-01-18	1.059081027	1.059081027	1.059081027	1.059081027
28-02-18	1.059081027	1.059081027	1.059081027	1.059081027
31-03-18	1.060875222	1.010411093	1.10961041	1.055569468
30-04-18	1.053621177	1.003462316	1.094563764	1.04722285
31-05-18	1.043327366	0.997650576	1.086692226	1.038412898
30-06-18	1.035916573	0.993158925	1.073344506	1.030841351
31-07-18	1.033843042	0.986820874	1.060559983	1.026095041
31-08-18	1.030010072	0.991153345	1.079524406	1.02772304
30-09-18	1.056037957	0.987502838	1.189339515	1.058899411
31-10-18	1.056566179	0.991199881	1.202150914	1.062062315
30-11-18	1.057212938	0.996205681	1.211435694	1.065094537
31-12-18	1.057860015	0.996938929	1.228233812	1.068185813
31-01-19	1.058507409	0.997904669	1.22857557	1.068866948
28-02-19	1.059155122	0.995779614	1.233879562	1.069519911
31-03-19	1.059803153	0.995371305	1.224905369	1.068460524
30-04-19	1.060451503	0.99564679	1.219898556	1.068167383
31-05-19	1.061100171	0.997551945	1.21705165	1.068605836
30-06-19	1.061606681	0.998716291	1.215215663	1.068925431
31-07-19	1.062255916	0.930962164	1.249733425	1.057554104
31-08-19	1.06290547	0.926575812	1.236687275	1.054890326
30-09-19	1.063555343	0.931042253	1.248684599	1.058196459
31-10-19	1.064205535	0.934138018	1.253708833	1.06011415

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(i) Impairment assessment (Policy applicable from 1 January 2018)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The main types of collateral obtained are, as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For corporate and small business lending, charges over real estate properties, inventory and trade receivables and, in special circumstances, government guarantees
- For retail lending, mortgages over residential properties
- For asset finance, charge over the asset
- For MCU charge over chattels

The Group and the Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

It is normal course of business, the Group and the Bank do not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/ obligors.

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

	Group and Bank	
	2018	**2017**
	KShs'000	**KShs'000**
(i) Categorised by loans & advances:		
Stage 3/Doubtful & loss categories	9,540,072	10,359,681
Stage 3/ Past due but not impaired (Sub-standard) category	4,257,666	15,402,979
Stage 1&2 / Normal & watch categories	597,813,204	673,066,119
	611,610,942	**698,828,779**
(ii) Categorised by nature of collateral:		
Land & buildings	254,070,236	287,904,610
Cash & other pledges	5,553,679	11,602,168
Motor vehicles	190,094,656	212,937,198
Hypothecation of stock	1,174,254	37,220,411
Debentures & guarantees	151,224,456	146,193,660
Other chattels	9,493,661	2,970,732
	611,610,942	**698,828,779**

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group and the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it may remain in this category or may be re-graded depending on performance after restructuring. Note 13 (d) shows the movement of loan between stage 1,2 and 3. The carrying amount of renegotiated financial assets that would otherwise be past due or impaired is as KShs 28,708,447 (2017: KShs 24,852,909).

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Concentration of Risk

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

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

Loans and advances:-	**Group**		**Bank**	
	2018	**2017**	**2018**	**2017**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
(i) Concentration by sector:				
Agriculture	4,705,704	5,086,148	4,705,704	5,050,277
Manufacturing, energy & water	25,317,764	26,588,150	25,317,764	26,579,451
Financial services	26,403,526	27,926,934	26,403,526	27,926,934
Tourism & hospitality	2,089,786	3,044,445	2,089,786	2,277,141
Wholesale and retail trade	41,222,894	43,235,903	39,337,317	42,773,157
Transport and communication	23,224,620	23,307,177	23,224,620	23,210,700
Real Estate, building & construction	38,122,756	46,159,155	38,122,756	45,976,031
Consumer & household	104,464,345	92,719,408	104,464,345	92,711,051
	265,551,395	**268,067,320**	**263,665,818**	**266,504,742**
Less: staff loans amortisation	(4,044,752)	(3,951,827)	(4,044,752)	(3,951,827)
	261,506,643	**264,115,493**	**259,621,066**	**262,552,915**
(ii) Concentration by business:				
Corporate	104,630,901	104,992,887	102,745,324	103,836,171
Mortgage & Asset Finance	61,109,209	61,773,038	61,109,209	61,773,038
Small, Medium and Microenterprises	17,974,196	18,169,449	17,974,196	18,169,449
Retail	79,300,864	80,568,170	79,300,864	80,162,308
Agribusiness	2,536,225	2,563,776	2,536,225	2,563,776
	265,551,395	**268,067,320**	**263,665,818**	**266,504,742**
Less: staff loans amortisation	(4,044,752)	(3,951,827)	(4,044,752)	(3,951,827)
	261,506,643	**264,115,493**	**259,621,066**	**262,552,915**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Write-off policy

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

Settlement Risk

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

(b) Liquidity risk

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

Management of liquidity risk

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

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

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Exposure to liquidity risk

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

GROUP 31 December 2018 FINANCIAL ASSETS	Available immediately and up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	32,478,601	-	-	-	-	**32,478,601**
Deposits and balances due from banks	10,129,462	5,856,151	-	2,096,035	-	**18,081,648**
Investment in financial instruments	-	1,444,996	28,352,710	47,640,877	43,199,562	**120,638,145**
Loans and advances to customers	31,567,578	3,425,160	24,817,014	162,101,132	149,586,732	**371,497,616**
Total undiscounted financial assets	**74,175,641**	**10,726,307**	**53,169,724**	**211,838,044**	**192,786,294**	**542,696,009**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	393,260	-	50,000	-	-	**443,260**
Customers' deposits	252,988,892	36,606,221	18,888,032	43,758	-	**308,526,903**
Loans	-	-	-	26,603,662	5,728,313	**32,331,975**
Total undiscounted financial liabilities	**253,382,152**	**36,606,221**	**18,938,032**	**26,647,420**	**5,728,313**	**341,302,138**
Net liquidity gap at 31 December 2018	**(179,206,511)**	**(25,879,914)**	**34,231,692**	**185,190,624**	**187,057,981**	**201,393,871**
Liabilities not recognised in statement of financial position (note 47)	**2,353,062**	**1,588,442**	**11,442,610**	**4,249,796**	-	**19,633,910**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Exposure to liquidity risk

BANK **31 December 2018** **FINANCIAL ASSETS**	**Available immediately and up to 1 month** **KShs'000**	**1-3 months** **KShs'000**	**3-12 months** **KShs'000**	**1-5 years** **KShs'000**	**Over 5 years** **KShs'000**	**Total** **KShs'000**
Cash and balances with Central Bank of Kenya	29,884,170	-	-	-	-	**29,884,170**
Deposits and balances due from banks	9,644,180	5,856,151	-	2,096,035	-	**17,596,366**
Investment in financial instruments	-	1,444,189	27,994,215	47,640,877	43,199,562	**120,278,843**
Loans and advances to customers	31,567,578	3,425,160	19,569,632	162,101,132	149,586,732	**366,250,234**
Total undiscounted financial assets	**71,095,928**	**10,725,500**	**47,563,847**	**211,838,044**	**192,786,294**	**534,009,613**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	839,621					**839,621**
Customers' deposits	239,828,712	46,460,207	19,937,135	56,521		**306,282,575**
Loans	-	-	-	20,920,121	11,411,854	**32,331,975**
Total undiscounted financial liabilities	**240,668,333**	**46,460,207**	**19,937,135**	**20,976,642**	**11,411,854**	**339,454,171**
Net liquidity gap at 31 December 2018	**(169,572,405)**	**(35,734,707)**	**27,626,712**	**190,861,402**	**181,374,440**	**194,555,441**
Liabilities not recognised in statement of financial position (note 47)	**2,353,062**	**1,588,442**	**11,442,610**	**4,249,796**	**-**	**19,633,910**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Exposure to liquidity risk

GROUP 31 December 2017 FINANCIAL ASSETS	Available immediately and up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	24,260,196	-	-	-	-	**24,260,196**
Deposits and balances due from banks	7,730,354	-	-	-	-	**7,730,354**
Investment in financial instruments	-	6,870,142	19,961,946	48,458,135	30,889,606	**106,179,829**
Loans and advances to customers	30,913,214	4,584,216	19,064,202	171,274,960	161,973,626	**387,810,218**
Total undiscounted financial assets	**62,903,764**	**11,454,358**	**39,026,148**	**219,733,095**	**192,863,232**	**525,980,597**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	322,589	-	50,000	-	-	**372,589**
Customers' deposits	234,165,449	36,606,221	18,888,032	43,758	-	**289,703,459**
Loans	4,015,528	-	-	5,815,626	22,755,523	**32,586,677**
Total undiscounted financial liabilities	**238,503,566**	**36,606,221**	**18,938,032**	**5,859,384**	**22,755,523**	**322,662,725**
Net liquidity gap at 31 December 2017	**(175,599,802)**	**(25,151,863)**	**20,088,116**	**213,873,711**	**170,107,709**	**203,317,873**
Liabilities not recognised in statement of financial position (note 47)	**1,409,059**	**4,260,543**	**9,790,386**	**1,995,152**	**-**	**17,455,140**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Exposure to liquidity risk

BANK **31 December 2017** **FINANCIAL ASSETS**	**Available immediately and up to 1 month** **KShs'000**	**1-3 months** **KShs'000**	**3-12 months** **KShs'000**	**1-5 years** **KShs'000**	**Over 5 years** **KShs'000**	**Total** **KShs'000**
Cash and balances with Central Bank of Kenya	22,541,500	-	-	-	-	**22,541,500**
Deposits and balances due from banks	7,739,831	-	-	-	-	**7,739,831**
Investment in financial instruments	-	6,870,142	19,961,946	32,824,368	30,889,606	**90,546,062**
Loans and advances to customers	30,913,214	4,584,216	19,064,202	168,800,173	161,973,626	**385,335,431**
Total undiscounted financial assets	**61,194,545**	**11,454,358**	**39,026,148**	**201,624,541**	**192,863,232**	**506,162,824**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	373,701	-	50,000	-	-	**423,701**
Customers' deposits	232,352,454	36,606,221	18,888,032	36,756	-	**287,883,463**
Loans	4,015,528	-	-	5,815,626	22,755,523	**32,586,677**
Total undiscounted financial liabilities	**236,741,683**	**36,606,221**	**18,938,032**	**5,852,382**	**22,755,523**	**320,893,841**
Net liquidity gap at 31 December 2017	**(175,547,138)**	**(25,151,863)**	**20,088,116**	**195,772,159**	**170,107,709**	**185,268,983**
Liabilities not recognised in statement of financial position (note 47)	1,409,059	4,260,543	9,790,386	1,995,152	-	**17,455,140**

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:

	2018 **%**	**2017** **%**
At 31 December	41.5	33.8
Average for the year	39.5	35.7
Maximum for the year	44.0	38.2
Minimum for the year	36.9	31.4
Statutory minimum ratio	20.0	20.0

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk

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

Management of market risk

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

Exposure to market risk – trading portfolios

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

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

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

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

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Exposure to interest rate risk (Continued)

GROUP 31 December 2018 ASSETS	Available immediately and up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Non- interest bearing	Total KShs'000
Cash and balances with Central Bank of Kenya	-	-	-	-	-	32,478,601	**32,478,601**
Deposits and balances due from banks	10,129,462	5856151	-	2096035	-		**18,081,648**
Investment in financial instruments	-	1,444,996	28,352,710	47,640,877	43,199,562	-	**120,638,145**
Loans and advances to customers	31,567,578	3,425,160	24,817,014	162,101,132	149,586,732	-	**371,497,616**
Other assets	-	-	-	-	-	19,678,552	**19,678,552**
Total assets	**41,697,040**	**10,726,307**	**53,169,724**	**211,838,044**	**192,786,294**	**52,157,153**	**562,374,561**
LIABILITIES							
Deposits and balances due to banks	443,260						**443,260**
Customers' deposits	69,095,006	36,606,221	18,888,032	43,758		183,893,886	**308,526,903**
Loans	-	-	-	26,603,662	5,728,313	-	**32,331,975**
Other financial liabilities	-	-	-	-	-	11,217,151	**11,217,151**
Total liabilities	**69,538,266**	**36,606,221**	**18,888,032**	**26,647,420**	**5,728,313**	**195,111,037**	**352,519,289**
Interest sensitivity gap	**(27,841,226)**	**(25,879,914)**	**34,281,692**	**185,190,624**	**187,057,981**	**(142,953,884)**	**209,855,272**

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Exposure to interest rate risk (Continued)

BANK 31 December 2018 ASSETS	Available immediately and up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Non- interest bearing	Total KShs'000
Cash and balances with Central Bank of Kenya	-	-	-	-	-	29,884,170	**29,884,170**
Deposits and balances due from banks	10,129,462	5,856,151	-	2,096,035	-		**18,081,648**
Investment in financial instruments	-	1,444,189	27,994,215	47,640,877	43,199,562	-	**120,278,843**
Loans and advances to customers	31,567,578	3,425,160	19,569,632	162,101,132	149,586,732	-	**366,250,234**
Other assets	-	-	-	-	-	19,678,552	**19,678,552**
Total assets	**41,697,040**	**10,725,500**	**47,563,847**	**211,838,044**	**192,786,294**	**49,562,722**	**554,173,447**
LIABILITIES							
Deposits and balances due to banks	839,621						**839,621**
Customers' deposits	55,934,826	46,460,207	19,937,135	56,521		183,893,886	**306,282,575**
Loans	-	-	-	20,920,121	11,411,854	-	**32,331,975**
Other financial liabilities	-	-	-	-	-	11,217,151	**11,217,151**
Total liabilities	**56,774,447**	**46,460,207**	**19,937,135**	**20,976,642**	**11,411,854**	**195,111,037**	**350,671,322**
Interest sensitivity gap	**(15,077,407)**	**(35,734,707)**	**27,626,712**	**190,861,403**	**181,374,440**	**(145,548,315)**	**203,502,125**

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Exposure to interest rate risk (Continued)

GROUP

31 December 2017	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non- interest bearing**	**Total**
ASSETS	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cash and balances with Central Bank of Kenya		-	-	-	-	24,260,196	**24,260,196**
Deposits and balances due from banks	7,730,354	-	-	-	-	-	**7,730,354**
Investment in financial instruments	-	6,870,142	19,961,946	48,458,135	30,889,606	-	**106,179,829**
Loans and advances to customers	30,913,214	4,584,216	19,064,202	171,274,960	161,973,626	-	**387,810,218**
Other assets	-	-	-	-	-	14,104,561	**14,104,561**
Total assets	**38,643,568**	**11,454,358**	**39,026,148**	**219,733,095**	**192,863,232**	**38,364,757**	**540,085,158**
LIABILITIES							
Deposits and balances due to banks	323,464	50,000		-	-		**373,464**
Customers' deposits	128,807,964	36,606,221	18,888,032	43,758	-	104,920,317	**289,266,292**
Loans	4,015,528	-	-	5,815,626	22,755,523		**32,586,677**
Other financial liabilities	-	-	-	-	-	3,475,808	**3,475,808**
Total liabilities	**133,146,956**	**36,656,221**	**18,888,032**	**5,859,384**	**22,755,523**	**108,396,125**	**325,702,241**
Interest sensitivity gap	**(94,503,388)**	**(25,201,863)**	**20,138,116**	**213,873,712**	**170,107,709**	**(70,031,368)**	**214,382,919**

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Exposure to interest rate risk (Continued)

BANK

31 December 2017	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
ASSETS	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cash and balances with Central Bank of Kenya		-	-	-	-	22,541,500	**22,541,500**
Deposits and balances due from banks	7,739,831	-	-	-	-	-	**7,739,831**
Investment in financial instruments	-	6,870,142	19,961,946	32,824,368	30,889,606	-	**90,546,062**
Loans and advances to customers	30,913,214	4,584,216	19,064,202	168,800,173	161,973,626	--	**385,335,431**
Other assets	-	-	-	-	-	14,104,561	**14,104,561**
Total assets	**38,653,045**	**11,454,358**	**39,026,148**	**201,624,541**	**192,863,232**	**36,646,061**	**520,267,385**
LIABILITIES							
Deposits and balances due to banks	323,464	50,000		-	-	-	**373,464**
Customers' deposits	128,807,964	36,606,221	18,888,032	8,752	-	104,920,317	**289,231,285**
Loans	4,015,528	-	-	5,815,626	22,755,523	-	**32,586,677**
Other financial liabilities	-	-	-	-	-	3,475,808	**3,475,808**
Total liabilities	**133,146,956**	**36,656,221**	**18,888,032**	**5,824,378**	**22,755,523**	**108,396,125**	**325,667,234**
Interest sensitivity gap	**(94,493,911)**	**(25,201,863)**	**20,138,116**	**195,800,163**	**170,107,709**	**(71,750,064)**	**194,600,151**

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:

	2018			2017		
ASSETS	**Carrying amount KShs'000**	**1% increase**	**1% decrease**	**Carrying amount KShs'000**	**1% increase**	**1% decrease**
Deposits and balances due from banks	**18,081,648**	180,816	(180,816)	**7,730,354**	77,305	(77,305)
Held -for- trading investments	**-**	-	-	**639,952**	6,400	(6,400)
Held to maturity investments	**-**	-	-	**43,983,288**	439,833	(439,833)
Debt instruments at amortised cost	**52,092,150**	520,922	(520,922)	**-**	-	-
Available for sale investments	**-**	-	-	**28,698,765**	286,988	(286,988)
Debt instruments at fair value through other comprehensive income	**30,736,439**	307,364	(307,364)	**-**	-	-
Loans and advances to customers	**245,410,302**	2,454,103	(2,454,103)	**253,861,644**	2,538,616	(2,538,616)
		3,463,205	**(3,463,205)**		**3,349,142**	**(3,349,142)**
LIABILITIES & EQUITY						
Deposits and balances due to banks	**443,260**	(4,433)	4,433	**373,464**	(3,735)	3,735
Customers' deposits	**122,223,160**	(1,222,232)	1,222,232	**182,451,391**	(1,824,514)	1,824,514
Loans and borrowings	**23,949,611**	(239,496)	239,496	**25,156,054**	(251,561)	251,561
		(1,466,161)	**1,466,161**		**(2,079,809)**	**2,079,809**
Effect on profit before tax		**1,997,044**	**(1,997,044)**		**1,269,333**	**(1,269,333)**
As percentage of profit before tax (%)		**11.00%**	**(11.0%)**		**7.7%**	**(7.7%)**
Effect on equity		**1,397,932**	**(1,397,932)**		**888,533**	**(888,533)**
As percentage of equity (%)		**1.98%**	**(1.98%)**		**1.3%**	**(1.3%)**

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Exposure to currency risk

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

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

CURRENCY TYPE	USD	GBP	EURO	JPY	CHF	ZAR	OTHERS	TOTAL
EXCHANGE RATE	102	129	116	1	104	7	-	
31 December 2018	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**
Foreign Currency Assets:								
Cash and balances with banks abroad	10,361,777	107,188	2,452,373	66,616	45,839	19,577	109,274	**13,162,644**
Loan and advances	32,045,668	138,110	236,953	-	-	-	-	**32,420,731**
Other foreign assets	1,140,559	10,938	454,251	-	-	5	111	**1,605,864**
Total statement of financial position items	**43,548,004**	**256,236**	**3,143,577**	**66,616**	**45,839**	**19,582**	**109,385**	**47,189,239**
Items not recognised in statement of financial position	17,132,072	221,805	2,979,203	-	-	-	5,804	**20,338,884**
Total Foreign Assets	**60,680,076**	**478,041**	**6,122,780**	**66,616**	**45,839**	**19,582**	**115,189**	**67,528,123**
Foreign Currency Liabilities:								
Balances due to banks abroad	-	-	-	-	-	-	-	**-**
Deposits	8,544,576	224,403	2,338,795	67,008	12,510	546	2,819	**11,190,657**
Loan and advances	22,734,403	-	-	-	-	-	-	**22,734,403**
Other foreign liabilities	3,509,686	24,951	488,800	4	91	2,133	2,526	**4,028,191**
Total statement of financial position items	**34,788,665**	**249,354**	**2,827,595**	**67,012**	**12,601**	**2,679**	**5,345**	**37,953,251**
Items not recognised in statement of financial position	23,203,182	242,246	3,256,346	-	20,391	20,528	88,465	**26,831,158**
Total Foreign liabilities	**57,991,847**	**491,600**	**6,083,941**	**67,012**	**32,992**	**23,207**	**93,810**	**64,784,409**
Net Exposure at 31 December 2018	**2,688,229**	**(12,559)**	**38,839**	**(396)**	**12,847**	**(3,625)**	**21,379**	**2,744,714**

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	103	139	123	1	105	8	-	
31 December 2017	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000
Foreign Currency Assets:								
Cash and balances with banks abroad	4,117,542	161,404	4,990,813	64,168	50,485	16,895	36,622	**9,437,929**
Loan and advances	36,269,283	158,858	290,448	-	-	-	-	**36,718,589**
Other foreign assets	578,465	7,365	2,673	-	-	5	(107)	**588,401**
Total statement of financial position items	**40,965,290**	**327,627**	**5,283,934**	**64,168**	**50,485**	**16,900**	**36,515**	**46,744,919**
Items not recognised in statement of financial position	13,988,429	408,401	3,473,481	-	-	7,711	-	**17,878,022**
Total Foreign Assets	**54,953,719**	**736,028**	**8,757,415**	**64,168**	**50,485**	**24,611**	**36,515**	**64,622,941**
Foreign Currency Liabilities:								
Balances due to banks abroad	-	-	-	-	-	-	-	**-**
Deposits	10,090,190	319,314	3,659,350	66,433	6,987	1,889	998	**14,145,161**
Loan and advances	19,934,123	-	-	-	-	-	-	**19,934,123**
Other foreign liabilities	1,963,360	26,589	20,300	4	92	1,611	2,169	**2,014,125**
Total statement of financial position items	**31,987,673**	**345,903**	**3,679,650**	**66,437**	**7,079**	**3,500**	**3,167**	**36,093,409**
Items not recognised in statement of financial position	22,504,353	380,651	5,141,384	-	36,254	24,723	8,606	**28,095,971**
Total Foreign liabilities	**54,492,026**	**726,554**	**8,821,034**	**66,437**	**43,333**	**28,223**	**11,773**	**64,189,380**
Net Exposure at 31 December 2017	**461,693**	**9,474**	**(63,619)**	**(2,269)**	**7,152**	**(3,612)**	**24,742**	**433,561**

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: -

	2018 Carrying amount KShs'000	10% appreciation	10% depreciation	2017 Carrying amount KShs'000	10% appreciation	10% depreciation
Foreign Currency Assets:						
USD	**60,680,076**	(6,068,008)	6,068,008	**40,965,290**	(4,096,529)	4,096,529
GBP	**478,041**	(47,804)	47,804	**327,627**	(32,762)	32,762
EURO	**6,122,780**	(612,278)	612,278	**5,283,934**	(528,393)	528,393
JPY	**66,616**	(6,662)	6,662	**64,168**	(6,417)	6,417
CHF	**45,839**	(4,584)	4,584	**50,485**	(5,049)	5,049
ZAR	**19,582**	(1,958)	1,958	**16,900**	(1,690)	1,690
Other currencies	**115,189**	(11,519)	11,519	**36,515**	(3,652)	3,652
		(6,752,813)	**6,752,813**		**(4,674,492)**	**4,674,492**
Foreign Currency Liabilities:						
USD	**57,991,847**	5,799,185	(5,799,185)	**31,987,673**	3,198,767	(3,198,767)
GBP	**490,600**	49,060	(49,060)	**345,903**	34,590	(34,590)
EURO	**6,083,941**	608,394	(608,394)	**3,639,050**	363,905	(363,905)
JPY	**67,012**	6,701	(6,701)	**66,437**	6,644	(6,644)
CHF	**32,992**	3,299	(3,299)	**7,079**	708	(708)
ZAR	**23,207**	2,321	(2,321)	**3,500**	350	(350)
Other currencies	**93,810**	9,381	(9,381)	**3,167**	317	(317)
		6,478,341	**(6,478,341)**		**3,605,281**	**(3,605,281)**
Effect on profit before tax		**(274,472)**	**274,472**		**(1,069,211)**	**1,069,211**
As percentage(%) of profit before tax		**(1.56%)**	**1.56%**		**(6.44%)**	**6.44%**
Effect on equity		**(192,130)**	**192,130**		**(748,448)**	**748,448**
As percentage(%) of equity		**(0.28%)**	**0.28%**		**(1.23%)**	**1.23%**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. FINANCIAL RISK MANAGEMENT (continued)

(d) Operational risk

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

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

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

(i) requirements for appropriate segregation of duties, including the independent authorisation of transactions

(ii) requirements for the reconciliation and monitoring of transactions

(iii) compliance with regulatory and other legal requirements

(iv) documentation of controls and procedures

(v) requirements for the yearly assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified

(vi) requirements for the reporting of operational losses and proposed remedial action

(vii) development of contingency plans

(viii) training and professional development

(ix) ethical and business standards

(x) risk mitigation, including insurance where this is effective

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

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

4. CAPITAL MANAGEMENT

Regulatory capital

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

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

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

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

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

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

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

	2018	2018	2017
Tier I Capital:	**KShs'000**	**KShs'000**	**KShs'000**
		(Regulator adjusted)	
Ordinary share capital	5,867,180	5,867,180	5,867,180
Share premium	1,911,926	1,911,926	1,911,926
Retained earnings	52,376,127	55,367,994	53,954,407
Other reserves	461,890	461,890	480,365
Less: Investments in equity of other institutions & deferred tax	(5,402,264)	(5,402,264)	(3,354,743)
Core Capital	**55,214,859**	**58,206,726**	**58,859,135**
-			
Tier II Capital:			
Revaluation reserves (25%)	299,536	299,536	306,823
Term subordinated debt	-	-	21,163,814
Loan loss provisions	935,514	935,514	717,844
Supplementary capital	**1,235,050**	**1,235,050**	**22,188,481**
Total regulatory capital	**56,449,909**	**59,441,776**	**81,047,616**
Total risk weighted assets	**367,430,410**	**367,430,410**	**357,310,063**
Capital ratios:			
Core capital to Total deposit liabilities (CBK minimum 10.5%)	18.1%	19.1%	20.8%
Core capital to Total risk weighted assets (CBK minimum 10.5%)	15.0%	15.8%	16.5%
Total capital to Total risk weighted assets (CBK minimum 14.5%)	15.4%	16.2%	22.7%

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

4. CAPITAL MANAGEMENT (continued)

Capital Allocation

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

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

5. SEGMENT REPORTING

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

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

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 2018 or 2017.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018	Wholesale banking KShs'000	Retail banking KShs'000	Un-allocated KShs'000	Total KShs'000
Net interest income	5,090,113	19,915,487	400,799	**25,406,399**
Non-funded income	2,198,822	14,341,346	1,731,683	**18,271,851**
Operating income	**7,288,935**	**34,256,833**	**2,132,482**	**43,678,250**
Depreciation	(31,751)	(1,580,447)	(205,748)	**(1,817,946)**
Amortization	(229,831)	(259,171)	(73,936)	**(562,328)**
Other operating expenses	(776,680)	(21,081,130)	(1,453,841)	**(23,312,261)**
Share of profit in associates	-	-	171,416	**171,416**
Profit before tax	**6,250,673**	**11,336,085**	**570,373**	**18,157,131**
Income tax expense	(1,944,151)	(3,233,530)	(246,964)	**(5,424,645)**
Profit after tax	**4,306,522**	**8,102,555**	**323,409**	**12,732,486**

Profit or loss for the year ended 31 December 2017	Wholesale banking KShs'000	Retail banking KShs'000	Un-allocated KShs'000	Total KShs'000
Net interest income	11,281,596	12,241,731	480,067	**24,003,394**
Non-funded income	8,268,590	8,972,300	351,725	**17,592,615**
Operating income	**19,550,186**	**21,214,031**	**831,792**	**41,596,009**
Depreciation	(916,983)	(995,024)	(39,020)	**(1,951,027)**
Amortization	(258,461)	(280,458)	(10,998)	**(549,917)**
Other operating expenses	(10,728,376)	(11,641,428)	(456,527)	**(22,826,331)**
Share of profit in associates	-	-	129,904	**129,904**
Profit before tax	**7,646,366**	**8,297,121**	**455,151**	**16,398,638**
Income tax expense	(2,325,114)	(2,522,996)	(145,463)	**(4,993,573)**
Profit after tax	**5,321,252**	**5,774,125**	**309,688**	**11,405,065**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

5. SEGMENT REPORTING (continued)

Statement of financial position as at 31 December 2018	Wholesale banking KShs'000	Retail banking KShs'000	Un-allocated KShs'000	Total KShs'000
Assets:				
Segment assets	114,602,612	127,620,516	11,085,239	**253,308,367**
Unallocated assets	-	-	160,362,343	**160,362,343**
Total assets	**114,602,612**	**127,620,516**	**171,447,582**	**413,670,710**
Equity	25,776,120	26,640,533	18,338,562	70,755,215
Liabilities and equity:				
Segment liabilities	144,218,113	139,748,729	2,623,811	286,590,653
Unallocated liabilities	-	-	127,080,057	127,080,057
Total liabilities and equity	**144,218,113**	**139,748,729**	**129,703,868**	**413,670,710**
Other disclosures				
Capital expenditure	**643,834**	**665,425**	**458,060**	**1,767,319**

Statement of financial position as at 31 December 2017	Wholesale banking KShs'000	Retail banking KShs'000	Un-allocated KShs'000	Total KShs'000
Assets:				
Segment assets	123,394,240	129,914,127	-	**253,308,367**
Unallocated assets	-	-	133,549,290	**133,549,290**
Total assets	**123,394,240**	**129,914,127**	**133,549,290**	**386,857,657**
Equity	25,432,720	26,285,617	18,094,248	69,812,585
Liabilities and equity:				
Segment liabilities	140,932,216	145,658,437	-	286,590,653
Unallocated liabilities	-	-	100,267,004	100,267,004
Total liabilities and equity	**140,932,216**	**145,658,437**	**100,267,004**	**386,857,657**
Other disclosures				
Capital expenditure	**565,313**	**584,271**	**402,196**	**1,551,780**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018.

Profit or loss for the year ended 31 December 2018	Kenya KShs'000	South Sudan KShs'000	Total KShs'000
Net interest income	31,050,856	309,745	**31,360,601**
Non-funded income	11,314,628	967,749	**12,282,377**
Operating income	**42,365,484**	**1,277,494**	**43,642,978**
	-		
Depreciation	(1,615,163)	(202,783)	**(1,817,946)**
Amortization	(506,023)	(56,915)	**(562,938)**
Other operating expenses	(22,227,804)	(687,462)	**(22,915,266)**
Loss on net monetary position	-	(361,113)	**(361,113)**
Operating profit/(Loss)	**18,016,494**	**(30,779)**	**17,985,715**
Share of profit in associate	157,052	14,364	**171,416**
Profit/(Loss) before tax	**18,173,546**	**(16,415)**	**18,157,131**
Income tax expense	**(5,331,173)**	**(93,472)**	**(5,424,645)**
Profit for the year	**12,842,373**	**(109,887)**	**12,732,486**
Statement of financial position			
Segment assets			
Non-current assets	115,657,551	1,378,094	**117,035,645**
Current assets	291,905,226	4,729,839	**296,635,065**
	407,562,777	**6,107,933**	**413,670,710**
Segment liabilities	**339,536,474**	**3,379,021**	**342,915,495**
Equity	**68,026,303**	**2,728,912**	**70,755,215**

Profit or loss for the year ended 31 December 2017	Kenya KShs'000	South Sudan KShs'000	Total KShs'000
Net interest income	23,822,244	181,150	**24,003,394**
Non-funded income	16,858,068	734,547	**17,592,615**
Operating income	**40,680,312**	**915,697**	**41,596,009**
Depreciation	(1,788,967)	(162,060)	**(1,951,027)**
Amortization	(517,011)	(32,906)	**(549,917)**
Other operating expenses	(21,499,675)	(780,587)	**(22,280,262)**
Loss on net monetary position	-	(546,069)	**(546,069)**
Operating profit/(Loss)	**16,874,659**	**(605,925)**	**16,268,734**
Share of profit in associate	126,850	3,054	**129,904**
Profit/(Loss) before tax	**17,001,509**	**(602,871)**	**16,398,638**
Income tax expense	**(5,006,163)**	**12,590**	**(4,993,573)**
Profit for the year	**11,995,346**	**(590,281)**	**11,405,065**
Statement of financial position as at			
Segment assets			
Non-current assets	84,952,629	1,028,038	**85,980,667**
Current assets	297,376,998	3,499,992	**300,876,990**
	382,329,627	**4,528,030**	**386,857,657**
Segment liabilities	**315,059,079**	**1,985,992**	**317,045,071**
Equity	**67,270,548**	**2,542,038**	**69,812,586**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

6. FAIR VALUE OF ASSETS AND LIABILITIES

(a) Determination of fair value and fair value hierarchy

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

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

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

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

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

GROUP

As at 31 December 2018	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Assets measured at fair value:				
Free hold land and buildings	-	-	2,367,148	**2,367,148**
Debt instruments at FVOCI	-	-	-	-
Treasury bonds	30,572,358	-	-	**30,572,358**
Equity instruments at FVOCI	128,930	-	-	**128,930**
Unquoted equity instruments at FVOCI	-	-	35,151	**35,151**
Derivatives	-	664,514	-	**664,514**
Loans and advances				
Directors and staff loans	-	4,044,752	-	**4,044,752**
Assets for which fair values are disclosed (note 6b)				
Debt Instruments at Amortised cost				
Treasury bonds	34,828,403	-	-	**34,828,403**
Treasury bills	16,418,924	-	-	**16,418,924**
Corporate bonds	-	2,421,541	-	**2,421,541**
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	2,548,522	-	**2,548,522**

As at 31 December 2017	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	639,952	-	-	**639,952**
Available-for-sale investment				
Treasury bills	3,482,891	-	-	**3,482,891**
Treasury bonds	21,773,591	-	-	**21,773,591**
Corporate bonds	3,229,574	-	-	**3,229,574**
Quoted equity instruments	182,700	-	-	**182,700**
Unquoted equity instruments	-	-	30,009	**30,009**
Derivatives	-	763,540	-	**763,540**
Loans and advances				
Directors and staff loans	-	3,144,192	-	**3,144,192**
Assets for which fair values are disclosed (note 6b)			-	
Held-to-maturity				
Treasury bonds	35,845,036	-	-	**35,845,036**
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	2,978,879	-	**2,978,879**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

BANK

As at 31 December 2018	**Level 1 KShs'000**	**Level 2 KShs'000**	**Level 3 KShs'000**	**Total KShs'000**
Assets measured at fair value:				
Assets measured at fair value:				
Free hold land and buildings	-	-	2,367,148	**2,367,148**
Debt instruments at FVOCI	-	-	-	**-**
Treasury bonds	30,572,358	-	-	**30,572,358**
Equity instruments at FVOCI	-	-	-	**-**
Unquoted equity instruments at FVOCI	-	-	35,151	**35,151**
Derivatives	-	664,514	-	**664,514**
Loans and advances				
Directors and staff loans	-	4,044,752	-	**4,044,752**
Assets for which fair values are disclosed (note 6b)				
Debt Instruments at Amortised cost				
Treasury bonds	34,676,330	-	-	**34,676,330**
Treasury bills	16,418,924	-	-	**16,418,924**
Corporate bonds	-	2,421,541	-	**2,421,541**
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	2,548,522	-	**2,548,522**

As at 31 December 2017	**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	-	-	-	**-**
Available-for-sale investment				
Treasury bills	3,482,891	-	-	**3,482,891**
Treasury bonds	21,773,591	-	-	**21,773,591**
Corporate bonds	3,229,174	-	-	**3,229,574**
Quoted equity instruments	-	-	-	**-**
Unquoted equity instruments	-	-	30,009	**30,009**
Derivatives	-	763,540	-	**763,540**
Loans and advances				
Directors and staff loans	-	3,144,192	-	**3,144,192**
Assets for which fair values are disclosed (note 6b)				
Held-to-maturity				
Treasury bonds	35,700,026	-	-	**35,700,026**
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	2,978,879	-	**2,978,879**

The transfers between levels 1 and 2 in the year are disclosed on note 6(d) (2017: no transfer).

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

6. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

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

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

	2018		2017	
Financial assets:	**Carrying amount KShs'000**	**Fair value KShs'000**	**Carrying amount KShs'000**	**Fair value KShs'000**
Amortised cost/ Held-to-maturity				
Corporate Bonds, Treasury bonds and bills	53,668,868	52,092,150	35,229,289	35,845,036
	53,668,868	**52,092,150**	**35,229,289**	**35,845,036**
Financial liabilities:				
Loans and borrowings				
Fixed-rates borrowings	3,135,015	2,548,522	3,636,834	2,978,879
	3,135,015	**2,548,522**	**3,636,834**	**2,978,879**

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

(i) Assets for which fair value approximates carrying amounts

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

(ii) Loans and advances to customers

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

(iii) Government securities

Government debt securities include both long-term treasury bonds and short-term treasury bills with fixed rate interest payments. These instruments are generally highly liquid and traded in active markets resulting in a Level 1 classification. When active market prices are not available, the Group uses discounted cash flow models with observable market inputs of similar instruments and bond prices to estimate the fair value in which instances the Group classifies those securities as Level 2. The Group does not have Level 3 government securities where valuation inputs would be unobservable.

(iv) Debt securities issued by financial institutions and other debt securities

These include corporate bonds which are standard fixed rate securities. The Group uses active market prices when available, or other observable inputs in discounted cash flow models to estimate the corresponding fair value. Corporate bonds are generally Level 2 instruments.

(v) Foreign exchange contracts

Foreign exchange contracts include foreign exchange forward and swap contracts. These instruments are valued by either observable foreign exchange rates, observable or calculated forward points and option valuation models. With the exception of contracts where a directly observable rate is available which are disclosed as Level 1, the Group classifies foreign exchange contracts as Level 2 financial instruments when no unobservable inputs are used for their valuation or the unobservable inputs used are not significant to the measurement (as a whole).

(vi) Loans and borrowings

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

6. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

(c) Description of significant unobservable inputs to valuation

The significant unobservable inputs used in the fair value measurements categorised within level 3 of the fair value hierarchy, are as shown below

	Valuation Technique	Significant unobservable inputs	Range (Weighted Average)	Sensitivity of the input to fair value
Free hold land and building	DCF method	Estimated rental value per s.q.m. per month	KShs 30	+/-1% (2017: +/-1%) = Fair value change of +/- KShs 23million (2017: 24million)
		Rent growth p.a.	3%	
		Long-term vacancy rate	5%	
		Discount rate	5%	
Unquoted-equity instruments	DCF method	Long term growth rate	5%	+/-1% (2017: +/-1%) = Fair value change of +/- KShs 0.3million (2017: +/- Nil)
		Discount rate (WACC)	15%	

(d) Transfers between Level 1 and Level 2

The following table shows transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets which are recorded at fair value:

	Transfers from Level 1 to Level 2	
	2018	2017
	KShs'000	KShs'000
Financial investments available-for-sale		
Corporate bonds	3,229,174	-
Debt instruments at amortised cost		
Corporate bonds	-	3,229,174

The above financial assets were transferred from Level 1 to Level 2 as they ceased to be actively traded during the year. These were transferred to financial assets at amortised cost during the year.

(e) Reconciliation of fair value measurement of unquoted equity instruments classified as FVOCI/ AFS Financial asset

	Group and Bank	
	2018	2017
	KShs'000	KShs'000
At 1 January	30,009	44,309
Impairment	-	(14,300)
Purchase	-	-
Sales	-	-
Remeasurement recognised through OCI	5,141	-
At December	**35,150**	**30,009**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

7. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	Group		Bank	
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
Cash on hand	9,809,390	8,387,452	9,064,099	7,715,294
Central Bank of Kenya:				
Restricted balances (Cash Reserve Ratio)	16,398,951	15,288,113	15,825,177	14,704,488
Unrestricted balances available for use by the Group	4,994,894	121,718	4,994,894	121,718
Central Bank of South Sudan	1,557,660	462,913	-	-
	32,760,895	**24,260,196**	**29,884,170**	**22,541,500**
Less: Allowance for credit losses	(282,294)	-	-	-
	32,478,601	**24,260,196**	**29,884,170**	**22,541,500**

The Cash Reserve Ratio are restricted deposits with the Central Bank of Kenya and Bank of South Sudan and represents mandatory reserve deposits and are not available for use in the Bank's day–to–day operations. The deposits are non-interest earning and are based on the value of deposits as adjusted by Central Bank of Kenya requirements. At 31 December 2018, the Cash Reserve Ratio requirement was 5.25% (2017 – 5.25%) on all deposits.

The allowance for credit losses relates to deposits held by Bank of South Sudan.

8. DEPOSITS AND BALANCES DUE FROM BANKS

	Group		Bank	
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
Local banks	7,887,523	27,382	6,997,990	61,650
Foreign banks	10,202,016	7,702,972	**10,604,849**	7,678,181
	18,089,539	**7,730,354**	17,602,839	**7,739,831**
Less: Allowance for credit losses	(7,891)	-	(6,473)	-
	18,081,648	**7,730,354**	**17,596,366**	**7,739,831**

The weighted average effective interest rate on deposits and balances due from banks as at 31 December 2017 was 2.89% (2017-4.06%).

9. HELD-FOR-TRADING INVESTMENTS

	Group		Bank	
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
(a) Treasury bonds				
Maturing after 91 days of reporting date	-	639,952	-	150
	-	**639,952**	**-**	**150**

The weighted average effective interest rate on government securities held-for-trading at 31 December 2017 was 10.35%

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

10. FINANCIAL INVESTMENTS OTHER THAN THOSE MEASURED AT FVPL

AVAILABLE- FOR -SALE INVESTMENTS (IAS 39)	Group		Bank	
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
Government treasury bills:				
Maturing within 91 days of the reporting date	-	-	-	-
Maturing after 91 days of the reporting date	-	3,482,891	-	3,482,891
Treasury Bonds:				
Maturing within 91	-	-	-	-
Maturing after 91	-	21,773,591	-	21,773,591
Corporate bonds:				
Maturing after 91 days of the reporting date	-	3,229,574	-	3,229,174
Quoted equity Investments: -				
Nairobi Securities Exchange:-				
7,000,000 shares of KShs 14.65 each (note 17(a))	-	137,900	-	-
CIC Insurance Group Ltd:-				
8,000,000 shares of KShs 3.80 each	-	44,800	-	-
Unquoted equity Investments:-				
Consolidated Bank of Kenya Ltd:-				
135,000 ordinary shares of KShs 20 each	-	2,700	-	2,700
580,000 4% non-cumulative preference shares of KShs 20 each	-	11,600	-	11,600
Kenya National Federation of Co-operatives Ltd:-				
82 shares of KShs100 each	-	8	-	8
Kenya National Housing Co-operative Union Ltd:-				
1 share of KShs 1,000	-	1	-	1
Menno Plaza Limited:-				
9,340 ordinary shares representing 12.39% ownership	-	30,000	-	30,000
	-	**28,713,065**	**-**	**28,529,965**
Less: Provision for diminution in value of investment in Consolidated Bank of Kenya Ltd	-	(14,300)	-	(14,300)
	-	**28,698,765**	**-**	**28,515,665**
At January 1	**-**	**24,758,146**	-	**24,624,796**
Additions	-	10,979,240	-	10,979,240
Disposals and maturities	-	(7,551,590)	-	(7,551,590)
Change in fair value recognized in other comprehensive income	-	512,969	-	463,219
At December 31	**-**	**28,698,765**	**-**	**28,515,665**

The instruments have therefore been stated at cost less accumulated impairment losses.

The weighted average effective interest rate on available for sale investments as at 31 December 2017 was 12.04%.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

10. FINANCIAL INVESTMENTS OTHER THAN THOSE MEASURED AT FVPL (CONTINUED)

DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (IFRS 9)

	Group		Bank	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Treasury Bonds:				
Maturing within 91	-	-	-	-
Maturing after 91	30,572,358	-	30,572,358	-
	30,572,358	-	**30,572,358**	-

EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (IFRS 9)

	Group		Bank	
Quoted equity investments:-	2018	2017	2018	2017
Nairobi Securities Exchange:-				
7,000,000 shares of KShs 14.65 each	98,050	-		-
CIC Insurance Group Ltd:-				
8,000,000 shares of KShs 3.80 each	30,880	-		-
Unquoted equity Investments:-				
Consolidated Bank of Kenya Ltd:-				
135,000 ordinary shares of KShs 20 each	2,700	-	2,700	-
580,000 4% non-cumulative preference shares of KShs 20 each	1,562	-	1,562	-
Kenya National Federation of Co-operatives Ltd:-				
82 shares of KShs100 each	8	-	8	-
Kenya National Housing Co-operative Union Ltd:-				
1 share of KShs 1,000	1	-	1	
Menno Plaza Limited:-				
9,340 ordinary shares representing 12.39% ownership	30,880	-	30,880	-
	164,081	-	**35,151**	-

Movement in the year for debt and equity instrument through OCI

	Group 2018	Group 2017	Bank 2018	Bank 2017
At January 1	-	-	-	-
Transfer from Available for sale	**28,698,765**		**28,515,665**	
Reclassifications	(6,712,465)	-	(6,712,065)	-
Additions	29,070,623	-	29,070,623	-
Disposals and maturities	(20,067,016)	-	(20,086,049)	-
Expected credit loss	(507,337)	-	(507,337)	-
Change in fair value recognized OCI	253,869	-	326,672	-
At December 31	**30,736,439**	-	**30,607,509**	-

The weighted average effective interest rate on available for sale investments as at 31 December 2018 was 12.19%.

The above unquoted instruments relate to investments in the banking sector co-operative movement. The unquoted equities are not actively traded and management does not intend to dispose them in the immediate future. The unquoted equity investments are placed under level 3 of fair value hierarchy. The valuation technique used is equity calculation based on EBTDA and market data.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

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			
	2018		2017	
	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	(924,280)	(6,126)	2,318,170	(16,974)
Swaps	9,349,988	670,640	14,680,836	780,514
	8,425,708	**664,514**	**16,999,006**	**763,540**

12. OTHER ASSETS

	Group		Bank	
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
Interest receivable	2,847,811	3,606,257	2,847,811	3,606,257
Items in the course of collection from other banks	722,345	804,779	450,856	804,779
Deposits with financial Institutions	555,784	966,478	422,599	966,478
Sundry debtors and prepayments	11,647,528	4,933,630	11,872,987	4,768,770
Amounts due from related parties (43 (c))	-	-	71,972	129,032
Staff loan amortisation	4,044,752	3,951,897	4,044,752	3,951,897
	19,818,220	**14,263,041**	**19,710,977**	**14,227,213**
Impairment losses on deposits with financial institutions	(139,668)	(158,480)	(139,668)	(158,480)
	19,678,552	**14,104,561**	**19,571,309**	**14,068,733**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

13. LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
(a) Net loans and advances	**2018 KShs'000**	**2017 KShs'000**	**2018 KShs'000**	**2017 KShs'000**
Overdrafts	6,495,805	9,410,320	6,495,805	9,410,320
Commercial loans	248,814,235	255,344,320	246,928,658	253,781,741
Government/Donor funded loan schemes	434,375	139,621	434,375	139,621
Credit card balances	508,903	588,783	508,903	588,783
Micro enterprises & SME	9,298,077	2,584,276	9,298,077	2,584,277
Gross loans and advances	**265,551,395**	**268,067,320**	**263,665,818**	**266,504,742**
Staff loans amortisation (note 12)	(4,044,752)	(3,951,827)	(4,044,752)	(3,951,827)
	261,506,643	264,115,493	259,621,066	262,552,915
Allowance for ECL / impairment losses (note 13 c)	(16,096,341)	(10,253,849)	(16,074,683)	(10,191,142)
Net loans and advances	**245,410,302**	**253,861,644**	**243,546,383**	**252,361,773**

	Group and Bank	
(b) The weighted average effective interest rates at 31 December were:-	**2018 %**	**2017 %**
Overdrafts	13	14
Commercial loans	13	14
Government/Donor funded loan schemes	8.6	8.6
Credit card balances	8	14

(c) Allowance for ECL / impairment losses

Group

	Under IFRS 9			Under IAS 39 Total		
Presented in KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**Collective**	**Specific**	**Total**
At 1 January 2017	-	-	-	3,065,358	5,000,982	8,066,340
Impairment loss	-	-	-	135,623	3,465,629	3,601,252
Interest on impaired loans recognised as income	-	-	-		(28,659)	(28,659)
Impaired loss written off during the year	-	-	-		(1,233,292)	(1,233,292)
Amount released to income	-	-	-		(151,792)	(151,792)
At 31 December 2017	-	-	-	**3,200,981**	**7,052,868**	**10,253,849**
IFRS 9 transition	-	-	-	-	-	7,440,259
At 1 January 2018	3,586,110	3,679,166	10,428,832	-	-	17,694,108
Expected credit loss	568,573	668,864	484,730	-	-	1,722,167
Interest on impaired loans recognised as income	-	-	(1,660,820)	-	-	(1,660,820)
Impaired loss written off during the year	-	-	(1,659,114)	-	-	(1,659,114)
At 31 December 2018	**4,154,683**	**4,348,030**	**7,593,628**	**-**	**-**	**16,096,341**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

13. LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Allowance for ECL/ Impairment losses (continued)

Bank

	Under IFRS 9			Under IAS 39 Total		
Presented in KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**Collective**	**Specific**	**Total**
At 1 January 2017	-	-	-	3,061,322	4,996,328	8,057,650
Impairment loss	-	-	-	105,504	3,441,731	3,547,235
Interest on impaired loans recognised as income	-	-	-	(28,659)	(28,659)	(28,659)
Impaired loss written off during the year	-	-	-	(1,233,292)	(1,233,292)	(1,233,292)
Amount released to income	-	-	-	(151,792)	(151,792)	(151,792)
At 31 December 2017	**-**	**-**	-	**3,166,826**	**7,024,316**	**10,191,142**
IFRS 9 transition	-	-	-	-	-	7,502,966
At 1 January 2018	3,634,045	3,659,414	10,400,649	-	-	17,694,108
Expected credit loss	565,847	657,113	483,793	-	-	1,706,753
Interest on impaired loans recognised as income	-	-	(1,660,820)	-	-	(1,660,820)
Impaired loss written off during the year	-	-	(1,665,358)	-	-	(1,665,358)
At 31 December 2018	**4,199,892**	**4,316,527**	**7,558,264**	**-**	**-**	**16,074,683**

The table below provides overview of the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year end stage classification.

Group

31 December 2018					Provisions for impairment			
Internal risk rating category	**12-month ECL Stage 1**	**Lifetime ECL not credit impaired Stage 2**	**Lifetime ECL credit Impaired Stage 3**	**Gross Carrying Amount**	**12-month ECL Stage 1**	**Lifetime ECL not credit impaired Stage 2**	**Lifetime ECL credit Impaired Stage 3**	**Total ECL**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Grade1	206,071,494	-	-	206,071,494	1,902,139	-	-	1,902,139
Grade2	1,825,606	28,167,926	-	29,993,532	57,658	1,126,287	-	1,183,945
Grade3	-	1,295,230	9,060,272	10,355,502	-	240,984	5,037,511	5,278,495
Grade4	-	-	17,862,302	17,862,302	-	-	6,665,407	6,665,407
Grade5	-	-	1,268,565	1,268,565	-	-	1,066,355	1,066,355
Total	**207,897,100**	**29,463,156**	**28,191,139**	**265,551,395**	**1,959,797**	**1,367,271**	**12,769,273**	**16,096,341**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

13. LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Allowance for ECL/ Impairment losses (continued)

Bank

31 December 2018					Provisions for impairment			
Internal risk rating category	12-month ECL Stage 1	Lifetime ECL not credit impaired Stage 2	Lifetime ECL credit Impaired Stage 3	Gross Carrying Amount	12-month ECL Stage 1	Lifetime ECL not credit impaired Stage 2	Lifetime ECL credit Impaired Stage 3	Total ECL
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Grade1	204,732,623	-	-	204,732,623	1,899,410	-	-	1,899,410
Grade2	1,825,606	27,950,344	-	29,775,950	57,658	1,114,536	-	1,172,194
Grade3	-	1,295,230	8,973,089	10,268,319	-	240,984	5,030,333	5,271,317
Grade4	-	-	17,620,362	17,620,362	-	-	6,665,407	6,665,407
Grade5	-	-	1,268,564	1,268,564	-	-	1,066,355	1,066,355
Total	**206,558,229**	**29,245,574**	**27,862,015**	**263,665,818**	**1,957,068**	**1,355,520**	**12,762,095**	**16,074,683**

1 January 2018					Provisions for impairment			
Internal risk rating category	12-month ECL Stage 1	Lifetime ECL not credit impaired Stage 2	Lifetime ECL credit Impaired Stage 3	Gross Carrying Amount	12-month ECL Stage 1	Lifetime ECL not credit impaired Stage 2	Lifetime ECL credit Impaired Stage 3	Total ECL
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Grade1	218,551,695	-	-	218,551,695	4,903,745	-	-	4,903,745
Grade2	-	29,611,186	-	29,611,186	-	2,154,701	-	2,154,701
Grade3	-	-	10,300,084	10,300,084	-	-	5,898,580	5,898,580
Grade4	-	-	7,151,172	7,151,172	-	-	3,037,193	3,037,193
Grade5	-	-	890,605	890,605	-	-	844,025	844,025
Total	**218,551,695**	**29,611,186**	**18,341,861**	**266,504,742**	**4,903,745**	**2,154,701**	**9,779,798**	**16,838,244**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

13. LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Allowance for ECL/ Impairment losses (continued)

An analysis of changes in gross carrying amount and the corresponding ECL allowance in relation to Group and Bank loan portfolio is as follows

Group	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Gross carrying amount as at 1 January 2018	219,668,933	29,643,140	18,424,905	**267,736,978**
Disbursement	69,564,512	232,710	1,197,280	**70,994,502**
Repayment (excluding write-off)	(27,987,552)	(498,051)	(302,439)	**(28,788,042)**
Movement to Stage 1	1,597,002	(1,595,136)	(1,866)	**-**
Movement to Stage 2	(28,233,710)	28,588,259	(354,549)	**-**
Movement to Stage 3	(10,871,547)	(818,519)	11,690,066	**-**
Restructures	(16,011,979)	(25,777,923)	(918,116)	**(42,708,018)**
Write-offs	-	-	(1,684,025	**(1,684,025)**
31 December 2018	**207,725,659**	**29,774,480**	**28,051,256**	**265,551,395**

	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Impairment allowance as at 1 January 2018 under IFRS 9	4,906,643	2,155,112	9,782,722	**16,844,477**
ECL on disbursement	7,534,556	76,389	1,154,812	**8,765,757**
ECL on Repayment (excluding write-off)	(6,234,781)	(1,476,526)	(118,561)	**(7,829,868)**
Movement to Stage 1	217,883	(217,880)	(3)	**-**
Movement to Stage 2	(1,112,303)	1,379,567	(267,264)	**-**
Movement to Stage 3	(3,516,502)	(266,519)	3,783,021	**-**
Impact on year end ECL of exposures transferred between stages during the year	(406,770)	(286,272)	120,498	**-**
ECL on restructures	-	-	-	**-**
Write-Back	-	-	-	**-**
Write-offs	-	-	(1,684,025)	**(1,684,025)**
31 December 2018	**1,388,726**	**1,936,415**	**12,771,200**	**16,096,341**

Bank	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Gross carrying amount as at 1 January 2018	218,551,695	29,611,186	18,341,861	**266,504,743**
Disbursement	69,240,644	112,753	987,764	**70,341,161**
Repayment (excluding write-off)	(27,987,552)	(498,053)	(302,439)	**(28,788,043)**
Movement to Stage 1	1,597,002	(1,595,137)	(1,866)	**-**
Movement to Stage 2	(28,108,519)	28,463,068	(354,549)	**-**
Movement to Stage 3	(10,723,062)	(818,519)	11,541,582	**-**
Restructures	(16,011,979)	(25,777,923)	(918,116)	**(42,708,018)**
Write-offs	-	-	(1,684,025)	**(1,684,025)**
31 December 2018	**206,558,229**	**29,497,376**	**27,610,213**	**263,665,818**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

13. LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Allowance for ECL/ Impairment losses (continued)

Bank	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Impairment allowance as at 1 January 2018 under IFRS 9	4,903,745	2,154,701	9,779,798	**16,838,244**
ECL on disbursement	7,732,424	65,181	952,728	**8,750,333**
ECL on Repayment (excluding write-off)	(6,234,781)	(1,476,526)	(118,561)	**(7,829,868)**
Movement to Stage 1	217,883	(217,880)	(3)	**-**
Movement to Stage 2	(1,112,189)	1,379,452	(267,263)	**-**
Movement to Stage 3	(3,289,512)	(266,519)	3,556,031	**-**
Impact on year end ECL of exposures transferred between stages during the year	(258,814)	(284,577)	543,390	**(1)**
ECL on restructures	-	-	-	-
Write-back	-	-	-	**-**
Write-offs	-	-	(1,684,025)	**(1,684,025)**
31 December 2018	**1,958,756**	**1,353,832**	**12,762,095**	**16,074,683**

14. DEBT INSTRUMENTS AT AMORTISED COST

HELD TO MATURITY INVESTMENTS (IAS 39)

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Government treasury bills:				
Maturing within 91 days	-	5,387,877	-	5,387,877
Maturing after 91 days	-	3,386,122	-	3,386,122
Treasury bonds:				
Maturing within 91 days	-	1,151,555	-	1,151,555
Maturing after 91 days	-	34,057,734	-	33,901,773
	-	**43,983,288**	**-**	**43,827,327**
Movement in the year:				
At 1 January	-	37,158,762	-	37,003,530
Additions	-	17,864,906	-	17,864,906
Amortization of premiums and discounts	-	1,054,620	-	1,053,891
Maturities	-	(12,095,000)	-	(12,095,000)
At December 31	-		-	
	-	**43,983,288**	-	**43,827,327**

The weighted average effective interest rate on held-to-maturity investments as at 31 December 2017 was 12.02%.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

14. DEBT INSTRUMENTS AT AMORTISED COST (CONTINUED)

DEBT INSTRUMENTS MEASURED AT AMORTISED COST (IFRS 9)

	Group		Bank	
	2018 KShs'000		**2018 KShs'000**	
Government treasury bills:				
Maturing within 91 days	984,486	-	984,486	-
Maturing after 91 days	15,277,875	-	15,277,875	-
Treasury bonds:				
Maturing within 91 days	-	-	-	-
Maturing after 91 days	33,438,668	-	33,281,881	-
Corporate bonds:				
Maturing within 91 days	200,000	-	200,000	-
Maturing after 91 days	2,191,121	-	2,191,121	-
	52,092,150	**-**	**51,935,363**	**-**
Movement in the year:				
At 1 January	43,983,288	-	43,827,327	-
Additions	10,868,530	-	10,868,530	-
Amortization of premiums and discounts	1,702,930	-	1,702,104	-
Allowance for credit losses	(719,768)	-	(717,123)	-
Maturities	(3,742,830)	-	(3,745,475)	-
At December 31	**52,092,150**	**-**	**51,935,363**	**-**

The weighted average effective interest rate on Debt instruments measured at amortised cost as at 31 December 2018 was 12.72%. In assessing for the expected credit losses, the debt instruments at amortised cost were assessed to be of high grade credit quality and classified under stage 1 category.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

15. INVESTMENT IN SUBSIDIARIES

The following subsidiaries are owned by the Bank:-

Bank	Ownership	Principal activity	2018 KShs'000	2017 KShs'000
Co-op Consultancy & Insurance Agency Limited	100%	Consultancy & Insurance Agency	70,000	70,000
Co-optrust Investment Services Limited	100%	Fund management	20,000	20,000
Kingdom Securities Limited	60%	Brokerage Services	150,000	150,000
Co-operative Bank of South Sudan	51%	Banking	2,272,920	2,272,920
			2,512,920	**2,512,920**

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

Co-op Consultancy & Insurance Agency Limited was established as Co-op Consultancy Services in 2002 to offer consultancy, advisory and insurance agency services. The audited financial statements for the year ended 31 December 2018 show that the company made a profit after tax of KShs 334,949,950 (2017- KShs 287,878,934).

Co-optrust Investment Services was established in 1998 to offer fund management and investment services. The audited financial statements for the year ended 31 December 2017 show that the company made a profit after tax of KShs 30,961,522 (2017- KShs 17,099,704).

Kingdom Securities Limited (previously Bob Mathews Stockbrokers Limited) was acquired by Co-operative Bank Limited through purchase of 60% shareholding in 2009. The company offers brokerage services and is a registered broker with the Nairobi Securities Exchange. The audited financial statements for the year ended 31 December 2018 show that the company made a loss after tax of KShs 6,337,970 (2017 – loss after tax of KShs 863,134). Refer to note 32 for financial statements summaries.

Co-operative Bank of South Sudan was registered in 2013 with the partnership of Government of South Sudan which holds 49% of the ordinary shares. As at year end, Co-operative Bank of Kenya Limited had contributed 51% of the total share capital with the Government of South Sudan contributing 34%. The Subsidiary is based in South Sudan and commenced operation in September 2013. The audited financial statements for the year ended 31 December 2018 show that the company made a loss of KShs 109,886,653 (2017- KShs 590,281,540-Loss). Refer to note 32 for financial statements summaries.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

16. INVESTMENTS IN ASSOCIATES

The Bank has 35.71% interest in Co-operative Insurance Society Limited which is the majority shareholder of CIC Insurance Group Limited. CIC Insurance Group Limited is a listed company at Nairobi Securities Exchange (NSE) and is incorporated in Kenya. The principal activity of the Company is insurance business and fund management. The fair value of the investment as at 31 December 2018 was KShs 2,679 million.

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

The Bank's interest in Co-operative Insurance Society Limited is accounted for at cost in the separate financial statements.

Co-operative Bank of South Sudan owns 31% stake in CIC South Sudan. The interest in CIC South Sudan is accounted for using the equity method in the consolidated financial statements. During the year, the Associate changed its functional currency from South Sudan Pounds (SSP) to US dollars (USD).

The following table illustrates the summarised financial information of the Group's investment in CIC Insurance Group Limited:

	Group		Bank	
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January	**2,143,347**	**2,409,297**	**755,118**	**755,118**
Share of profit	171,416	129,904	-	-
Other comprehensive income	(39,609)	(49,758)	-	-
Exchange difference on translation	(30,392)	(273,220)	-	-
Dividends received	(83,287)	(72,876)	-	-
As at 31 December	**2,161,475**	**2,143,347**	**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	
	2018	2017	2018	2017
Statement of financial position:	KShs'000	KShs'000	KShs'000	KShs'000
Non-current assets	9,927,023	9,336,024	370,389	350,388
Current assets	23,237,773	21,117,269	408,536	261,749
	33,164,796	30,453,293	778,925	612,137
Current liabilities	(25,294,421)	(22,911,561)	(243,087)	(113,034)
Equity	**7,870,375**	**7,541,732**	**535,839**	**499,103**
Group's share in equity	2,810,511	2,693,152	166,110	154,722
Cumulative share of profit	(1,412,577)	(1,179,062)	-	-
Cumulative dividends received	544,113	460,826	-	-
Cumulative share of OCI	53,318	13,709	-	-
Inflation adjustment	-	-	-	-
Group's carrying amount of the investment	**1,995,365**	**1,988,625**	**166,110**	**154,722**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

16. INVESTMENTS IN ASSOCIATES (Continued)

	Co-operative Insurance Society Limited		CIC South Sudan Limited	
	2018	2017	2018	2017
Statement of comprehensive income:	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Revenue	17,078,727	15,600,262	464,150	371,863
Operating and other expenses	(16,260,545)	(15,082,927)	(417,816)	(362,013)
Profit before tax	818,182	517,335	46,334	9,850
Income tax expense	(226,258)	(39,241)	-	-
Profit after tax	**591,924**	**478,094**	**46,334**	**9,850**
Other comprehensive income	(252,681)	(256,788)	88,435	59,271
Total comprehensive income for the year	**339,243**	**221,306**	**134,769**	**69,121**
Attributable to parent	252,336	164,430	-	-
Attributable to Non-controlling interest	86,907	56,876	-	-
	339,243	**221,306**	-	-
Group's share of comprehensive income	**90,029**	**58,718**	**41,778**	**21,428**
Split as follows				
Share of profit or loss	157,053	126,850	14,363	3,054
Share of other comprehensive income	(67,024)	(68,132)	27,415	18,374

17. INTANGIBLE ASSETS

(a) GROUP	Computer software	Joint venture development	Other intangible assets	Work-in-progress	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
COST					
At 1 January 2018	**3,433,974**	**114,584**	**25,000**	**823,372**	**4,396,930**
Additions	211,668	-	-	765,838	**977,506**
Transfers from WIP	-	-	-	-	**-**
Exchange difference on translation	8,686	16,876	-	45,251	**70,813**
At 31 December 2018	**3,654,328**	**131,460**	**25,000**	**1,634,461**	**5,445,249**
AMORTISATION					
At 1 January 2018	**2,295,460**	**82,595**	**-**	**-**	**2,378,055**
Amortisation for the year	524,494	37,834	-	-	**562,328**
Exchange difference on translation	2,827	4,796	-	-	7,623
At 31 December 2018	**2,822,781**	**125,225**	**-**	**-**	**2,948,006**
NET CARRYING AMOUNT					
At 31 December 2018	**831,547**	**6,235**	**25,000**	**1,634,461**	**2,497,243**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

17. INTANGIBLE ASSETS (continued)

(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 2017	**3,280,990**	**73,049**	**25,000**	**255,287**	**3,634,326**
Additions	92,238	-	-	621,454	**713,692**
Transfers from WIP	158,094	-	-	(158,094)	**-**
Write off	(115,453)	-	-	-	**(115,453)**
Exchange difference on translation	18,105	41,535	-	104,725	**164,365**
At 31 December 2017	**3,433,974**	**114,584**	**25,000**	**823,372**	**4,396,930**
AMORTISATION					
At 1 January 2017	**1,877,417**	**43,790**	**-**	**-**	**1,921,207**
Amortisation for the year	526,390	22,917	-	-	**549,307**
Write off	(115,453)		-	-	**(115,453)**
Exchange difference on translation	7,106	15,888	-	-	**22,994**
At 31 December 2017	**2,295,460**	**82,595**	**-**	**-**	**2,378,055**
NET CARRYING AMOUNT					
At 31 December 2017	**1,138,514**	**31,989**	**25,000**	**823,372**	**2,018,875**

Other intangible assets relate to trading rights by Kingdom Securities Limited to participate in trading at Nairobi Securities Exchange (NSE). The business rights relate to the costs incurred in negotiating a business arrangement with the Government of South Sudan for the Co-Operative Bank of South Sudan. Under the agreement with the Government of South Sudan, the Bank acquired certain rights that are identifiable e.g., business relationships with the government and co-operative movement.

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

17. INTANGIBLE ASSETS (continued)

(b) BANK	Computer Software KShs'000	Work –in progress KShs'000	Total KShs'000
COST			
At 1 January 2018	3,294,316	515,889	3,810,205
Additions	209,895	765,838	975,733
Transfers	-	-	-
Write offs	-	-	-
Reclassification to Property and equipment	-	-	-
Cost at 31 December 2018	**3,504,211**	**1,281,727**	**4,785,938**
AMORTISATION			
At 1 January 2018	2,204,232	-	2,204,232
Amortisation for the year	488,392	-	488,392
Write Offs	(637)	-	(637)
At 31 December 2018	**2,691,987**	**-**	**2,691,987**
NET CARRYING AMOUNT			
At 31 December 2018	**812,224**	**1,281,727**	**2,093,951**
COST			
At 1 January 2017	3,140,032	71,074	3,211,106
Additions	92,238	602,909	695,147
Transfers	158,094	(158,094)	-
Write offs	(96,048)	-	(96,048)
Reclassification to Property and equipment	-	-	-
Cost at 31 December 2017	**3,294,316**	**515,889**	**3,810,205**
AMORTISATION			
At 1 January 2017	1,800,950	-	1,800,950
Amortisation for the year	499,330	-	499,330
Write Offs	(96,048)	-	(96,048)
At 31 December 2017	**2,204,232**	**-**	**2,204,232**
NET CARRYING AMOUNT			
At 31 December 2017	**1,090,084**	**515,889**	**1,605,973**

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. 764,847,872 (2017-KShs 659,254,782), 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 152,969,575 (2017-KShs 131,850,956).

18. PREPAID LEASE RENTALS

	Group and Bank	
	2018 KShs'000	2017 KShs'000
COST		
At 1 January and 31 December	**54,413**	**54,413**
AMORTISATION:		
At 1 January	**18,671**	**18,061**
Charge for the year	610	610
At 31 December	**19,281**	**18,671**
NET CARRYING AMOUNT		
At 31 December	**35,132**	**35,742**

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.

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 2018	**2,408,791**	**732,766**	**8,283,210**	**2,157,582**	**168,941**	**5,931,241**	**19,682,531**
Additions	-	83,657	208,123	70,264	24,026	403,743	789,813
Disposals	-	-	(8,353)	(6,663)	(20,715)	(45,940)	(81,671)
Transfers from WIP		(186,914)	143,641	-	-	43,273	-
Exchange difference on translation		13,771	-	131,336	15,087	16,529	176,721
Asset Reclassification	-	-	-	273	-	(273)	-
At 31 December 2018	**2,408,791**	**643,280**	**8,626,621**	**2,352,792**	**187,338**	**6,348,572**	**20,567,394**
ACCUMULATED DEPRECIATION							
At 1 January 2018	**93,143**	**-**	**6,001,994**	**1,489,503**	**119,506**	**4,484,811**	**12,188,957**
Charge for the year	93,143	-	725,328	238,756	19,315	741,399	**1,817,941**
Disposals	-	-	(7,369)	(6,611)	(19,326)	(45,423)	**(78,729)**
Exchange difference on translation	-	-	-	20,401	370	4,406	**25,177**
At 31 December 2018	**186,286**	**-**	**6,719,954**	**1,742,050**	**119,865**	**5,185,191**	**13,953,346**
NET CARRYING AMOUNT							
At 31 December 2018	**2,222,505**	**643,280**	**1,906,667**	**610,742**	**67,473**	**1,163,381**	**6,614,048**

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

(ii) Land and Buildings were revalued on open market value basis by professional valuers (N.W Realite Limited, Seven Degrees North Valuers, Kiragu and Mwangi Valuers and Afriland Valuers Limited) as at 31 December 2016. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs 129,813,710 (2017: Kshs 137,133,480)

(iii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs 292,790,830 (2017- KShs. 292,790,830) against which no depreciation has been charged, as these are pieces of land.

(iv) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs 5,246,718,954 (2017- KShs 3,812,851,933), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs 886,435,730 (2017 - KShs 690,075,369).

(v) The Group has not pledged any item of property, plant and equipment as security as at 31 December 2018 (31 December 2017: Nil

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 2017	**2,408,791**	**518,695**	**8,038,856**	**2,161,803**	**159,355**	**6,849,222**	**20,136,722**
Additions	-	717,409	11,451	46,138	25,184	37,906	838,088
Disposals	-	-	-	(18,372)	(37,045)	(12,184)	(67,601)
Transfers from WIP		(526,573)	243,307	13,051	10,720	259,495	-
Exchange difference on translation		51,958	-	320,683	10,727	45,153	428,521
Write off	-	(28,723)	(10,404)	(365,721)	-	(1,248,351)	(1,653,199)
At 31 December 2017	**2,408,791**	**732,766**	**8,283,210**	**2,157,582**	**168,941**	**5,931,241**	**19,682,531**
ACCUMULATED DEPRECIATION							
At 1 January 2017	**-**	**-**	**5,182,904**	**1,555,723**	**134,138**	**4,955,258**	**11,828,023**
Charge for the year	93,143	-	829,937	244,594	15,605	767,748	**1,951,027**
Disposals	-	-	-	(15,925)	(32,327)	8,977	**(39,275)**
Exchange difference on translation	-	-	-	70,389	2,137	-	**72,526**
Write off	-	-	(10,847)	(365,278)	(47)	(1,247,172)	**(1,623,344)**
At 31 December 2017	**93,143**	**-**	**6,001,994**	**1,489,503**	**119,506**	**4,484,811**	**12,188,957**
NET CARRYING AMOUNT							
At 31 December 2017	**2,315,648**	**732,766**	**2,281,216**	**668,079**	**49,435**	**1,446,430**	**7,493,574**

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

(ii) Land and Buildings were revalued on open market value basis by professional valuers (N.W Realite Limited, Seven Degrees North Valuers, Kiragu and Mwangi Valuers and Afriland Valuers Limited) as at 31 December 2016. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs 1,130 million (2016: KShs 1,218 million).

(iii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs 292,790,830 (2016- KShs. 35,496,498) against which no depreciation has been charged, as these are pieces of land.

(iv) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs 3,812,851,933 (2016- KShs 5,496,487,965), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs 690,075,369(2016 - KShs 855,305,140).

(v) In the year, the write off of Kshs 1,653 Million represented the write-off of certain property, plant and equipment as a result of an asset verification undertaken in the year. The value written off is based on the book value of the asset as at the time of write off. An impairment loss of Kshs 29,856,490 was recognised in profit or loss as operating expenses being assets not located following the asset verification exercise.

(vi) The Group has not pledged any item of property, plant and equipment as security as at 31 December 2017 (31 December 2016: Nil)

19. (b) PROPERTY AND EQUIPMENT-BANK

	Freehold land & buildings	Capital work-in progress	Fixtures	Office machinery, furniture & equipment	Motor vehicles	Computers	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
COST/VALUATION							
At 1 January 2018	**2,408,791**	**600,944**	**8,282,574**	**1,232,111**	**139,350**	**5,788,556**	**18,452,326**
Additions	-	83,657	208,123	59,097	24,027	399,436	**774,340**
Disposals	-	-	(8,353)	(6,663)	(20,715)	(45,573)	**(81,304)**
Revaluation	-	-	-	-	-	-	-
Transfer from Work in Progress	-	(186,914)	143,641	-	-	43,273	-
Asset Reclassification	-	-	-	273	-	(273)	-
At 31 December 2018	**2,408,791**	**497,687**	**8,625,985**	**1,284,818**	**142,662**	**6,185,419**	**19,145,362**
ACCUMULATED DEPRECIATION							
At 1 January 2018	**93,143**	-	**6,001,021**	**1,068,804**	**103,945**	**4,373,449**	**11,640,360**
Charge for the year	93,143	-	725,328	79,468	10,877	703,379	**1,612,195**
Disposals	-	-	(7,379)	(6,611)	(19,326)	(45,423)	**(78,739)**
Reclassification	-	-	-	148	-	(148)	-
At 31 December 2018	**186,286**	-	**6,718,970**	**1,141,809**	**95,496**	**5,031,257**	**13,173,816**
NET CARRYING AMOUNT							
At 31 December 2018	**2,222,505**	**497,687**	**1,907,005**	**143,009**	**47,166**	**1,154,162**	**5,971,546**

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

(ii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs 292,790,830 (2017- KShs. 292,790,830) against which no depreciation has been charged, as these are pieces of land. If the freehold land and buildings were measured using the cost model, the carrying amount would be KShs. 129,813,710 (2017: KShs 137,133,480)

(iii) Land and Buildings were revalued on open market value basis by professional valuers (NW Realite Limited, Seven Degrees North Valuers, Kiragu and Mwangi Valuers and Afriland Valuers Limited) as at 31 December 2016. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs 1,284,818,514 (2017: KShs 1,174,835,479).

(iv) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 5,234,583,558 (2017- KShs 3,812,851,933), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs 884,008,651 (2017 - KShs 690,075,369)

19. (b) PROPERTY AND EQUIPMENT-BANK

	Freehold land & buildings	Capital work-in progress	Fixtures	Office machinery, furniture & equipment	Motor vehicles	Computers	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
COST/VALUATION							
At 1 January 2017	**2,408,791**	**435,965**	**8,038,219**	**1,575,480**	**140,490**	**6,749,889**	**19,348,834**
Additions	-	707,123	11,451	38,055	25,185	36,676	**818,490**
Disposals	-	-	-	(15,704)	(37,045)	(9,053)	**(61,802)**
Revaluation	-	-	-	-	-	-	**-**
Transfer from Work in Progress	-	(513,421)	243,307	-	10,720	259,394	**-**
Write offs	-	(28,723)	(10,404)	(365,721)	-	(1,248,351)	**(1,653,199)**
At 31 December 2017	**2,408,791**	**600,944**	**8,282,573**	**1,232,110**	**139,350**	**5,788,555**	**18,452,323**
ACCUMULATED DEPRECIATION							
At 1 January 2017	**-**	**-**	**5,181,930**	**1,335,013**	**126,631**	**4,887,545**	**11,531,119**
Charge for the year	93,143	**-**	829,937	112,331	9,687	740,971	**1,786,069**
Disposals	-	**-**	-	(13,262)	(32,327)	(7,897)	**(53,486)**
Write offs	-	-	(10,847)	(365,278)	(47)	(1,247,170)	**(1,623,342)**
At 31 December 2017	**93,143**	**-**	**6,001,020**	**1,068,804**	**103,944**	**4,373,449**	**11,640,360**
NET CARRYING AMOUNT							
At 31 December 2017	**2,315,648**	**600,944**	**2,281,553**	**163,306**	**35,406**	**1,415,106**	**6,811,963**

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

(ii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs 292,790,830 (2016- KShs. 35,496,498) against which no depreciation has been charged, as these are pieces of land. If the freehold land and buildings were measured using the cost model, the carrying amount would be Kshs 1,129 million (2016: Kshs 1,181 million)

(iii) Land and Buildings were revalued on open market value basis by professional valuers (NW Realite Limited, Seven Degrees North Valuers, Kiragu and Mwangi Valuers and Afriland Valuers Limited) as at 31 December 2016. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs 1,130 million (2016: KShs 1,218 million).

(iv) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 3,812,851,933 (2016- KShs 5,496,487,965), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs 690,075,369 (2016 - KShs 855,305,140).

(v) In the year, the write off of Kshs 1,653,199 represented the write off of certain property and equipment as a result of an asset verification undertaken in the year. The value written off is based on the book value of the asset as at the time of write off. An impairment loss of KShs 29.857 million was recognised in the statement of profit and loss as operating expenses being assets not located following the asset verification exercise.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

20. DEFERRED TAX

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

GROUP	2018 Deferred tax assets KShs'000	2018 Through Profit or loss KShs'000	2018 Through reserves KShs'000	2017 Deferred tax assets KShs'000	2017 Through Profit or loss KShs'000	2017 Through reserves KShs'000
Collective allowance for impairment disallowed for tax purposes	(2,585,026)	(52,936)	(1,609,949)	(968,503)	(36,009)	-
Revaluation surplus	432,663	-	(12,493)	445,155	-	(12,493)
Excess of tax wear and tear allowance over depreciation	(1,136,311)	(12,413)		(968,362)	61,525	-
Unrealised exchange gains	137,434	(447,242)	-	584,676	103,534	-
Other temporary differences	(51,194)	8,775	-	(60,090)	(16,174)	-
Deferred tax asset	**(3,202,434)**	**(503,816)**	**(1,622,442)**	**(967,124)**	**112,876**	**(12,493)**
Collective allowance for impairment disallowed for tax purposes	95,978	3,591	42,771	-	-	-
Excess of tax wear and tear allowance over depreciation	155,927	391	-	-	-	-
Other temporary differences	5,591	(18,839)	-	-	-	-
Deferred tax liability	**257,496**	**(14,857)**	**42,771**	**-**	**-**	**-**
Net deferred tax asset	**(2,944,938)**	**(518,673)**	**(1,579,671)**	**(967,124)**	**112,876**	**(12,493)**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

20. DEFERRED TAX (CONTINUED)

BANK	2018 Deferred tax assets KShs'000	2018 Through Profit or loss KShs'000	2018 Through reserves KShs'000	2017 Deferred tax assets KShs'000	2017 Through Profit or loss KShs'000	2017 Through reserves KShs'000
Collective allowance for impairment disallowed for tax purposes	(2,518,183)	(43,729)	(1,524,406)	(950,048)	(31,651)	-
Revaluation surplus	432,663	-	(12,492)	445,155	-	(12,493)
Accelerated wear and tear allowance over depreciation	(1,136,982)	(30,665)	-	(1,106,317)	(76,487)	-
Unrealised exchange gains	137,434	(447,242)	-	584,676	103,534	-
Provision for staff leave pay	(44,276)	11,014	-	(55,289)	(13,530)	-
	(3,129,344)	**(510,622)**	**(1,536,898)**	**(1,081,822)**	**(18,134)**	**(12,493)**

The Group had unused tax losses in relation to Kingdom Securities Limited of KShs 11,307,318 (2017 – KShs 14,057,798) as at 31 December 2018. The deferred tax asset of KShs 3,392,196 (2017 – KShs 4,217,340) arising from the tax losses has not been recognised in the financial statements since it is unlikely that sufficient taxable profits will be available in the foreseeable future against which the un-used tax losses can be utilized. Unused tax losses expire in ten (10) years with effect from the year in which they were incurred.

21. DEPOSITS AND BALANCES DUE TO BANKS

	Group		Bank	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Local banks	342,524	10,325	342,524	10,325
Foreign banks	100,736	363,139	497,097	413,376
	443,260	**373,464**	**839,621**	**423,701**

The weighted average effective interest rate on deposits from other banks at 31 December 2018 was 0.00% (2017-7.04%). These current accounts do not accrue any interest.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

22. CUSTOMER DEPOSITS

	Group		Bank	
	2018	2017	2018	2017
(a) Deposit category	KShs'000	KShs'000	KShs'000	KShs'000
Call deposits	39,827,623	28,103,247	39,827,623	28,103,247
Fixed deposits	65,011,989	65,638,460	64,988,567	65,638,440
Transaction accounts	105,653,662	104,920,317	105,165,208	103,116,782
Savings accounts	15,203,436	10,951,008	15,166,755	10,950,520
Current accounts	68,141,660	63,613,516	66,326,332	63,612,087
Foreign currency deposits	12,278,676	14,145,160	12,278,676	14,145,160
	306,117,046	**287,371,708**	**303,753,161**	**285,566,236**
(b) From government and parastatals:-				
Payable on demand	20,191,851	13,356,609	20,056,826	13,356,609
Payable within 30 days	6,219,809	2,942,420	6,219,809	2,942,420
Payable after 30 days but within 1 year	19,995,236	16,608,697	19,995,236	16,608,697
	46,406,896	**32,907,726**	**46,271,871**	**32,907,726**
(c) From private sector and individuals:-				
Payable on demand	165,060,333	170,165,999	162,891,576	168,360,527
Payable within 30 days	33,383,296	25,419,613	33,346,615	25,419,613
Payable after 30 days but within 1 year	61,266,521	58,878,370	61,243,099	58,878,370
	259,710,150	**254,463,982**	**257,481,290**	**252,658,510**
	306,117,046	**287,371,708**	**303,753,161**	**285,566,236**

Included in customers' deposits is an amount of KShs. 2,588 Million (2017- KShs 11,577 Million) that has been pledged to the Bank by customers as security for loans and advances. The weighted average effective interest rate on interest-bearing customer deposits as at 31 December was 4.74% (2017– 7%).

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

23. LOANS AND BORROWINGS

	Group & Bank	
Long-term borrowing	**2018 KShs'000**	**2017 KShs'000**
IFAD	30,000	30,000
DEG	2,155,536	3,272,033
International Finance Corporation (IFC)	17,550,881	13,119,935
European Investment Bank	1,113,396	1,113,396
AFD Microfinance & line of credit	3,105,015	3,561,672
KFW Loan –SIPMK	63,709	66,778
Loan Accrual adjustment	(68,926)	-
	23,949,611	**21,163,814**
Short-term borrowing		
Central Bank REPO	-	3,992,240
	23,949,611	**25,156,054**
Movement in the year:		
At 1 January	25,156,054	19,813,260
Additional loan disbursement	7,638,458	5,677,744
Central Bank REPO	-	3,992,240
Accrued interest	107,173	115,565
Loan Repayment	(8,562,857)	(3,755,281)
Accrual adjustment	(68,926)	-
Foreign exchange difference	(320,291)	(687,474)
At 31 December	**23,949,611**	**25,156,054**

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

International Fund for Agricultural Development (IFAD)

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

European Investment Bank

A loan agreement Euros 50 million were entered into in April 2012 between the European Investment Bank and The Co-operative Bank of Kenya Limited. The loan 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 loan is 2.43% plus a currency risk premium determined over a period of time. As at end of 2018, Euros 35.39 Million had been disbursed to the bank. The outstanding loan amount unpaid as at end of 2018 was 10 Million Euros.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

23. LOANS AND BORROWINGS (Continued)

French Development Agency (AFD)

The bank entered into agreement with AFD in 2011 for a credit facility at fixed rate of 3.25% to finance investments in the fields of sustainable energy (energy efficiency & renewable energy) projects. As at the end of year 2018,the amount disbursed to the bank was USD 35,710,169.The bank secured an additional credit facility of USD 50 Million in year 2016 and the first drawdown of USD 8 Million has already being disbursed.

International Finance Corporation

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 2018, 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 2018, the bank had received a drawdown of USD 105 Million.

In March 2018, the bank entered into a new agreement with IFC for a total of USD 150 Million. The loan is repayable in eleven equal instalments and will mature in December 2025.The loan is to be disbursed in two tranches and the first tranche of USD 75 Million was received in September 2018.

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 disbursement 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 2018

24. TAXATION

	Group		Bank	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
(a) Income Statement:-				
Current tax at 30% on the taxable profit for the year	5,937,854	5,059,967	5,679,263	4,884,785
Under provision in previous year	5,463	2,787	9,040	-
Hyper-inflationary adjustment	-	(182,057)	-	-
Deferred tax (credit) / charge	(518,672)	112,876	(510,622)	(18,134)
	5,424,645	**4,993,573**	**5,177,681**	**4,866,651**
(b) Statement of financial position:-				
Balance brought forward	(135,473)	-	(207,583)	-
Under provision in previous year	5,404	-	9,040	-
Charge for the year	5,924,009	-	5,679,263	-
Paid during the year	(5,472,487)	-	(5,186,165)	-
Tax payable	**321,453**	**-**	**294,555**	**-**
Balance brought forward	(21,222)	1,221,025	-	1,248,698
Under provision in previous year	59	2,787	-	-
Charge for the year	13,846	5,059,967	-	4,884,784
Paid during the year	(10,855)	(6,440,474)	-	(6,341,065)
Tax recoverable	**(18,172)**	**(156,695)**	**-**	**(207,583)**
(c) Reconciliation of tax expense to tax based on accounting profit:-				
Accounting profit	**18,157,131**	**16,398,638**	**17,586,758**	**16,502,181**
Tax applicable rate at 30%	5,447,139	4,919,591	5,276,027	4,950,654
Under provision in previous year	5,463	2,787	9,040	-
Share of profit in associate	(51,425)	(38,971)	-	-
Unrecognized deferred tax asset on tax loss	(869)	(1,765)	-	-
Hyper inflationary adjustments	127,640	190,559	-	-
Tax effect of items not eligible for tax	(103,303)	(78,628)	(107,386)	(84,003)
Tax expense in the income statement	**5,424,645**	**4,993,573**	**5,177,681**	**4,866,651**

The corporation tax rate applicable to the Bank, subsidiaries and associates is 30% except for Co-operative Bank of South Sudan charged at a rate of 10-25% depending on the revenue of the tax payer.

Items not eligible for tax relates to items disallowed for purpose of calculating the income tax in accordance with the Income Tax Act. These mainly relates to donations, interest on infrastructure bonds.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

25. PROVISIONS

	Group		Bank	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Leave liability	151,146	187,793	147,583	184,297
Balance at 1 January	**187,793**	**141,281**	**184,297**	**139,198**
Movement through profit or loss	(36,647)	46,512	(36,714)	45,099
Balance at 31 December	**151,146**	**187,793**	**147,583**	**184,297**

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	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Bills payable	4,250,094	1,119,855	4,250,094	1,119,855
Sundry creditors and accruals	6,096,050	2,355,831	5,882,534	2,152,351
Allowance for credits losses for off balance sheet commitments	867,446	-	867,446	-
	11,213,590	**3,475,686**	**11,000,074**	**3,272,206**

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

27. GOVERNMENT GRANTS

	Group and Bank	
Grant net of amortisation:	2018 KShs'000	2017 KShs'000
At 1 January	**480,367**	**498,842**
Amortisation for the year	(18,475)	(18,475)
At 31 December	**461,892**	**480,367**

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	
	2018 KShs'000	2017 KShs'000
Authorised :-		
7.5 billion (2017: 7.5 billion) ordinary shares of KShs 1 each.	**7,500,000**	**7,500,000**
Issued and fully paid:-		
At start of the year	**5,867,180**	**4,889,317**
Issue of bonus shares	-	977,863
At the end of the year	**5,867,180**	**5,867,180**
Movement in the year:-		
At start of the year	5,867,180	4,889,317
Issue of bonus shares	-	977,863
At the end of the year	**5,867,180**	**5,867,180**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

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	
	2018 KShs'000	2017 KShs'000
At 1 January	1,911,926	2,889,789
Issue of bonus shares	-	(977,863)
At 31 December	**1,911,926**	**1,911,926**

30. RESERVES

(a) Revaluation reserve

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

(b) Retained earnings

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

(c) Fair value reserve

This comprises changes in fair value on debt instruments at fair value through other comprehensive income, excluding impairment losses, until the net investment is derecognised. This reserve is not distributable as it relates to unrealised fair value changes.

(d) Statutory reserve

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

(e) Foreign currency translation reserve

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

31. PROPOSED DIVIDENDS AND DIVIDENDS PER SHARE

	Group and Bank	
	2018 KShs'000	2017 KShs'000
Proposed dividends	5,867,180	4,693,744

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

(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 2018 financial statements, a first and final dividend in respect of year 2018 of KShs 1 (2017 - KShs 0.80) for every ordinary share of KShs 1 each will be proposed by the directors and is subject to approval by shareholders.

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

32. NON-CONTROLLING INTERESTS

(a) Kingdom Securities Limited

Kingdom Securities Limited (previously Bob Mathews Stockbrokers Limited) was acquired in 2009 by the Bank through the purchase of 60% shareholding. The company offers brokerage services and is a registered broker with the Nairobi Securities Exchange.

(b) Co-operative Bank of South Sudan

Co-operative Bank of South Sudan was registered in partnership with the Government of South Sudan which holds 49% of the ordinary shares while the Bank holds 51%. The subsidiary is based in South Sudan and offers banking services.

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

Summarised statement of profit or loss and other comprehensive income for:-

	Kingdom Securities Limited		Co-operative Bank of South Sudan	
	2018	**2017**	**2018**	**2017**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Interest and other income	63,259	69,032	1,316,874	952,214
Interest and commission expenses	(750)	(1,820)	(39,380)	(36,517)
	62,509	**67,212**	**1,277,494**	**915,697**
Operating expenses	(69,743)	(66,243)	(947,160)	(975,553)
Loss on net monetary position	-	-	(361,113)	(546,069)
Profit / (loss) before tax	(7,234)	969	(30,779)	(605,925)
Share of profit of an associate	-	-	14,364	3,054
Income tax expense	857	(105)	(93,472)	12,590
Profit / (loss) for the year	**(6,377)**	**864**	**(109,887)**	**(590,281)**
Other comprehensive income	(40,250)	35,350	27,414	18,374
Total comprehensive income	**(46,627)**	**36,214**	**(82,473)**	**(571,907)**
Allocated to non-controlling interest	(18,651)	14,486	(40,411)	(280,234)

Summarised statement of financial position as at 31 December

	Kingdom Securities Limited		Co-operative Bank of South Sudan	
	2018	**2017**	**2018**	**2017**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Current assets	243,685	343,911	4,729,840	3,499,992
Non-current Assets	54,375	38,669	1,378,093	1,182,760
Current liabilities	(89,188)	(111,715)	(3,379,022)	(2,573,818)
Total equity	**208,872**	**270,865**	**2,728,911**	**2,108,934**
Attributable to:-				
Equity holders of the parent	125,323	162,519	1,391,745	1,075,556
Accumulated non-controlling interests of the subsidiary	83,549	108,346	1,337,166	1,033,378

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

32. NON-CONTROLLING INTERESTS (continued)

(c) Hyperinflationary economy in South Sudan

With effect from 2016, the South Sudanese economy is considered to be hyperinflationary in accordance with the criteria in International Accounting Standards (IAS) 29- *Financial Reporting in Hyperinflationary Economies*

IAS 29 requires the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy, shall be stated in terms of the measuring unit current at the end of the reporting period. The corresponding figures for the previous period and any information in respect of earlier periods shall also be stated in terms of the measuring unit current at the end of the reporting period. The management applied this standard to prepare the financial statements for the Co-operative Bank of South Sudan. The corresponding figures for the previous reporting period for Co-operative Bank of South Sudan were restated. However, the Group did not restate the corresponding figures on the consolidated financial statements as its not required to do so. Following the application of IAS 29, the subsidiary recorded a loss on net monetary position of KShs 361 million (2017: KShs 546 million). In the application of IAS 29, the Group used conversion coefficients derived from the consumer price index (CPI) in the Republic of South Sudan. CPIs and the corresponding conversion coefficients are presented below:

Year	CPI	Conversion factor
2016	2,799	1
2017	4,502	2.2
2018	6503	1.4

33. INTEREST AND SIMILAR INCOME

	Group		Bank	
	2018	2017	2018	2017
Interest income calculated using the effective interest method	KShs'000	KShs'000	KShs'000	KShs'000
Loans and advances to customers	33,522,342	31,929,951	33,173,217	31,712,283
Debt instruments at amortised cost	3,743,734	4,007,574	3,723,589	3,990,902
Debt instruments at FVOCI	4,619,041	-	4,619,041	-
Amortization of financial instruments	1,366,486	-	1,426,632	-
Deposits and balances due from other banks	261,878	183,296	190,969	173,122
Interest received repo placement	27,087	-	27,088	-
Interest on previously impaired loans	-	151,792	-	151,792
	43,540,568	**36,272,613**	**43,160,536**	**36,028,099**

34. INTEREST AND SIMILAR EXPENSE

Interest expense calculated using the effective interest method

Call deposits	1,774,420	1,469,500	1,774,420	1,432,982
Fixed deposits	6,816,649	7,354,770	6,816,582	7,354,770
Savings accounts	999,601	849,829	998,453	792,858
Current accounts	1,261,646	1,229,144	1,261,642	1,229,144
Deposits and balances due to banks	134,697	169,251	133,813	226,222
Loans	1,253,102	1,196,725	1,215,825	1,196,725
	12,240,115	**12,269,219**	**12,200,735**	**12,232,701**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

35. FEES AND COMMISSIONS

	Group		Bank	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Fees and commissions income	**8,941,686**	**9,815,411**	**7,569,878**	**8,635,149**
Fees and commissions expense:	(111,322)	(94,600)	(111,322)	(94,600)
Net fees and commissions income	**8,830,364**	**9,720,811**	**7,458,556**	**8,540,549**

Disaggregated fees and commission information for the year ended 31 December 2018

	Banking services KShs'000	Advisory & training KShs'000	Banc assurance KShs'000	Investment management KShs'000	Brokerage KShs'000	Total KShs'000
Fees and commission income						
Custodial	79,577	-	-	-	-	79,577
Share registration	22,540	-	-	-	-	22,540
Fund management	-	-	-	137,223	-	137,223
Brokerage	-	-	-	-	5,542	5,542
Consultancy	-	45,391	-	-	-	45,391
Training	-	38,424	-	-	-	38,424
Insurance agency	-	-	566,329	-	-	566,329
Ledger fees and service charges	770,157	-	-	-	-	770,157
Other fees & commissions	7,165,181	-	-	-	-	7,165,181
Total revenue from contracts with customers	**8,037,455**	**83,815**	**566,329**	**137,223**	**5,542**	**8,830,364**
Timing of revenue recognition						
Services transferred at a point in time	7,935,338	83,815	566,329	-	5,542	8,591,024
Services that are provided over time	102,117	-	-	137,223	-	239,340
Total revenue from contracts with customers	**8,037,455**	**83,815**	**566,329**	**137,223**	**5,542**	**8,830,364**

36. NET TRADING INCOME

	Group		Bank	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Foreign exchange gain	2,284,412	2,180,470	2,052,864	1,948,921
Interest income on investment securities:				
-Available for sale	-	3,299,128	-	3,299,077
-Held-for-trading	59,322	16	-	16
Changes in fair value of financial assets held-for-trading	-	3	-	3
Amortization of financial instruments	-	(126,678)	-	(217,796)
	2,343,734	**5,352,939**	**2,052,864**	**5,030,221**

The amortisation of debt instruments at amortised cost (held-to-maturity investments in 2017) has been classified under interest income for 2018.

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

37. OTHER OPERATING INCOME

	Group		Bank	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Gain / (loss) on disposal of property and equipment	4,355	1,686	4,355	1,686
Dividend income	2,116	1,778	83,288	72,876
Rental income	99,028	93,187	99,028	93,187
Loan recoveries	-	32,358	-	32,358
Gain on sale of financial assets available-for-sale	-	249,042	-	249,042
Gain on sale of financial assets at Fair value	458,114	-	458,114	-
Amortisation of treasury bills	-	1,229,639	-	1,229,639
Interest received repo placement	-	2,172	-	2,172
Sundry Income	371,760	890,528	348,298	890,528
	935,373	**2,500,390**	**993,083**	**2,571,488**

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

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

38. EMPLOYEE COSTS

	Group		Bank	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Basic salaries	9,490,665	8,299,508	9,135,808	7,974,113
Allowances	422,000	376,685	362,741	352,955
Pension scheme contribution				
- Statutory Scheme	8,864	8,920	8,695	8,809
- Employee Scheme	684,841	608,218	652,565	597,475
Medical expenses	550,556	284,331	531,026	281,566
Education and training	87,249	90,181	83,718	87,036
Others	205,489	432,508	178,555	312,856
	11,449,964	**10,100,351**	**10,953,108**	**9,614,810**

The number of employees at the year-end was:	**2018**	**2017**	**2018**	**2017**
Management	622	623	583	496
Supervisory and unionisable	3,334	3,089	3,152	3,033
Others	295	357	295	357
	4,251	**4,069**	**4,030**	**3,886**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

39. OTHER OPERATING EXPENSES

	Group		Bank	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Rent and maintenance costs for branch premises	1,710,040	1,518,200	1,602,542	1,395,356
Motor vehicle running & other equipment maintenance	2,041,779	1,455,054	1,985,295	1,391,661
Stationery and printing	335,137	302,129	338,525	296,981
Travelling and insurance	604,449	543,667	526,048	487,287
Telephone, postage, electricity and water	601,474	591,441	572,472	558,018
Contribution to Deposit Protection Fund	420,060	396,699	420,060	396,699
Directors' emoluments	198,741	180,790	150,169	129,422
Auditors' remuneration	21,010	18,585	13,188	12,560
Loss on net monetary position	361,113	546,069	-	-
Other operating and administrative expenses	3,727,156	3,572,094	3,471,090	3,337,912
	10,020,959	**9,124,728**	**9,079,389**	**8,005,896**

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.

The calculation of basic earnings per share for the Group and the Bank is based on the year's profit attributable to equity holders of the parent and the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	Group		Bank	
	2018	2017	2018	2017
Profit for the year attributable to equity holder of the parent (KShs'000)	12,788,882	11,693,958	12,409,077	11,635,530
Weighted average number of ordinary shares for basic earnings per share (Thousands)	5,867,180	5,867,180	5,867,180	5,867,180
Weighted average number of ordinary shares for diluted earnings per share (Thousands)	5,867,180	5,867,180	5,867,180	5,867,180
Basic earnings per share (KShs)	2.18	1.99	2.11	1.98
Diluted earnings per share (KShs)	2.18	1.99	2.11	1.98

41. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Financial Assets at fair value through other comprehensive income

	Group		Bank	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Gains/(losses) arising during the year	9,235,008	(855,183)	9,307,806	(988,850)
Reclassification to profit or loss	(8,981,149)	1,368,152	(8,981,145)	1,452,068
	253,859	**512,969**	**326,661**	**463,218**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

42. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of profit before taxation to cash generated from operations

CASH FLOWS FROM OPERATING ACTIVITIES:-	Notes	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Profit before tax		**18,157,131**	**16,398,638**	**17,586,757**	**16,502,181**
Adjustments for:-					
Depreciation of property and equipment	19	1,817,941	1,951,027	1,612,195	1,786,069
Amortization of prepaid lease rentals and write offs	18	610	610	610	610
Impairment on property and equipment	19	-	29,855	-	29,857
Write-off on intangible assets	17	(637)		(637)	-
Movement in provisions		(1,597,767)	3,417,158	(1,619,423)	3,366,784
Leave provision		(36,647)	46,512	(36,714)	45,099
(write back) / Allowance for credit losses		(87,181)	-	99,680	-
Unrealised exchange difference		(784,617)	(260,244)	(784,617)	(260,244)
Amortization of intangible assets	17	562,328	549,307	488,392	499,330
Amortization of capital grants	27	(18,475)	(18,475)	(18,475)	(18,475)
Loss / (gain) on disposal of property and equipment		(4,355)	(1,686)	(4,355)	(1,686)
Changes in fair value of held-for-trading investment	9	-	2	-	(3)
Share of profit in associates	16	(171,416)	(129,904)		
Exchange difference on borrowings	23	(320,291)	(687,474)	(320,291)	(687,474)
Accrued interest on borrowings	23	38,247	115,565	38,247	115,565
Loss on net monetary position		361,113	546,069	-	-
Cash from operating activities before working capital changes		**17,915,984**	**21,956,960**	**17,041,369**	**21,377,613**
Advances to customers		2,608,850	(24,971,473)	2,931,848	(23,958,385)
Other assets		(5,003,678)	974,882	(5,053,071)	(128,230)
Deposits from customers		18,745,338	27,218,271	18,186,925	26,094,487
Deposits from banks		69,796	(3,038,513)	415,920	(2,979,192)
Other liabilities		6,870,459	(2,492,944)	6,860,423	(2,603,924)
Central Banks cash reserve ratio		(1,110,838)	(1,378,097)	(1,120,689)	(1,328,038)
Held-for-trading investments		639,950	(639,807)	150	-
Available-for-sale investments		(2,276,842)	(3,427,650)	(2,258,209)	(3,427,650)
Derivative financial instruments		99,026	(636,764)	99,026	(636,764)
Cash generated from operating activities		**38,558,045**	**13,564,865**	**37,103,692**	**12,409,917**
Cash and cash equivalents comprises of:-					
Cash on hand	7	9,809,390	8,387,452	9,064,099	7,715,294
Cash with Central Banks	7	22,951,504	15,872,744	20,820,071	14,826,206
Deposits and balances due from banking institutions	8	18,089,539	7,730,354	17,602,839	7,739,831
Items in the course of collection from other Banks	12	722,345	804,779	450,856	804,779
		51,572,778	**32,795,329**	**47,937,865**	**31,086,110**
Less: Central Banks restricted cash		(16,398,951)	(15,288,113)	(15,825,177)	(14,704,488)
Cash and cash equivalents		**35,173,827**	**17,507,216**	**32,112,688**	**16,381,622**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

43. RELATED PARTY BALANCES AND TRANSACTIONS

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

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

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

	2018 KShs'000	2017 KShs'000
Directors	450,895	124,103
Employees	8,425,634	7,769,502
Associates	1,946,051	1,585,942
	10,822,580	**9,479,547**
Interest income earned	**749,465**	**730,018**
Weighted average interest rate	**7%**	**7%**

The loans are secured by property and are repayable in less than 30 years. No impairment losses have been recorded against balances outstanding during the period and no specific allowance has been made for impairment losses on balances at period end (2017-Nil) as staff and directors are all active and currently in-service for the bank and recoveries are made directly through payroll.

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

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

	2018 KShs'000	2017 KShs'000
Directors and Employees	638,154	697,219
Subsidiaries and Associate companies	948,168	1,361,194
Interest expensed	49,458	55,895
Weighted average interest rate	7%	7.0%

(c) Inter-company balances and transactions:-

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

	Relationship	Bank 2018 KShs'000	Bank 2017 KShs'000
Due from:-			
Co-optrust Investment Services Limited	Subsidiary	2,080	7,247
Co-op Consultancy & Insurance Agency Ltd	Subsidiary	18,447	24,645
Co-opholdings Co-operative Society Limited	Parent	31,665	33,648
Co-operative Bank of South Sudan	Subsidiary	19,780	62,618
Kingdom Securities Limited	Subsidiary	-	874
		71,972	**129,032**
Insurance premium:-			
Co-operative Insurance Company Limited	Associate	124,951	36,821

Outstanding balances at the year-end are unsecured and no guarantees have been provided or received from any related party. The Bank has not made any provision for impairment losses on balances at period end (2017-36,821).

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

43. RELATED PARTY BALANCES AND TRANSACTIONS

(d) Compensation of key management personnel

	Group		Bank	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Non-executive directors				
Directors' emoluments:				
-Fees	179,342	160,444	131,963	112,820
-Others	19,501	20,346	18,206	16,602
	198,843	**180,790**	**150,169**	**129,422**
Executive director				
-Short-term employee benefits	105,460	99,800	99,760	94,100
-Post-employment benefits/bonus	271,010	270,700	271,010	270,700
	376,470	**370,500**	**370,770**	**364,800**
Senior Managers:				
-Short-term employee benefits	951,645	713,120	912,754	693,961
-Post-employment pension	76,499	57,961	74,477	55,999
-Termination benefits	103,294	227,850	98,683	227,850
	1,131,438	**998,931**	**1,085,914**	**977,810**

(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 2018, KShs 149,611,814 (2017-KShs 159,526,047) was disbursed to the Foundation. At 31 December 2018, the Foundation held deposits of KShs 3,790,996 (2017 - KShs 883,302) with the Bank.

(f) Co-operative Bank of Kenya Limited Staff Retirement Contribution Scheme

This is a defined contribution scheme and provides, under the rules of the scheme, retirement benefits for the staff of Co-operative Bank of Kenya Limited and its subsidiaries. The Group contributed KShs 344 million (2017 - KShs 608 million) as at 31 December 2018. 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:

	2018 KShs'000	2017 KShs'000
Rent paid to the scheme on leased property	7,095	7,095
Dividends paid on the Bank's ordinary shares	28,323	24,742

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

44. MATURITY ANALYSIS OF ASSETS AND LIABILITES

The Group presents its statement of financial position in order of liquidity. The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	GROUP			BANK		
	Within 12 months KShs'000	After 12 months KShs'000	Total KShs'000	Within 12 months KShs'000	After 12 months KShs'000	Total KShs'000
As at 31 December 2018						
ASSETS						
Cash and balances with Central Banks	32,478,601	-	32,478,601	29,884,170	-	29,884,170
Deposits and balances due from banks	18,081,648	-	18,081,648	15,500,331	2,096,035	17,596,366
Investment in Financial Instruments	26,426,056	57,067,047	83,493,103	26,426,056	56,781,330	83,207,386
Loans and advances	54,830,337	190,579,965	245,410,302	53,898,378	189,648,006	243,546,383
Tax recoverable	18,172	-	18,172	-	-	-
Deferred tax asset	-	3,202,434	3,202,434	-	3,129,344	3,129,344
Prepaid Lease Rentals	-	35,132	35,132	-	35,132	35,132
Other assets	-	19,678,552	19,678,552	-	19,571,309	19,571,309
Investment in subsidiaries	-	-	-	-	2,512,920	2,512,920
Investment in associates	-	2,161,475	2,161,475		755,118	755,118
Property and equipment	-	6,614,048	6,614,048	-	5,971,546	5,971,546
Intangible assets	-	2,497,243	2,497,243	-	2,093,951	2,093,951
Total assets	**131,834,814**	**281,835,896**	**413,670,710**	**125,708,935**	**282,594,691**	**408,303,625**
LIABILITIES						
Customer Deposits	306,071,829	45,217	306,117,046	303,707,944	45,217	303,753,161
Deposits and balances due to banks	443,260	-	443,260	839,621	-	839,621
Tax Payable	321,453	-	321,453	294,555	-	294,555
Other Liabilities	11,364,737	-	11,364,737	11,147,656	-	11,147,656
Government grants	-	461,892	461,892	-	461,892	461,892
Loans and borrowings	4,881,819	19,067,792	23,949,611	4,881,819	19,067,792	23,949,611
Deferred tax liability	-	257,496	257,496	-	-	-
Total liabilities	**323,083,098**	**19,832,397**	**342,915,495**	**320,871,595**	**19,574,901**	**340,446,496**
Net	**(191,248,284)**	**262,003,499**	**70,755,215**	**(195,162,661)**	**263,019,790**	**67,857,129**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

44. MATURITY ANALYSIS OF ASSETS AND LIABILITES (continued)

	GROUP			BANK		
	Within 12 months KShs'000	After 12 months KShs'000	Total KShs'000	Within 12 months KShs'000	After 12 months KShs'000	Total KShs'000
As at 31 December 2017						
ASSETS						
Cash and balances with Central Banks	24,260,196	-	24,260,196	22,541,500	-	22,541,500
Deposits and balances due from banks	7,730,354	-	7,730,354	7,739,831	-	7,739,831
Investment in Financial Instruments	24,341,309	49,744,236	74,085,545	24,341,309	48,765,372	73,106,681
Loans and advances	51,892,804	201,968,840	253,861,644	51,387,933	200,973,840	252,361,773
Tax recoverable	156,695	-	156,695	207,583	-	207,583
Deferred tax asset	-	967,124	967,124	-	1,081,823	1,081,823
Prepaid Lease Rentals	-	35,742	35,742	-	35,742	35,742
Other assets	14,104,561	-	14,104,561	14,068,733	-	14,068,733
Investment in subsidiaries	-	-	-	-	2,512,920	2,512,920
Investment in associates	-	2,143,347	2,143,347	-	755,118	755,118
Property and equipment	-	7,493,574	7,493,574	-	6,811,963	6,811,963
Intangible assets	-	2,018,875	2,018,875	-	1,605,973	1,605,973
Total assets	**122,485,919**	**264,371,738**	**386,857,657**	**120,286,889**	**262,542,751**	**382,829,640**
LIABILITIES						
Customer Deposits	287,336,702	35,006	287,371,708	285,531,230	35,006	285,566,236
Deposits and balances due to banks	373,464	-	373,464	423,701	-	423,701
Tax payable	-	-	-	-	-	-
Other Liabilities	3,663,479	-	3,663,479	3,456,503	-	3,456,503
Government grants		480,367	480,367	-	480,367	480,367
Loans and borrowings	8,562,857	16,593,197	25,156,054	8,562,857	16,593,197	25,156,054
Total liabilities	**299,936,502**	**17,108,570**	**317,045,072**	**297,974,291**	**17,108,570**	**315,082,861**
Net	**(177,450,583)**	**247,263,168**	**69,812,585**	**(177,687,402)**	**245,434,181**	**67,746,779**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

45. OPERATING LEASE COMMITMENTS

As lessor:

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

	Group and Bank	
	2018 KShs'000	**2017 KShs'000**
Within One year	130,764	130,764
Between 2 and 5 years	188,702	288,714
Over 5 years	2,411	13,556
	321,877	**433,034**

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

As lessee:

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

	Group and Bank	
	2018 KShs'000	**2017 KShs'000**
Within one year	1,015,158	1,033,763
Between 2 and 5 years	2,607,644	2,491,626
Over 5 years	572,431	1,138,808
	4,195,233	**4,664,197**

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

46. COMMITMENTS

	Group and Bank	
	2018 KShs'000	**2017 KShs'000**
(i) Capital: Authorised and contracted for	182,485	142,885
(ii) Capital: Authorised and not contracted for	4,127,399	3,824,413
(iii) Loans committed but not disbursed at year end	18,475,707	53,503,803

47. CONTINGENT LIABILITIES

	Group and Bank	
(a) Financial guarantees, Letters of credit and other undrawn commitments	**2018 KShs'000**	**2017 KShs'000**
Letters of credit	8,350,239	8,496,709
Guarantees	11,283,670	8,958,431
	19,633,909	**17,455,140**
Unutilised overdraft	288	13,656
Unutilised Credit Card	135,989	151,613
Gross Carrying Amount	**19,770,186**	**17,620,408**
Allowance for credit loss	(867,446)	(832,083)
Net Carrying Amount	**18,902,740**	**16,788,326**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

47. CONTINGENT LIABILITIES (continued)

a) Financial guarantees, Letters of credit and other undrawn commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other commitments to lend. Even though these obligations may not be recognised on the statement of financial position, they contain credit risk and, therefore, form part of the overall risk of the Bank.

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

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

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

b) Impairment losses on financial guarantees, letters of credit and other undrawn commitments

An analysis of changes in the outstanding exposures and the corresponding ECLs are, as follows

Letters of credit

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 1 January 2018	**8,496,708**	**-**	**-**	**8,496,708**
Disbursement	7,489,511	-	-	7,489,511
Repayment (excluding write-off)	(7,635,980)	-	-	(7,635,980)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2018	**8,350,239**	**-**	**-**	**8,350,239**

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
ECL allowance as at 1 January 2018	**782,903**	**-**	**-**	**782,903**
ECL on disbursements	611,982	-	-	611,982
ECL on Repayment (excluding write-off)	(716,466)	-	-	(716,466)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2018	**678,419**	**-**	**-**	**678,419**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

47. CONTINGENT LIABILITIES (continued)

b) Impairment losses on financial guarantees, letters of credit and other undrawn commitments

Guarantees

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 1 January 2018	**8,944,031**	**14,400**	**-**	**8,958,431**
Disbursements	6,734,353	-	-	6,734,353
Repayment (excluding write-off)	(4,394,715)	(14,400)	-	(4,409,115)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2018	**11,283,670**	**-**	**-**	**11,283,670**

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
ECL allowance as at 1 January 2018	**30,035**	**49**	**-**	**30,084**
ECL on disbursements	189,970	-	-	189,970
ECL on Repayment (excluding write-off)	(43,788)	(49)	-	(43,837)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2018	**176,217**	**-**	**-**	**176,217**

Undrawn commitment

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at	**8,944,031**	**14,400**	**-**	**8,958,431**
1 January 2018	144,525	20,744	-	165,269
Disbursements	82,614	16,240	-	98,854
Repayment (excluding write-off)	(92,860)	- 34,987	-	(127,847)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2018	**134,279**	**1,997**	**-**	**136,276**

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
ECL allowance as at 1 January 2018	**13,470**	**5,626**	**-**	**19,096**
ECL on disbursements	6,843	13,727	-	20,570
ECL on Repayment (excluding write-off)	(9,191)	(17,665)	-	(26,856)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2018	**11,122**	**1,688**	**-**	**12,810**

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

47. CONTINGENT LIABILITIES (continued)

c) Pending legal suits

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings, arising in the ordinary course of the Bank's business. When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosures in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

Some of the key pending legal suits include:-

(i) Kenya Continental Holdings

This is an injunction application seeking to stop the Bank from selling the company's security alleging fraud and misrepresentation on the part of the Bank with a claim for special damages for alleged loss of opportunities amounting to Kshs. 404,785,225. The Bank has a counterclaim amounting to Kshs 521,318,439 against the debtor. The matter is slated for a hearing on 7th, 12th and 13th February 2019.

(ii) Boaz Mathews Ouma Awiti & three others

This is a claim for KShs 31,864,120 against the Bank relating to the sale and purchase of shares in Bob Mathews Stock Brokers Ltd (now Kingdom Securities Limited). The Bank has successfully applied for and obtained a stay of proceedings and referral of the matter to arbitration as per the terms of the Share purchase agreement. The plaintiffs have not been able to agree on an arbitrator.

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

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

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

Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

47. CONTINGENT LIABILITIES (continued)

d) Excise duty on financial transactions

In 2016, the Kenya Revenue Authority (KRA) demanded from the Bank tax amounting to KShs 621,537,611 relating to alleged non-payment of excise duty for the period 2013 to 2015. This amount is made up of principal excise duty of KShs 495,403,544 and interest of KShs 126,134,067 as shown below:-

Period	Principal KShs	Interest KShs	Total KShs
2013	134,213,458	51,167,844	185,381,302
2014	263,528,443	63,246,826	326,775,269
2015	97,661,643	11,719,397	109,381,040
	495,403,544	**126,134,067**	**621,537,611**

As at 31 December 2018, this amount had not been paid to KRA. The above interest amount is calculated up to 2015 and excludes any such amounts that may be demanded after this date.

The management, through the tax agent, disputed the demand on factual and technical grounds and the matter was referred to the Tax Appeals Tribunal. The subject of the dispute is industry-wide.

No provision has been made in these financial statements for the principal tax and interest shown above as the directors based on the advice by the tax consultant are of the opinion that no liability will arise.

48. FIDUCIARY ACTIVITIES

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

The Group at Custodial Services department holds assets on behalf of customers with a value of KShs 61.728 billion (2017 – KShs 46.669 billion). The income for the period for custodial services was KShs 79.577 million (2017- KShs 60.777 million) while the expenses amounted to KShs 44.36 million (2017- KShs 37.739 million).

The Group, through Co-op Trust Investment Services Limited manages securities with a value of KShs 40.54 billion (2017- KShs 33.46 billion) on behalf of customers. The total income for the period from fund management was KShs 137.22 million (2017- KShs 122.56 million), with total expenses amounting to KShs 121.30 million (2017 - KShs 116.04 million).

49. ASSETS PLEDGED AS SECURITY

As at 31 December 2018, there were no assets pledged by the Group to secure liabilities.

50. HOLDING ENTITY

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

51. INCORPORATION

The Bank is incorporated in Kenya under the Companies Act, 2015

52. CURRENCY

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

53. EVENTS AFTER REPORTING PERIOD

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

Group Information

FOR THE YEAR ENDED 31 DECEMBER 2018

REGISTERED OFFICE AND HEAD OFFICE

Co-operative Bank House,
L.R. No. 209/4290 (IR No. 27596)
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NAIROBI

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Tel: +211 913085760
JUBA

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

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

COMPANY SECRETARY

Samuel M Kibugi (Mr)
Co-operative Bank House, Haile Selassie Avenue,
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SHARES REGISTRAR

The Co-operative Bank of Kenya Limited
Shares Registry Services,
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P.O. Box 48231 – 00100,
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LAWYERS

Various
A list is available at the Bank

AUDITORS

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NAIROBI

Disclaimer

Co-operative Bank of Kenya Group has acted in good faith and has made every reasonable report to ensure the comprehensiveness and accuracy of the information contained in this document, including all 'forward-looking statements'.

Forward-looking statements may be identified by words such as 'believe', 'anticipate', 'expect', 'plan', 'estimate', 'intend', 'project', 'target', 'predict' and 'hope'. ese statements have been made by the Management of Co-op Bank and are purely based on the current operating environment, estimates, assumptions, beliefs and projections hence undue dependence should not be placed on such statements.

Co-operative Bank of Kenya Group does not undertake to update any forward-looking statements contained in this document and hence does not assume responsibility for any loss or damage whatsoever and howsoever arising as a result of the reliance by any party.

AFRICAN BANKING AWARDS 2018

BEST BANK IN KENYA & BEST PRODUCT UPDATE IN AFRICA

We cannot thank you enough for your continued support and feedback. It's because of you that THE KINGDOM BANK, has once again been awarded as the **'Best Bank in Kenya'** at the **Africa Banking Awards 2018** edition. In addition, MCo-opCash, the Banks' Mobile Banking service has been awarded for the Best Product Launch in Africa, following added innovative value proposition to the customers.

We appreciate your confidence in us.

Asanteni Sana!!

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