

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2023

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

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CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
GROUP INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2023

REGISTERED OFFICE AND HEAD OFFICE

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

SUBSIDIARIES

The Co-operative Bank of Kenya Limited
P.O. Box 48231-00100
Tel.: 020 3276000
NAIROBI, KENYA

Kenya Co-operative Coffee Dealers Limited
P.O. Box 48231 - 00100,
Tel.: 020 3276000
NAIROBI, KENYA

SOCIETY SECRETARY

Frederick Ndegwa
Co-operative Bank House, Haile Selassie Avenue,
P.O. Box 48231 - 00100,
NAIROBI, KENYA

SHARES REGISTRAR

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

BANKER

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

LAWYERS

Various
A list is available at the Bank

AUDITOR

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

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2023

The directors submit their report together with the audited financial statements for the year ended 31 December 2023 which show the state of the Group's and the Society's affairs.

1. PRINCIPAL ACTIVITIES

The Society is a strategic investor of Co-operative Bank of Kenya Limited on behalf of Co-operative Societies.

2. GROUP OPERATIONS

The Society is the majority shareholder in The Co-operative Bank of Kenya Limited (licensed under the Banking Act) which offers banking and related services. The operating results of the Society's subsidiaries: The Co-operative Bank of Kenya Limited, Kingdom Bank Limited, Co-operative Bank of South Sudan Limited, Co-optrust Investment Services Limited, Co-op Consultancy & Bancassurance Intermediary Limited, Kingdom Securities Limited, and Kenya Co-operative Coffee Dealers Limited have been included in the Group financial statements. The Co-operative Bank of Kenya Limited and Co-operative Bank of South Sudan offer a full range of banking services. Co-op Consultancy & Bancassurance Intermediary 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 brokerage and investment advisory services. Kenya Co-operative Coffee Dealers Limited value adds and sells coffee locally and internationally. Co-operative Merchant Limited is dormant.

At the start of the year, The Society owned 91% in Kenya Co-operative Coffee Exporters Limited (KCCE) who marketed coffee from both co-operatives and plantations. KCCE directly owned Kenya Co-operative Coffee Dealers Limited (KCCD) which value adds and sells coffee locally and internationally. During the year, The Society relinquished the shares owned in KCCE to various societies and unions and acquired direct ownership of KCCD. Hence, only KCCD has been considered for consolidation purposes for the year under review.

3. RESULTS

The results of the Group for the year are set out from page 9.

4. RECOMMENDED DIVIDEND

The directors recommend payment of a first and final dividend of KShs 1.50 (2022 - KShs 1.50) for every ordinary share of KShs 1. The dividends will be paid on or about 10 June 2024 to the shareholders registered on the Bank's register at the close of business on 23 May 2024. The register will remain closed for one day on 24 May 2023 for the preparation of dividend warrants.

5. RESERVES

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

6. GROUP DIRECTORS

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

M. Malonza, MBS, HSC	-Chairman
P. K. Githendu	-Vice Chairman
J. Sitienei	
R. L. Kimanthi	
S. Odhiambo (Mrs)	
G. K. Mburia	
W. Ongoro, HSC	
B. W. Simiyu	
J. N. Njiru	
D. M. Muthigani	
D. K. Obonyo	-Commissioner of Co-operatives
F. Ngone	
G. M'Nairobi	
M. M. Muthigani	

7. STATEMENT AS TO DISCLOSURE TO THE SOCIETY'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 Society's auditor is unaware; and
- b) the person has taken all the steps that the person ought to have taken as a director to be aware of any relevant audit information and to establish that the Society's auditor is aware of that information.

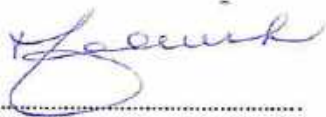
8. TERMS OF APPOINTMENT OF THE AUDITORS

Ernst & Young LLP continues in office in accordance with section 25(4) of the Kenyan Co-operative Societies Act (Amended), 2004. 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 auditor's appointment and the related fees.

9. APPROVAL OF FINANCIAL STATEMENTS

The Board of Directors approved the financial statements on 26th March 2024.

By order of the Board of Directors



.....
MANAGER

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2023

The Kenyan Co-operative Societies Act (Amended), 2004 requires the directors to prepare financial statements for each year, which give a true and fair view of the financial position of the Society 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 Society maintains proper accounting records that are sufficient to show and explain the transactions of the society and disclose, with reasonable accuracy, the financial position of the society. The directors are also responsible for safeguarding the assets of the Society and ensuring that the business of the Society has been conducted in accordance with its objectives, by-laws and any other resolutions made at the Society's general meetings.

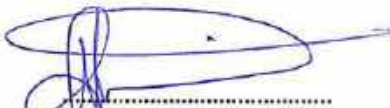
The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenya Co-operative Societies Act, (Amended), 2004. They also accept responsibility for:

- (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 assessed the Society's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Society'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 26 March 2024 and signed on its behalf by:



.....
CHAIRMAN



.....
VICE CHAIRMAN



.....
MANAGER



Ernst & Young LLP
Certified Public Accountants
Kenya Re Towers
Upper Hill
Off Ragati Road
P.O. Box 44286 - 00100
Nairobi GPO, Kenya

Tel: +254 20 2886000
Email: info@ke.ey.com
www.ey.com
LLP/2015/52

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES**

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated and separate financial statements of Co-opholdings Co-operative Society Limited (the Society) and its subsidiaries (together, the Group) set out on pages 8 to 108, which comprise the consolidated and separate statements of financial position as at 31 December 2023, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including material accounting policy information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Co-opholdings Co-operative Society Limited and its subsidiaries as at 31 December 2023, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Co-operative Societies Act, (Amended), 2004.

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.

Other Information

The directors are responsible for the other information. The other information comprises the Report of the Directors as required by the Kenyan Co-operative Societies Act (Amended), 2004. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, other than that prescribed by the Kenya Co-operative Societies Act (Amended), 2004, as set out below.

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

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

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 the requirements of the Kenyan Co-operative Societies Act, (Amended), 2004, and for such internal control as directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

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.

REPORT ON OTHER LEGAL REQUIREMENTS

As required by the Kenyan Co-operative Societies Act (Amended), 2004, we report to you, based on our audit, that:

- (i) We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;
- (ii) In our opinion proper books of account have been kept by the group and the society, so far as appears from our examination of those books;
- (iii) Based on our audit, nothing has come to our attention that causes us to believe that the society's business has not been conducted:
 - (a) in accordance with the provisions of the Kenyan Co-operative Societies Act (Amended), 2004.
 - (b) in accordance with the Co-operative Society's objectives, by-laws and any other resolutions made by the Society at general meetings.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Nancy Muhoya, Practising Certificate No. 2158.



For and on behalf of Ernst & Young LLP
Certified Public Accountants
Nairobi, Kenya

13 April 2024

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023

ASSETS	Notes	2023 KShs'000	2022 KShs'000
Cash and balances with Central Bank of Kenya	6	32,492,671	28,106,288
Deposits and balances due from banks	7	27,275,130	9,983,779
Debt instruments at fair value through other comprehensive income	8	98,695,811	99,963,950
Equity instruments at fair value through other comprehensive income ^F	8	385,479	388,857
Derivative financial instruments	9	-	206,725
Other assets	10	21,165,584	30,336,315
Loans and advances to customers	11(a)	373,711,526	339,054,497
Inventory	12	148,151	96,915
Debt instruments at amortized cost	13	91,741,759	74,799,963
Tax recoverable	24(b)	654,776	330,854
Investment in associates	15	2,711,086	2,483,303
Intangible assets	16	2,675,637	2,621,245
Prepaid lease rentals	17	32,083	32,693
Property and equipment	18	7,053,411	6,809,163
Right-of-use assets	19	4,120,676	2,644,934
Deferred tax asset	20	6,338,746	6,044,575
Goodwill	14	<u>3,294,000</u>	<u>3,294,000</u>
TOTAL ASSETS		<u>672,496,526</u>	<u>607,198,056</u>
LIABILITIES			
Deposits and balances due to banks	21	4,457,278	1,087,501
Customer deposits	22	451,574,244	423,701,109
Loans and borrowings	23	67,334,316	48,102,072
Tax payable	24(b)	-	-
Provisions	25	284,379	276,702
Other liabilities	26	34,048,964	26,085,986
Government grant	27	369,512	387,989
Derivative financial instruments	9	<u>1,396,103</u>	<u>-</u>
TOTAL LIABILITIES		<u>559,464,796</u>	<u>499,641,359</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT			
Share capital	28	3,787,715	3,787,715
Share premium	29	1,234,295	1,234,295
Reserves	30	65,319,923	60,915,547
Proposed dividends	31	<u>5,359,618</u>	<u>5,537,640</u>
		75,701,551	71,475,197
Non-controlling interest		<u>37,330,179</u>	<u>36,081,499</u>
TOTAL EQUITY		<u>113,031,730</u>	<u>107,556,696</u>
TOTAL LIABILITIES & EQUITY		<u>672,496,526</u>	<u>607,198,056</u>

The financial statements were approved by the Board of Directors on 26 March 2024 and signed on its behalf by: -

M. Malonza, MBS, HSC - Chairman
P. K. Githendu - Vice Chairman
F. Ndegwa - Manager

Handwritten signatures of the Board of Directors in blue ink, corresponding to the names listed on the left.

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 KShs'000	2022 KShs'000
Interest income	32	69,014,092	61,710,360
Interest expense	33	<u>(23,842,053)</u>	<u>(16,221,183)</u>
NET INTEREST INCOME		45,172,039	45,489,177
Fees and Commission income	34	22,430,396	20,157,211
Net trading income	35	3,003,917	4,717,290
Amortization of government grants	27	18,476	18,476
Other income	36	<u>882,087</u>	<u>930,266</u>
OPERATING INCOME		<u>71,506,915</u>	<u>71,312,420</u>
Credit loss expense on loans and advances	11(c)	(6,008,159)	(8,676,736)
Credit loss expense on other financial assets and commitments	41	575,475	(439,057)
Other operating expenses	37	<u>(34,424,623)</u>	<u>(33,301,032)</u>
OPERATING EXPENSES		<u>(39,857,307)</u>	<u>(42,416,825)</u>
OPERATING PROFIT		31,649,608	28,895,595
Share of profit of an associate	15	<u>345,725</u>	<u>416,141</u>
PROFIT BEFORE TAX		31,995,333	29,311,736
Income tax expense	24(a)	<u>(9,175,482)</u>	<u>(7,389,055)</u>
PROFIT FOR THE YEAR		<u>22,819,851</u>	<u>21,922,681</u>
Attributable to:			
Equity holders of the parent entity		14,688,185	14,126,210
Non-controlling interest		<u>8,131,666</u>	<u>7,796,471</u>
		<u>22,819,851</u>	<u>21,922,681</u>
Basic earnings per share (KShs)	38	<u>3.88</u>	<u>3.73</u>
Diluted earnings per share (KShs)	38	<u>3.88</u>	<u>3.73</u>

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 KShs'000	2022 KShs'000
PROFIT FOR THE YEAR		22,819,851	21,922,681
<i>Other comprehensive income that will be reclassified to the income statement</i>			
Net movement on debt instruments at fair value through other comprehensive income	43	(8,361,591)	(8,605,319)
Share of other comprehensive income of associates			
-Fair value gain/(loss) on debt instrument at fair value through other comprehensive income			1,027
Exchange differences on translation of a foreign operation		-	
<i>Other comprehensive income that will not be reclassified to the income statement</i>			
-Net movement on equity instruments at fair value through other comprehensive income		-	188,981
- Revaluation of building			
Share of other comprehensive income of associates		-	(171,431)
OTHER COMPREHENSIVE INCOME, NET OF TAX		<u>(8,361,591)</u>	<u>(8,586,742)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		<u>14,458,260</u>	<u>13,335,939</u>
Attributed to:-			
Equity holders of the parent entity		8,940,476	8,906,664
Non-controlling interest		<u>5,517,784</u>	<u>4,429,275</u>
		<u>14,458,260</u>	<u>13,335,939</u>

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
 SOCIETY STATEMENT OF FINANCIAL POSITION
 AS AT 31 DECEMBER 2023

	Notes	2023 KShs'000	2022 KShs'000
ASSETS			
Bank balance	6	65,607	8,178
Investment in subsidiaries	14	4,187,715	4,187,715
Dividend receivable	31(d)	5,681,573	5,681,573
Other receivables		11,875	2,236
Amount due from related parties		76,839	76,839
Other assets		<u>62,024</u>	<u>21,073</u>
TOTAL ASSETS		<u>10,085,633</u>	<u>9,977,614</u>
LIABILITIES			
Other liabilities	26	108,628	102,777
Dividend payable		62,024	21,073
Amount due to related parties	40(c)	<u>45,866</u>	<u>11,279</u>
TOTAL LIABILITIES		<u>216,518</u>	<u>135,129</u>
EQUITY			
Share capital	28	3,787,715	3,787,715
Retained earnings	30	721,783	517,130
Proposed dividend	31	<u>5,359,617</u>	<u>5,537,640</u>
TOTAL EQUITY		<u>9,869,115</u>	<u>9,842,485</u>
TOTAL LIABILITIES & EQUITY		<u>10,085,633</u>	<u>9,977,614</u>

The financial statements were approved by the Board of Directors on 26 March 2024 and signed on its behalf by:-

M. Malonza, MBS, HSC - Chairman
 P. K. Githendu - Vice Chairman
 F. Ndegwa - Manager

Three handwritten signatures in blue ink are present, each on a dotted line. The top signature is the most prominent and appears to be for the Chairman. Below it is a smaller signature, and at the bottom is another signature.

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
 SOCIETY STATEMENT OF PROFIT OR LOSS
 FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 KShs'000	2022 KShs'000
INCOME			
Dividend income	36	5,681,573	5,681,573
Interest income		24	24
Other income		-	-
TOTAL INCOME		<u>5,681,597</u>	<u>5,681,597</u>
OPERATING EXPENSES: -			
Delegates expenses		109,681	91,572
Directors' emoluments		11,052	3,179
Bank charges		5	10
Professional fees		2,821	2,492
Auditor's remuneration		825	855
Other miscellaneous expenses		-	-
TOTAL OPERATING EXPENSES	36	<u>124,384</u>	<u>98,108</u>
PROFIT BEFORE TAX		5,557,213	5,583,489
Income tax expense		-	-
PROFIT FOR THE YEAR		5,557,213	5,583,489
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		<u>5,557,213</u>	<u>5,583,489</u>
Basic earnings per share (KShs)	38	<u>1.42</u>	<u>1.47</u>
Diluted earnings per share (KShs)	38	<u>1.42</u>	<u>1.47</u>

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023

	Share Capital KShs'000	Share Premium KShs'000	Revaluation Reserve KShs'000	Statutory Reserve KShs'000	Fair value Reserve KShs'000	Foreign currency translation reserve KShs'000	Proposed Dividends KShs'000	Retained earnings KShs'000	Attributable to equity holder of the Society KShs'000	Non- controlling interest KShs'000	Total equity KShs'000
At 1 January 2022	3,787,715	1,234,295	960,665	333,901	(149,234)	(37,941)	3,693,023	55,835,695	65,658,120	34,352,774	100,010,894
Profit for the year	-	-	-	-	-	-	-	14,126,210	14,126,210	7,796,471	21,922,681
Other comprehensive income	-	-	155,425	-	(5,442,974)	1,027	-	-	(5,286,521)	(3,367,196)	(8,653,717)
Transfer of excess depreciation	-	-	(44,031)	-	-	-	-	-	(44,031)	-	(44,031)
Deferred tax on Revaluation surplus	-	-	-	(65,607)	-	-	-	65,607	-	69,005	69,005
Transfer from statutory reserve	-	-	-	-	-	-	-	-	-	136,774	136,774
Issue of additional shares	-	-	-	-	-	-	-	-	-	-	-
Exchange difference on hyperinflationary economy	-	-	37,668	64,247	(65,562)	39,642	-	638,445	714,440	(578,702)	135,738
2021 - Dividends paid	-	-	-	-	-	-	(3,693,023)	-	(3,693,023)	(2,327,626)	(6,020,649)
Proposed dividends	-	-	-	-	-	-	5,537,640	(5,537,640)	-	-	-
At 31 December 2022	3,787,715	1,234,295	1,109,726	332,541	(5,657,769)	2,728	5,537,640	65,128,319	71,475,195	36,081,499	107,556,696
At 1 January 2023	3,787,715	1,234,295	1,109,726	332,541	(5,657,769)	2,728	5,537,640	65,128,319	71,475,195	36,081,499	107,556,696
Profit for the year	-	-	-	-	-	-	-	14,688,185	14,688,185	8,131,666	22,819,851
Other comprehensive income	-	-	-	-	(5,747,710)	-	-	-	(5,747,711)	(2,613,881)	(8,361,591)
Transfer of excess depreciation	-	-	(31,072)	-	-	-	-	31,072	-	-	-
Deferred tax on excess depreciation	-	-	9,322	-	-	-	-	-	9,322	-	9,322
Issue of additional shares	-	-	-	-	-	-	-	-	-	-	-
Exchange difference on hyperinflationary economy	-	-	1,374	(298,008)	-	-	-	1,110,834	814,201	(4,269,104)	(3,454,903)
2022- Dividends paid	-	-	-	-	-	-	(5,537,640)	-	(5,537,640)	-	(5,537,640)
Proposed dividends	-	-	-	-	-	-	5,359,618	(5,359,618)	-	-	-
At 31 December 2023	3,787,715	1,234,295	1,089,350	34,533	(11,405,480)	2,728	5,359,618	75,598,792	75,701,551	37,330,179	113,031,730

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
 SOCIETY STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 31 DECEMBER 2023

	Share capital KShs 000	Retained earnings KShs 000	Proposed dividend KShs 000	Total KShs 000
At 1 January 2022	3,787,715	281,729	3,693,023	7,762,467
Profit for the year	-	5,583,489	-	5,583,489
2021- Dividends paid	-	-	(3,503,472)	(3,503,472)
Transfer to retained earnings	-	189,551	(189,551)	-
Proposed dividends	-	<u>(5,537,640)</u>	<u>5,537,640</u>	-
At 31 December 2022	<u>3,787,715</u>	<u>517,129</u>	<u>5,537,640</u>	<u>9,842,484</u>
As at 1 January 2023	3,787,715	517,129	5,537,640	9,842,484
Profit for the year	-	5,557,213	-	5,557,213
2022- Dividends paid	-	-	(5,530,582)	(5,530,582)
Transfer to retained earnings	-	7,057	(7,057)	-
Proposed dividends	-	<u>(5,359,617)</u>	<u>5,359,617</u>	-
At 31 December 2023	<u>3,787,715</u>	<u>721,782</u>	<u>5,359,618</u>	<u>9,869,115</u>

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

		2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:-	Notes	KShs'000	KShs'000
Profit before tax		31,995,333	29,311,736
Adjustments for:-			
Depreciation of property and equipment	18	1,319,395	1,187,473
Depreciation of right-of-use asset	19	1,429,217	1,174,729
Impairment on property and equipment	18	-	(16,933)
Amortization of prepaid lease rentals and write offs	17	610	610
Write-off on intangible assets	16	99,643	-
Movement in provisions		4,801,324	4,422,479
Leave provision		7,677	-
Allowance for credit losses		(645,345)	712,828
Amortization of intangible assets	16	(978,123)	806,212
Amortization of capital grants	27	(18,476)	(18,478)
Gain on disposal of property and equipment		(2,504)	(1,288)
Share of loss /(profit) in associates	15	(345,725)	(416,141)
Interest on lease liability		377,494	200,154
Exchange difference on borrowings		4,040,861	2,657,117
Accrued interest on borrowings	23	361,305	139,674
Loss on net monetary position		-	116,090
Cash flows from operating activities before working capital changes		42,442,686	40,276,262
Advances to customers		(39,458,348)	(33,688,978)
Inventories		51,236	(11,220)
Other assets		8,561,008	(9,005,928)
Deposits from customers		27,873,135	16,033,447
Deposits from banks		3,369,777	295,399
Other liabilities		6,842,486	160,633
Central Bank of Kenya cash reserve ratio		(1,341,383)	(804,754)
Debt and Equity instruments at fair value through OCI		1,098,138	(705,994)
Derivative financial instruments		1,602,828	(6,960)
Cash generated from operating activities		51,041,563	12,541,907
Tax paid	24(b)	(9,691,485)	(9,531,523)
Net cash generated from operating activities		41,350,078	3,010,384
CASH FLOWS FROM INVESTING ACTIVITIES:-			
Purchase of property and equipment	18	(1,588,272)	(1,443,006)
Purchase of intangible assets	16	(1,136,938)	(895,273)
Proceeds from disposal of property and equipment		2,629	22,606
Purchase of debt instruments at amortised cost	13	(74,008,250)	(62,013,190)
Maturity of debt instruments at amortised cost	13	57,180,099	64,744,331
Acquisition of a subsidiary, net of cash acquired	14	-	-
Net cash flows used in investing activities:-		(19,550,732)	415,468
CASH FLOWS FROM FINANCING ACTIVITIES:-			
Proceeds from borrowings	23	16,030,174	7,281,733
Repayment of borrowings	23	(8,200,095)	(4,891,074)
Dividends paid to equity holders of the parent		(5,681,777)	(3,637,343)
Dividends paid to non-controlling interest		(3,118,993)	(2,079,465)
Repayment of principal portion of lease liabilities		(1,284,558)	(1,131,370)
Repayment of interest on lease liabilities		(377,494)	(205,002)
Additional capital by non-controlling interest		-	136,774
Net movement in cash and cash equivalents		19,166,603	(1,099,895)
Cash and cash equivalents at the beginning of the year		20,677,520	21,782,133
Effect of foreign exchange difference		215,092	(4,718)
Cash and cash equivalents at 31 December	39	40,059,215	20,677,520

Interest received during the year amounted to KShs 69.1 billion (2022: KShs 61.8 billion) while interest paid amounted to KShs 16.6 billion (2022: KShs 16.6 billion)

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
 SOCIETY STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 KShs'000	2022 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		5,557,213	5,583,489
Adjustments for:-			
Changes in working capital: -			
Increase in trade and other receivables		(9,639)	(1,844,319)
Amount due from related parties		-	-
Increase/(decrease) in trade and other payables		5,851	(33,986)
Increase in amount due to related parties		<u>34,587</u>	<u>2,546</u>
Cash generated from operating activities		5,588,012	3,707,730
Tax paid		<u>-</u>	<u>-</u>
Net cash generated from operating activities		<u>5,588,012</u>	<u>3,707,730</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in subsidiary	14	<u>-</u>	<u>(200,000)</u>
Net cash flows used in investing activities		<u>-</u>	<u>(200,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		<u>(5,530,583)</u>	<u>(3,503,472)</u>
Net cash flows used in financing activities		<u>(5,530,583)</u>	<u>(3,503,472)</u>
Net movement in cash and cash equivalents		57,429	4,258
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		<u>8,178</u>	<u>3,920</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	39	<u>65,607</u>	<u>8,178</u>
Additional information on operational cash flows from Interest and dividends			
Interest received		24	24
Dividends received		<u>5,681,573</u>	<u>5,681,573</u>

1. GENERAL INFORMATION

The Society is incorporated in Kenya under the Co-operative Societies Act (Amended) 2004, No.12 of 1997 and is domiciled in Kenya. The Society's registration Number is CS/1530. The Society is the majority investor in The Co-operative Bank of Kenya Limited (licensed under the Banking Act) which offers banking and related services. The consolidated and separate financial statements comprise the Society 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 Group information is included on page 1 of these financial statements.

2. ACCOUNTING POLICIES

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

(a) Basis of preparation

The consolidated and separate financial statements are prepared on the historical cost basis, except for derivative financial instruments, other financial assets and liabilities held for trading and financial assets and liabilities designated at fair value through profit or loss (FVPL) and debt and equity instruments at fair value through other comprehensive income (FVOCI) all of which have been measured at fair value.

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

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

(b) Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries and associates as at 31 December 2023. Control is achieved by the Group over an investee if and only if the Group has: -

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

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

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

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

2. ACCOUNTING POLICIES (CONTINUED)

(b) Basis of consolidation (continued)

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

(i) New standards, amendments and interpretations effective and adopted during the year

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2023 (continued)

The following amendments became effective during the period:

New standards or amendments	Effective for annual period beginning on or after
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1 January 2023
Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023
Definition of Accounting Estimates (Amendments to IAS 8)	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	1 January 2023
International Tax Reform - Pillar two model rules - Amendment to IAS 12	1 January 2023

IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of:

- ▶ discounted probability-weighted cash flows
- ▶ an explicit risk adjustment, and
- ▶ a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period.

2. ACCOUNTING POLICIES (CONTINUED)

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

IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts (continued)

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items.

When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

Targeted amendments made in July 2020 aimed to ease the implementation of the standard by reducing implementation costs and making it easier for entities to explain the results from applying IFRS 17 to investors and others. The adoption of this standard did not have a material impact on the Group's financial statements based on the nature of Group subsidiaries' business. IFRS 17 implementation is however judged to have material impact on CIC Insurance Group Limited which is accounted for as an associate to the Group.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2)

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments have had an impact on the Group's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Bank's financial statements.

Definition of Accounting Estimates (Amendments to IAS 8)

The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period. The adoption of this standard did not have a material impact on the Group's financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.

2. ACCOUNTING POLICIES (CONTINUED)

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

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) (continued)

The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

- right-of-use assets and lease liabilities, and
- decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.

The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate. IAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. Some entities may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments.

The Group accounts for deferred tax on leases applying the 'integrally linked' approach, resulting in a similar outcome to the amendments, except that the deferred tax impacts are presented net in the statement of financial position. Under the amendments, the Group will recognise a separate deferred tax asset and a deferred tax liability. As at 31 December 2023, the Group will present a separate deferred tax liability of Shs 23 million and a deferred tax asset of Shs 145 billion. There will be no impact on retained earnings on adoption of the amendments.

International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12

The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

In periods in which Pillar Two legislation is (substantively) enacted but not yet effective, the amendment requires disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes including both qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. For example:

- a) Qualitative information such as how an entity is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist, and
- b) Quantitative information such as:
 - An indication of the proportion of an entity's profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or
 - An indication of how the entity's overall effective tax rate would have changed if Pillar Two legislation had been effective.

Once the legislation is effective, additional disclosures are required for the current tax expense related to Pillar Two income taxes. The requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023.

The Group has reviewed its corporate structure in light of the introduction of Pillar Two Model Rules in the various jurisdictions in which it operates. The Group has determined that it will not be subject to Pillar Two taxes once the legislation becomes effective since its effective tax rate is above 15% in all the jurisdictions in which it operates. Therefore, as the related Pillar Two disclosures are not required, the amendments will have no impact on the Group's consolidated financial statements at 31 December 2023.

2. ACCOUNTING POLICIES (CONTINUED)

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

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2024 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements. New and amended standards and interpretations that are issued but not yet effective will not have a material impact on the Bank's consolidated financial statements. These are summarised below;

New standards or amendments	Effective date
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28)	To be determined
Amendments to IAS 1: Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to IFRS 16: Lease Liability in a Sale and Leaseback	1 January 2024
Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7	1 January 2024
Lack of exchangeability - Amendments to IAS 21	1 January 2025

Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28)

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Group anticipate that the application of these amendments may have an impact on the Group's financial statements in future periods should such transactions arise.

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

In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

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

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted and that fact must be disclosed.

The amendments are not expected to have a material impact on the Group's financial statements.

2. ACCOUNTING POLICIES (CONTINUED)

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

Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7

In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted but will need to be disclosed.

The amendments are not expected to have a material impact on the Group's financial statements.

Lack of exchangeability - Amendments to IAS 21

In August 2023, the Board issued Lack of Exchangeability (Amendments to IAS 21). The amendment to IAS 21 specifies how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The disclosure requirements in the amendments are intended to assist users of its financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows.

The amendments are not expected to have a material impact on the Group's financial statements

(d) Recognition of interest income

i) The effective interest rate method

Under IFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial assets measured at amortised cost and at fair value through OCI and financial liabilities at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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

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

ii) Interest and similar income/expense

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

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

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

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

iii) Presentation of interest income

Interest revenue calculated using the effective interest rate (EIR) method is presented separately on the face of the Statement of profit or loss, where it is differentiated and presented separately from interest revenue calculated using other methods.

The Group has also elected to present its interest expense in a manner consistent and symmetrical with interest income. Therefore, it separates interest expense on liabilities measured at amortised cost from other interest expensed. The Group's accounting policies in respect of interest income/expense and the effective interest method are set out in note 2(d) (i) and (ii) above.

2. ACCOUNTING POLICIES (CONTINUED)

(e) Fee and commission income

The Group and the Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income are recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Group's and Bank's revenue contracts do not typically include multiple performance obligations.

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

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

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

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

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

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

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

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

Interchange fees: The Bank provides its customers with credit card processing services (i.e., authorisation and settlement of transactions executed with the Bank's credit cards) where it is entitled to an interchange fee for each transaction (i.e., when a credit cardholder purchases goods and services from merchants using the Bank's credit card). These services represent a single performance obligation comprised of a series of distinct daily services that are substantially the same and have the same pattern of transfer over the contract period. The fees vary based on the number of transactions processed and are structured as either a fixed rate per transaction processed or at a fixed percentage of the underlying cardholder transaction. The variable interchange fees are allocated to each distinct day, based on the number and value of transactions processed that day, and the allocated revenue is recognised as the entity performs.

2. ACCOUNTING POLICIES (continued)

(e) Fee and commission income (continued)

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

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

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

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

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

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

(f) 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.

(g) Property, equipment and right-of-use assets

Recognition and measurement

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

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

2. ACCOUNTING POLICIES (CONTINUED)

(h) Property, equipment and right-of-use assets (continued)

Recognition and measurement (continued)

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

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

Depreciation

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

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

Right-of-use assets are depreciated on a straight-line basis over the lease term.

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

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

(i) Business combinations and goodwill

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

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

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

2. ACCOUNTING POLICIES (CONTINUED)

(i) Business combinations and goodwill (continued)

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

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

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

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

(j) Intangible assets

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

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

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

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

(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. ACCOUNTING POLICIES (CONTINUED)

(j) Intangible assets (continued)

(2) Other intangible assets

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

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

Effective September 2014 and upon demutualization of Nairobi Securities Exchange (NSE), the NSE Seat was replaced with a trading right which gives participants a right to trade at NSE. The trading right serves the same function as the Seat. The trading right was attached a value of KShs 25 million by NSE Board, which has been taken as its fair value. After the demutualisation the shares were replaced by a right to trade.

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

The value is based on available data from binding sales transactions, conducted at arm's length. In determining the fair value, recent market transactions are taken into account. Any impairment losses are accounted for through profit or loss. Refer to note 2(s) on impairment of non-financial assets.

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

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

(k) Investments in associates

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

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

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

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

The share of profit of an associate is shown on the face of the consolidated Statement of profit or loss. This is the profit attributable to equity holders of the associate and therefore is the entity's proportionate share of the associate's profit after tax.

2. ACCOUNTING POLICIES (CONTINUED)

(k) Investments in associates (continued)

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

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

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

(l) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 19 and are subject to impairment in line with the Bank's policy as described in Note 2 (s) Impairment of non-financial assets.

Lease Liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. The Group's lease liabilities are included in other payables (note 26) and a further detailed disclosure under note 19 (ii).

2. ACCOUNTING POLICIES (CONTINUED)

(l) Leases (continued)

Short-term leases and leases of low-value assets

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

Group as Lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(m) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in categories:

- Debt Instruments at amortised costs
- Debt Instruments at Fair Value through OCI
- Derivatives at fair value through profit or loss
- Equity Instruments at Fair Value through OCI

2. ACCOUNTING POLICIES (continued)

(m) Financial assets (continued)

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.

The details of these conditions are outlined below.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Group does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

2. ACCOUNTING POLICIES (CONTINUED)

(m) Financial assets (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 9.

The Group's debt instruments at fair value through OCI includes investments in treasury bonds and corporate bonds included under other non-current financial assets.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its listed equity investments under this category.

Derivative financial instruments

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

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

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

The Group uses the following derivative instruments:

Currency Forwards

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

2. ACCOUNTING POLICIES (CONTINUED)

(m) Financial assets (continued)

Derivative financial instruments (continued)

Swaps

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

Financial guarantee, letter of credit and undrawn loan commitment

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. These are written by the Group to support performance by a customer to third parties. The Group will only be required to meet these obligations in the event the customer defaults. Financial guarantee contracts are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and an ECL allowance.

(i) Overview of the Expected Credit Loss (ECL) principles

The Group records the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments and other financial assets held at FVPL are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note m (ii). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 3(a).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 3(a).

Based on the above process, the Group categorises its loans into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: When loans are first recognized, the Group recognizes an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired (as outlined in Note 3(a)). The Group records an allowance for the LTECLs.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

(ii) The calculation of ECLs

The Group calculates ECLs based on four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

- *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).

2. ACCOUNTING POLICIES (CONTINUED)

(m) Financial assets (continued)

(ii) The calculation of ECLs (continued)

- **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 Note 3(a).
- **Loss Given Default (LGD):** The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 3(a).

When estimating the ECLs, the Group considers four scenarios (a base case, an upside, a mild downside ('downside 1') and a more extreme downside ('downside 2')). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset. With the exception of credit cards and other revolving facilities, for which the treatment is separately set out below, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value. Provisions for ECLs for undrawn loan commitments are assessed as set out below. The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards is explained below.

The mechanics of the ECL method are summarised below:

Stage 1:

The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.

Stage 2:

When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3:

For loans considered credit-impaired (as defined in Note 3(a)), the Group recognises the lifetime expected credit losses for these loans, with the PD set at 100%.

Loan commitments and letters of credit

When estimating LTECLs for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised in other liabilities. The mechanics of ECL for loan commitments and letters of credit are same as above.

Financial guarantee contracts

The Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Statement of Profit and loss, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within Provisions.

2. ACCOUNTING POLICIES (CONTINUED)

(m) Financial assets (continued)

(iii) Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

(iv) Credit cards and other revolving facilities (Overdraft)

The Group's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Group has the right to cancel and/or reduce the facilities with one day's notice. The Group does not limit its exposure to credit losses to the contractual notice period, but instead calculates ECL over a period that reflects the Group's expectations of the customer behaviour, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Group's expectations, the period over which the Group calculates ECLs for these products, is five years for corporate and seven years for retail products.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in usage.

The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, as explained in Note 3(a) on a collective basis. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

(v) Forward looking information

In its ECL models, the Group relies on a broad range of forward-looking information as economic inputs, such as:

- Inflation Rate "Inflation"
- Brent Crude Oil in USD/Barrel "Oil"
- Lending Rate "Lending"

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 4(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.

2. ACCOUNTING POLICIES (CONTINUED)

(m) Financial assets (continued)

(vii) Forborne and modified loans

When the loan has been renegotiated or modified but not derecognised, the Group also reassesses whether there has been a significant increase in credit risk, as set out in Note 3 (a). The Group also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 6-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing
- The probation period of 6 months has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contracts that are more than 30 days past due

If modifications are substantial, the loan is derecognised as disclosed in note 2 (n) below.

Reclassification of financial assets

The Group reclassifies all affected financial assets when, and only when, the Group changes its business model for managing financial assets. If the Group reclassifies financial assets, it applies the reclassification prospectively from the reclassification date. The Group does not restate any previously recognised gains, losses (including impairment gains or losses) or interest.

If the Group reclassifies a financial asset out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification

date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss.

If the Group reclassifies a financial asset out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

If the Group reclassifies a financial asset out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at

the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

If the Group reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously

recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. This adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

If the Group reclassifies a financial asset out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value.

2. ACCOUNTING POLICIES (CONTINUED)

(m) Financial assets (continued)

Reclassification of financial assets (continued)

If the Group reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

(n) Derecognition of financial assets

Derecognition due to substantial modification of terms and conditions

The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCL. When assessing whether or not to derecognise a loan to a customer, amongst others, the Group considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Group considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

Derecognition other than for substantial modification

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Group also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement

Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Group cannot sell or pledge the original asset other than as security to the eventual recipients
- The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipient.

2. ACCOUNTING POLICIES (CONTINUED)

(n) Derecognition of financial assets (continued)

Derecognition other than for substantial modification (continued)

A transfer only qualifies for derecognition if either:

- The Group has transferred substantially all the risks and rewards of the asset or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group's continuing involvement, in which case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Group would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(o) Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount of the secured asset and fair value less costs to sell and reported within 'Non-current assets held for sale'. The bank did not have repossessed assets in the current year (2022: nil).

In its normal course of business, the Bank engages external agents to recover funds from the repossessed assets, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

(p) Financial liabilities

Initial recognition and measurement

The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and borrowings or payables as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

2. ACCOUNTING POLICIES (CONTINUED)

(p) Financial liabilities

Financial liabilities at fair value through profit or loss (continued)

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

The Group has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortised cost

i) Customer deposits

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

ii) Deposits from/ to other banks

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

iii) Other borrowed funds

Borrowings are financial liabilities and measured initially at fair value and subsequently at amortised cost using the effective interest rate method.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

(q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Statement of profit or loss net of any reimbursement in other operating expenses.

(r) Offsetting

Financial assets and liabilities are offset, and the net amount reported in the consolidated and separate statement of financial position if the amount is not material, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has no offset arrangements.

(s) Impairment of non-financial assets

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

2. ACCOUNTING POLICIES (CONTINUED)

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

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

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

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

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

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

(t) Foreign currency

i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kenya shillings, which is the group's presentation currency.

ii) 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).

iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy as at 31 DECEMBER 2023) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities of foreign subsidiaries are translated into Kenya Shillings at the rate of exchange ruling at the reporting date;
- (ii) income and expenses for each statement of comprehensive income are translated at the weighted average exchange rates for the period; and

2. ACCOUNTING POLICIES (CONTINUED)

(t) Foreign currency (continued)

iv) Group companies (continued)

- iii) exchange differences are recognised in other comprehensive income and accumulated in equity in the translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

Hyper-inflationary economy

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. Judgment has been used in the various assumptions used such as the consumer price indices for the various years due to limitation of data available. The financials were restated from 2016 to 2022 using consumer price index (CPI) figures derived from South Sudan Consumer Price Index (CPI) compiled by the National Bureau of Statistics, South Sudan. Refer to Note 32(d).

In April 2023, the (International Monetary Fund - World Economic Outlook) IMF WEO reported a 3-year cumulative rate of inflation of 172% as of December 2022. However, in October 2023, the IMF WEO revised the 3-year cumulative rate of inflation down to 67% as of December 2022. The IMF WEO forecasts an annual rate of inflation of 46% and 6% for 2023 and 2024, respectively. Therefore, it is expected that South Sudan will no longer be hyperinflationary at the end of 2023 subject to further monitoring.

In light of the above, Co-operative bank of South Sudan has aligned with IAS 29 standard by unwinding from application of the standard effective Year ended 2023.

(u) Employee benefits

The Group operates a defined contribution retirement scheme for its employees. The assets of the scheme are held in a separate trustee administered fund which is funded by contributions from both the Group and employees. The Group's contributions to the scheme are charged to profit or loss in the year to which they relate. The Group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are limited to KShs 200 per employee per month in 2022. However, following the enactment of the NSSF Act 2013, starting February 2023 the contributions to NSSF will be at 12% of the employee pensionable earnings i.e. 6% employee and 6% employer. Further, the 12% contribution will be categorized as follows:

- i) Tier I Contributions - 12% of the employee pensionable earnings (6% employee and 6% employer) up to the Lower Earnings Limit (LEL).
- iii) Tier II Contributions - 12% of employee pensionable earnings (6% employee and 6% employer) between the Lower Earnings Limit (LEL) and the Upper Earnings Limit (UEL).

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.

2. ACCOUNTING POLICIES (CONTINUED)

(v) Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of reporting period. Current tax relating to items recognised outside profit or loss is recognised outside profit or loss. Current tax items are recognised in correlation to the underlying transaction either in profit or loss, other comprehensive income or directly in equity.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- (i) where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- (i) where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset
- (ii) or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (iii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each end of the reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of reporting period. Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in profit or loss, other comprehensive income or directly in equity.

Value Added Tax

Revenues, expenses and assets are recognised net of the amount of value added tax except where the value added tax incurred on a purchase of assets or services is not recoverable from the Kenya Revenue Authority (KRA), in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to tax authorities is included as part of accounts receivables or payables in the Statement of financial position.

2. ACCOUNTING POLICIES (CONTINUED)

(w) Grants

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

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

(x) Cash and cash equivalents

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

(y) Dividends

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

(z) Fiduciary assets

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

(aa) Fair value

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

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

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

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

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

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

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

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

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

2. ACCOUNTING POLICIES (CONTINUED)

(aa) Fair value (Continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. External valuers are involved for valuation of significant assets, such as land and buildings. The bank's panel of Valuers is selected through a competitive bidding process. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuation is carried out every three years after which the valuation reports are evaluated for reasonability by the bank's internal valuers before adoption.

(ab) Inventory

Inventory is carried at the lower of cost and net realizable value. The cost of inventory comprises all cost of purchase, and other costs incurred in bringing inventories to their present location and condition. The cost of inventory is based on the calculated specific identification method.

Net realisable value is the estimate of the selling price in the ordinary course of business, less the cost of completion and selling expenses.

Inventory is valued at weighted average cost which is revalued at spot rate.

2.1 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Estimates and assumptions

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

Going concern

The Group's management has made an assessment of the ability of individual entities within the group to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group entities' 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 7.

Effective Interest Rate (EIR) method

The Bank's EIR method, as explained in Note 2 (e), recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to Central Bank's base rate and other fee income/expense that are integral parts of the instrument.

2.1 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary's stand-alone credit rating, or to reflect the terms and conditions of the lease).

Impairment losses on financial assets

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

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

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

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

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

2.1 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Determination of general price index

The restatement of the financial statements for Co-operative Bank of South Sudan has been calculated by means of conversion factors derived from South Sudan Consumer Price Index (CPI) compiled by the National Bureau of Statistics, South Sudan which the directors have determined to be the more reliable. Refer to the Consumer Price Index applied in note 33 (d).

Provisions and other contingent liabilities

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation and arbitration arising in the ordinary course of the Group's business.

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed.

However, when the Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group does not include detailed, case-specific disclosures in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates. For further details on provisions and other contingencies see Note 49(c).

Impact of climate risk on accounting judgments and estimates

Where appropriate, the Group considers climate-related matters in its estimates and assumptions, which may increase their inherent level of uncertainty. This assessment includes a wide range of possible impacts on the Group due to both physical and transition risks. The Group and its customers are exposed to the physical risks from climate change and risks of transitioning to a net-zero economy. These risks may involve refinancing and liquidity risks for certain customers in high-risk sectors where financial institutions may seek to reduce their exposures in the future. However, the nature and location of the Group's counterparties and the underlying collateral limit the impact of this exposure. Even though climate-related risks might not currently have a significant impact on measurement, the Group is closely monitoring relevant changes and developments.

The items and considerations that are most directly impacted by climate-related matters are:

- **Expected credit losses (ECL):** Customers and portfolios with exposure to climate risk may have a resultant deterioration in creditworthiness and a consequential impact on ECL. An analysis was performed of the exposure of counterparties to these climate risks, which determined that, on the whole, counterparties are not expected to be materially impacted by physical or transition risks associated with climate change. Furthermore, the underlying collaterals for the assets are not expected to be impacted by climate risk as the assets are not in high-risk geographical areas and also have EPC ratings largely in compliance with current regulations. As a result of the factors outlined here, it was assessed that the magnitude of any impact of climate risk would not be material in the current reporting period.
- **Classification of ESG-linked (or sustainability-linked) loans and bonds:** For loans and bonds with sustainability-linked features, the Bank determines whether the instrument passes the solely payments of principal and interest test by considering whether they provide commensurate compensation for basic lending risks, such as credit risk, or whether they do not introduce compensation for risks that are inconsistent with basic lending arrangements.
- **Fair value measurement:** The Bank has assumed that any climate change variables incorporated in fair value measurement are those that market participants would consider when pricing the asset or liability, in line with IFRS 13 Fair Value Measurement. Consequently, the Bank concluded that climate risk has been adequately reflected within the fair value of its assets and liabilities. Where prices are observable, it is assumed that the fair value already incorporates market's participants view of climate risk variables. Where a proxy valuation approach has been used for unobservable prices, the selection of the proxy includes consideration of climate risk factors where appropriate.

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 subjects to central approval.

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
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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 or other credit enhancements.

	Group	
	2023 KShs'000	2022 KShs'000
Items recognised in the statement of financial position:		
Balances with central bank	22,122,309	19,094,493
Items in the course of collection	650,637	325,425
Deposits and balances due from banking institutions	27,275,130	9,983,779
Derivatives	-	206,725
Debt instruments at amortised cost	91,741,759	74,799,963
Debt & equity instruments at fair value through other comprehensive income	98,695,811	99,963,950
Interest receivable	4,842,177	4,924,825
Other assets	233,771	233,771
Financial guarantees, Letters of credit and other undrawn commitments	28,167,298	46,154,664
Loans and advances to customers	<u>373,711,526</u>	<u>339,054,497</u>
	<u>647,440,418</u>	<u>594,742,092</u>
Items not recognised in the statement of financial position (Note 49)		
Allowance for credit losses	29,017,564	46,421,930
	(850,266)	(1,267,266)
Net Carrying Amount	28,167,298	45,154,664
	675,607,716	639,896,756
	Society	
	2023 KShs'000	2022 KShs'000
Items recognised in the statement of financial position:		
Bank balance	65,607	8,178
Dividend receivable	5,681,573	5,681,573
Other receivables	11,875	2,236
Amount due from related parties	76,839	76,839
Other assets	<u>62,024</u>	<u>21,073</u>
TOTAL ASSETS	<u>5,897,918</u>	<u>5,789,899</u>

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. Facilities are secured by collateral in the form of charges over cash, land and buildings, marketable securities, plant and machinery among others.

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Management of credit risk (continued)

	Group 2023 KShs'000	2022 KShs'000
Loans and advances	416,509,650	377,051,297
Allowance for impairments	<u>(42,523,745)</u>	<u>(37,996,800)</u>
Net carrying amount	373,711,526	339,054,497
Fair value of collateral	576,859,942	542,973,260
Surplus collateral	203,148,416	203,918,763

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

(i) Impairment assessment

The references below show where the Group's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the accounting policies on note 2(i).

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 unlikelihood 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.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) *Impairment assessment (continued)*

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.

(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.

(iv) The Group's and the Bank's internal credit rating grades

Grade	Classification
1	Normal
2	Watch
3	Substandard
4	Doubtful
5	Loss

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) *Impairment assessment (continued)*

(iv) The Group's and the Bank's internal credit rating grades (continued)

Exposure at default (continued)

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 and the Bank estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2 and Stage 3 IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Significant increase in credit risk

The Group and the Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group and the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Group and the Bank considers an exposure to have significantly increased in credit risk when the IFRS 9 lifetime PD has doubled since initial recognition and has increased by more than 20 bps a year.

When estimating ECLs on a collective basis for a group of similar assets, the Group and the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) Impairment assessment (continued)

Significant increase in credit risk (continued)

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

Grouping financial assets measured on a collective basis

The Group and the Bank calculates ECLs either on a collective or an individual basis. Asset classes where the Group and the Bank calculates ECL on an individual basis include:

- Top 50 Corporate
- Composite (SME, MCU, Asset Finance, Mortgage Finance, Corporate Loans)
- Overdraft
- Mobi-Loans
- Credit Card
- Guarantee
- Letters of Credit
- SACCO & Agri Business

Asset classes where the Group and the Bank calculates ECL on a collective basis include:

- Retail unsecured

The Group and the Bank consolidates these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, as described below:

- Repayment Type
- Repayment Frequency
- Contract Start Date
- Date of First Repayment
- Expiry date
- Product Type
- Effective Interest Rate
- Days Past Due Band

Analysis of inputs to the ECL model under multiple economic scenarios

The macroeconomic factor forecasts - for the three scenarios, best estimate, optimistic and downturn - are used to create forecasted values for each of the principal components. These factors are first differenced and lagged, where applicable, and then standardised. Thereafter, the principal components are derived through vector multiplication of the principal components, using the weights for each factor. Lastly, for each scenario, the forecasted index is constructed using the weights.

Data on inflation interest rates etc is obtained from Central Bank of Kenya website and Kenya Bureau of Statistics to come up with the various scenarios that is used to overlay the ECLs.

Macroeconomic Overlays

	Upside	Base	Downside
Year 1	1.240109	1.208673	1.305455
Year 2	1.258345	1.226447	1.291073
Year 3	1.195688	1.165378	1.226786
Year 4	1.202606	1.172120	1.233884
Year 5	1.216451	1.185614	1.248089

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) *Impairment assessment (continued)*

Probability weightings

Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario.

	2023	2022
Base case	40%	40%
Best case	20%	20%
Worst case	40%	40%

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The main types of collateral obtained are, as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For corporate and small business lending, charges over real estate properties, inventory and trade receivables and, in special circumstances, government guarantees
- For retail lending, mortgages over residential properties
- For asset finance, charge over the asset
- For MCU charge over chattels

The Group and the Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

Collateral and other credit enhancements

In the normal course of business, the Group and the Bank do not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/ obligors.

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

	2023 KShs'000	Group 2022 KShs'000
(i) Categorised by loans & advances:		
Stage 3/Doubtful & loss categories	30,674,697	27,661,410
Stage 3/ Sub-standard category	57,268,666	45,591,085
Stage 1&2 / Normal & watch categories	488,916,579	469,720,765
	<u>576,859,942</u>	<u>542,973,260</u>
(ii) Categorised by nature of collateral:		
Land & buildings	275,450,562	209,705,946
Cash & other pledges	8,094,816	2,613,370
Motor vehicles	64,385,452	55,814,833
Hypothecation of stock	1,909,959	2,053,578
Debentures & guarantees	213,162,837	250,568,431
Equities & Shares	819,648	282,143
Other chattels	13,036,668	21,934,959
	<u>576,859,942</u>	<u>542,973,260</u>

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) Impairment assessment (continued)

Credit quality analysis

An analysis of the Group's credit risk exposure per class of financial asset and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following table. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, are analysed under a separate category under Note 47.

Other financial assets

Group	Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Deposits and balance due from banks - at amortised cost:				
- Gross carrying amount	27,316,305	-	-	27,316,305
- ECL	41,175	-	-	41,175
Net carrying amount as at 31 December 2023	27,275,130	-	-	27,275,130
Government Securities:				
- Gross carrying amount	193,097,345	-	-	193,097,345
- ECL	2,659,775	-	-	2,659,775
Net carrying amount as at 31 December 2023	190,437,570	-	-	190,437,570
Deposits and balance due from banks- at amortised cost:				
- Gross carrying amount	21,731,801	-	-	21,731,801
- ECL	2,749	-	-	2,749
Net carrying amount as at 31 December 2022	21,729,052	-	-	21,729,052
Government Securities:				
- Gross carrying amount	177,265,086	-	-	177,265,086
- ECL	2,501,773	-	-	2,501,773
Net carrying amount as at 31 December 2022	174,763,313	-	-	174,763,313

(ii) Categorised by nature of collateral:

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 11 (c) 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 9,867,733 (2022: KShs 7,497,941).

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) *Impairment assessment (continued)*

(ii) *Concentration of Risk*

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

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

Loans and advances: -

	Group 2023 KShs'000	2022 KShs'000
Agriculture	6,682,061	6,308,494
Manufacturing, energy & water	20,630,529	13,922,908
Financial services	37,421,545	33,717,560
Tourism & hospitality	3,637,971	3,327,398
Wholesale and retail trade	55,634,477	49,238,272
Transport and communication	42,223,701	42,164,694
Real Estate, building & construction	45,689,515	37,623,583
Consumer & household	210,937,708	196,965,588
	422,857,507	383,268,497
Less: staff loans amortisation	<u>(6,347,857)</u>	<u>(6,217,201)</u>
	416,509,650	377,051,296
(i) Concentration by business:		
Corporate	126,669,258	111,281,720
Mortgage & Asset Finance	66,842,368	65,358,961
Small, Medium and Microenterprises	52,130,028	41,033,487
Retail	172,844,324	160,746,753
Agribusiness	4,371,529	4,847,576
	422,857,507	383,268,497
Less: staff loans amortisation	<u>(6,347,857)</u>	<u>(6,217,201)</u>
	<u>416,509,650</u>	<u>377,051,296</u>

Write-off policy

As disclosed in note 11, 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.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(ii) 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 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 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 Group 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.

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 31 DECEMBER 2023

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	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
31 December 2023						
FINANCIAL ASSETS						
Cash and balances with Central Bank of Kenya	29,982,617	2,510,054	-	-	-	32,492,671
Deposits and balances due from banks	22,930,584	4,829,678	-	-	-	27,760,262
Investment in financial instruments	2,004,560	11,483,204	15,426,314	102,493,585	134,736,549	266,144,212
Loans and advances to customers	37,207,916	15,311,367	26,917,180	166,739,944	269,475,674	515,652,081
Other assets	650,637	-	4,842,177	-	233,771	5,726,585
Total undiscounted financial assets	92,776,314	43,344,539	47,306,132	275,460,925	404,445,994	847,775,811
FINANCIAL LIABILITIES						
Deposits and balances due to banks	5,752,083	628,047	-	-	-	5,752,083
Customers' deposits	335,563,894	60,106,605	57,023,492	328,632	-	453,022,623
Loans and borrowings	4,874,105	59,049	2,356,896	14,440,318	60,796,745	82,527,113
Lease liability	115,456	282,716	1,254,889	1,878,575	1,970,623	5,502,259
Derivative	-	-	1,396,103	-	-	1,396,103
Other liabilities	7,413,300	-	10,847,058	3,207,707	-	21,468,065
Total undiscounted financial liabilities	353,718,838	60,448,370	84,037,326	19,958,282	62,767,368	569,668,246
Net liquidity gap at 31 December 2023	(260,942,524)	(17,103,831)	(36,731,194)	255,502,643	341,678,626	278,107,565
Liabilities not recognised in statement of financial position (Note 47)	1,762,509	4,679,048	13,037,421	9,336,366	202,220	

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 31 DECEMBER 2023

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

Exposure to liquidity risk (continued)

GROUP	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
31-Dec-22						
FINANCIAL ASSETS						
Cash and balances with Central Bank of Kenya	25,326,976	2,779,312	-	-	-	28,106,288
Deposits and balances due from banks	8,494,680	1,489,099	-	-	-	9,983,779
Investment in financial instruments	5,009,072	3,352,367	8,146,422	78,483,915	158,133,699	253,125,475
Loans and advances to customers	10,244,146	10,829,632	34,579,522	165,992,147	253,171,299	474,816,746
Total undiscounted financial assets	49,074,874	18,450,410	42,725,944	244,476,062	411,304,998	766,032,288
FINANCIAL LIABILITIES						
Deposits and balances due to banks	1,087,501	-	-	-	-	1,087,501
Customers' deposits	318,933,072	57,425,599	47,874,106	2,063,336	-	426,296,113
Loans and borrowings	2,813,967	-	4,615,757	20,751,160	24,815,559	52,996,443
Lease liability	79,246	156,948	808,987	1,215,363	1,448,892	3,709,436
Other liabilities	6,053,611	-	3,207,707	-	-	9,261,318
Total undiscounted financial liabilities	328,967,397	57,582,547	56,506,557	24,029,859	26,264,451	493,350,811
Net liquidity gap at 31 December 2022	(279,892,523)	(39,132,137)	(13,780,613)	220,446,203	385,040,547	272,681,477
Liabilities not recognised in statement of financial position (note 47)	3,444,430	15,591,516	21,930,455	6,429,441	26,088	47,421,930

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 31 DECEMBER 2023

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

Exposure to liquidity risk (continued)

SOCIETY	Available immediately and up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	Total KShs'000
31-Dec-23				
FINANCIAL ASSETS	KShs'000	KShs'000	KShs'000	KShs'000
Bank balance	65,607	-	-	65,607
Dividend receivable	-	-	5,681,573	5,681,573
Other receivables	-	11,875	-	11,875
Amount due from related parties	-	76,839	-	76,839
Other assets	-	62,024	-	62,024
Total undiscounted financial assets	65,607	150,738	5,681,573	5,897,918
FINANCIAL LIABILITIES				
Other liabilities	-	108,628	-	108,628
Dividend payable	-	-	62,024	62,024
Amount due to related parties	-	45,866	-	45,866
Total undiscounted financial liabilities	-	154,494	62,024	216,518
Net liquidity gap at 31 December 2023	65,607	(3,756)	5,619,549	5,681,400
31-Dec-22				
FINANCIAL ASSETS				
Bank balance	8,178	-	-	8,178
Dividend receivable	-	-	5,681,573	5,681,573
Other receivables	-	2,236	-	2,236
Amount due from related parties	-	76,839	-	76,839
Other assets	-	21,073	-	21,073
Total undiscounted financial assets	8,178	100,148	5,681,573	5,789,899
FINANCIAL LIABILITIES				
Other liabilities	-	102,777	-	102,777
Dividend payable	-	-	21,073	21,073
Amount due to related parties	-	11,279	-	11,279
Total undiscounted financial liabilities	-	114,056	21,073	135,129
Net liquidity gap at 31 December 2022	8,178	(13,908)	5,660,500	5,654,770

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

Exposure to market risk - trading portfolios

The Group 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 Group 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.

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 FOR THE YEAR ENDED 31 DECEMBER 2023

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(i) Exposure to interest rate risk (Continued)

GROUP 31 December 2023	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
ASSETS							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	-
Deposits and balances due from banks	22,581,366	3,202,266	-	-	-	32,492,671	32,492,671
Investment in financial instruments	1,984,713	11,148,742	14,638,032	78,841,219	84,210,343	1,491,498	27,275,130
Loans and advances to customers	36,839,521	14,489,476	25,446,704	125,706,690	170,833,580	-	190,823,049
Total assets	61,405,600	28,840,484	40,084,736	204,547,909	255,043,923	34,379,724	624,302,376
LIABILITIES							
Deposits and balances due to banks	3,829,231	628,047	-	-	-	-	4,457,278
Customers' deposits	108,400,256	52,451,187	55,632,922	292,117	-	234,797,762	451,574,244
Loans and borrowings	2,353,213	-	544,005	6,555,498	39,856,837	18,024,763	67,334,316
Lease liabilities	224,957	281,618	1,176,682	1,616,272	1,494,028	-	4,793,557
Total liabilities	114,807,657	53,360,852	57,353,609	8,463,887	41,350,865	252,822,525	528,159,395
Interest sensitivity gap	(53,402,057)	(24,520,368)	(17,268,873)	196,084,022	213,693,058	(218,442,801)	96,142,981

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(i) Exposure to interest rate risk (Continued)

GROUP 31 December 2022	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
ASSETS							
Cash and balances with Central Bank of Kenya	368,800	-	-	-	-	27,737,488	28,106,288
Deposits and balances due from banks	8,741,285	976,139	-	-	-	266,355	9,983,779
Investment in financial instruments	4,959,477	3,254,725	7,685,304	60,419,702	98,833,562	-	175,152,770
Loans and advances to customers	10,333,127	10,096,183	32,625,925	127,886,810	158,447,994	-	339,390,039
Total assets	24,402,689	14,327,047	40,311,229	188,306,512	257,281,556	28,003,843	552,632,876
LIABILITIES							
Deposits and balances due to banks	1,087,501	-	-	-	-	-	1,087,501
Customers' deposits	73,065,741	56,716,641	47,767,923	1,834,076	-	244,316,728	423,701,109
Loans and borrowings	2,605,419	18,220	2,451,578	10,896,185	11,170,670	20,960,000	48,102,072
Lease liabilities	77,354	154,484	720,268	1,140,208	1,098,902	-	3,191,216
Total liabilities	76,836,015	56,889,345	50,939,769	13,870,469	12,269,572	265,276,728	476,081,898
Interest sensitivity gap	(52,433,326)	(42,562,298)	(10,628,540)	174,436,043	245,011,984	(237,272,885)	76,449,419

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

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:

	2023 Carrying amount KShs'000	1% increase	1% decrease	2022 Carrying amount KShs'000	1% increase	1% decrease
ASSETS						
Deposits and balances due from banks	25,275,130	272,751	(272,751)	9,983,779	99,838	(99,838)
Loans and advances to customers	373,711,526	3,737,115	(3,737,115)	339,054,497	3,390,545	(3,390,545)
		4,009,866	(4,009,866)		3,490,383	(3,490,383)
LIABILITIES & EQUITY						
Deposits and balances due to banks	4,457,278	(44,573)	44,573	1,087,501	(10,875)	10,875
Customers' deposits	216,844,286	(2,168,443)	2,168,443	179,485,940	(1,794,859)	1,794,859
Lease liabilities	4,793,447	(47,934)	47,934	3,207,707	(32,077)	32,077
Loans and borrowings	49,309,553	(493,096)	493,096	27,142,072	(271,421)	271,421
		(2,754,046)	2,754,046		(2,109,232)	2,109,232
Effect on profit before tax		(2,754,046)	2,754,046		(2,109,232)	2,109,232
As percentage of profit before tax (%)		3.93%	(3.93%)		4.71%	(4.71%)
Effect on profit for the year		869,814	(869,814)		969,270	(969,270)
Debt instruments at fair value through other comprehensive income	98,695,811	986,958	(986,958)	99,963,950	999,640	(999,640)
Effect on equity		1,856,772	(1,856,772)		1,968,910	(1,968,910)
As percentage of equity (%)		1.64%	(1.64%)		1.83%	(1.83%)

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(i) 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.

GROUP

CURRENCY TYPE	USD	GBP	EURO	JPY	CHF	ZAR	OTHERS	TOTAL
EXCHANGE RATE								
31 December 2023	156,4618 KShs`000	199,8047 KShs`000	173,7797 KShs`000	1,1100 KShs`000	186,9094 KShs`000	8,4402 KShs`000	-	KShs`000
Foreign Currency Assets:								
Cash and balances with banks abroad	21,381,390	434,104	7,993,059	146,825	59,078	12,177	105,519	30,132,152
Loan and advances	45,696,801	213,117	130,914	-	-	-	-	46,040,832
Other foreign assets	31,588,076	2,183	6,040	2,954	-	-	-	31,599,253
Total statement of financial position items	98,666,267	649,404	8,130,013	149,779	59,078	12,177	105,519	107,772,237
Items not recognized in statement of financial position*	17,718,146	99,112	3,975,527	62,399	178	422,010	251,418	22,528,790
Total Foreign assets	116,384,413	748,516	12,105,540	212,178	59,256	434,187	356,937	130,301,027
Foreign Currency Liabilities:								
Deposits	44,069,443	613,576	2,639,396	161,813	4,001	2,917	57,385	47,548,531
Loan and advances	31,647,955	-	5,213,391	-	-	-	-	36,861,346
Other foreign liabilities	7,280,923	67,321	22,961	4	(9)	-	4,271	7,375,471
Total statement of financial position items	82,998,321	680,897	7,875,748	161,817	3,992	2,917	61,656	91,785,348
Items not recognized in statement of financial position*	33,446,380	60,114	3,990,999	62,399	-	422,010	240,145	38,222,047
Total Foreign liabilities	116,444,701	741,011	11,866,747	224,216	3,992	424,927	301,801	130,007,395
Net Exposure at 31 December 2023	(60,288)	7,505	238,793	(12,038)	55,264	9,260	55,136	293,632

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

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 FOR THE YEAR ENDED 31 DECEMBER 2023

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								
31-Dec-22	123,3735 KShs`000	148,4671 KShs`000	131,2653 KShs`000	0,9228 KShs`000	133,4706 KShs`000	7,2175 KShs`000	-	KShs`000
Foreign Currency Assets:								
Cash and balances with banks abroad	24,961,367	314,140	2,455,078	44,913	62,274	36,992	141,816	28,016,580
Loan and advances	29,637,202	93,031	111,576	-	-	-	-	29,841,809
Other foreign assets	3,807,851	30,676	-	-	-	-	-	3,838,527
Total statement of financial position items	58,406,420	437,847	2,566,654	44,913	62,274	36,992	141,816	61,696,916
Items not recognized in statement of financial position*	53,039,420	85,314	5,953,669	23,070	-	-	273,012	59,374,485
Total Foreign assets	111,445,840	523,161	8,520,323	67,983	62,274	36,992	414,828	121,071,401
Foreign Currency Liabilities:								
Deposits	26,447,124	474,540	1,289,293	67,017	5,528	1,295	1,069	28,285,866
Loan and advances	16,631,635	-	3,937,959	-	-	-	-	20,569,594
Other foreign liabilities	5,253,503	9,489	14,975	-	-	-	1,817	5,279,784
Total statement of financial position items	48,332,262	484,029	5,242,227	67,017	5,528	1,295	2,886	54,135,244
Items not recognized in statement of financial position*	66,382,291	85,415	3,261,418	-	46,715	38,307	291,963	70,106,109
Total Foreign liabilities	114,714,553	569,444	8,503,645	67,017	52,243	39,602	294,849	124,241,353
Net Exposure as at 31 December 2022	(3,268,713)	(46,283)	16,678	966	10,031	(2,610)	119,979	(3,169,952)

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

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Exposure to currency risk (continued)

Currency risk sensitivity analysis

With all other variables held constant, the effect of 10% appreciation or depreciation of the shilling against major trading currencies on profit before tax and equity would be as follows: -

GROUP

	2023 Carrying amount	10% appreciation	10% depreciation	2022 Carrying amount	10% appreciation	10% depreciation
Foreign Currency Assets:						
USD	116,384,413	(11,638,441)	11,638,441	111,445,840	(11,144,584)	11,144,584
GBP	748,516	(74,852)	74,852	523,161	(52,316)	52,316
EURO	12,105,540	(1,210,554)	1,210,554	8,520,323	(852,032)	852,032
JPY	212,178	(21,218)	21,218	67,983	(6,798)	6,798
CHF	59,256	(5,926)	5,926	62,274	(6,227)	6,227
ZAR	434,187	(43,419)	43,419	36,992	(3,699)	3,699
Other currencies	356,937	(35,694)	35,694	415,150	(41,515)	41,515
		(13,030,104)	13,030,104		(12,107,172)	12,107,172
Foreign currency liabilities						
USD	116,444,701	11,644,470	(11,644,470)	114,714,553	11,471,455	(11,471,455)
GBP	741,011	74,101	(74,101)	569,444	56,944	(56,944)
EURO	11,866,747	1,186,675	(1,186,675)	8,503,645	850,365	(850,365)
JPY	224,216	22,422	(22,422)	67,017	6,702	(6,702)
CHF	3,992	399	(399)	52,243	5,224	(5,224)
ZAR	424,927	42,493	(42,493)	39,602	3,960	(3,960)
Other currencies	301,801	30,180	(30,180)	294,849	29,485	(29,485)
		13,000,740	(13,000,740)		12,424,135	(12,424,135)
Effect on profit before tax		29,363	(29,363)		316,964	(316,964)
As percentage (%) of profit before tax		0.09%	(0.09%)		1.08%	(1.08%)
Effect on equity (profit after tax)		20,554	(20,554)		221,874	(221,874)
As percentage (%) of equity		0.02%	(0.02%)		0.21%	(0.21%)

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 Group'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 Group's operations and are faced by all business units.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group'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 Group 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 Group.

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 Group's Operational Risk Capital Charge.

(e) Climate-related risk

Climate-related risks are potential negative impacts on the Group arising from climate change. Climate-related risks have an impact on the principal risk categories discussed above (i.e., credit, liquidity, market, and operational risks), but due to their pervasive nature have been identified and managed by the Group on an overall basis. The Group distinguishes between physical risks and transition risks. Physical risks arise as the result of acute weather events such as hurricanes, floods and wildfires, and longer-term shifts in climate patterns, such as sustained higher temperatures, heat waves, droughts, and rising sea levels. Transition risks arise because of measures taken to mitigate the effects of climate change and transition to a low-carbon economy - e.g., changes to laws and regulations, litigation due to failure to mitigate or adapt, and shifts in supply and demand for certain commodities, products, and services due to changes in consumer behaviour and investor demand.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Climate-related risk (continued)

Central to our climate risk management is our Chief Risk Officer (CRO), who oversees risk management plans and formulates necessary policies, ensuring the integration of climate-related risks in our risk management framework. The Risk department is responsible for; identifying risk factors and assessing their potential impact on the Group's financial statements; and allocating responsibilities for managing each identified risk factor. In addition, the Bank has re-evaluated its model landscape to incorporate climate-related risks and their impact on borrower's credit risk. In the current year, the Bank has also enhanced its data collection systems to help it achieve its climate related aims. For instance, the Bank has introduced mechanisms to collect information relating to clients' exposure to transition and physical risk, and to rate such exposure, in order to understand the impact of climate-related risk on corporate clients in affected sectors. The Bank has also made significant progress in the development of climate risk scenarios that will be used to assess the impact of climate risk on forward-looking information; and in building the knowledge and capacity of its workforce in matters relating to climate-related risk. Despite the progress, the Bank acknowledges the need for further efforts to fully integrate climate in the Bank's risk assessments and management protocols.

Refer to Note 2.1 for details of accounting judgements, estimates and assumptions the Bank has made in relation to climate-related risks.

(f) Compliance risk

Compliance risk encompasses regulatory and legal compliance risk. Compliance risk is the risk that the Group incurs financial or reputational risk through imposition of penalties or fines as a result of not adhering to applicable laws, rules and regulations and good market practice (including ethical standards). The Bank's compliance function proactively seeks to enhance compliance risk management and the supporting control framework. The Bank operates in a market where there is a significant level of regulatory change activity, therefore, compliance risk is a key area of focus for Senior Management. The compliance function monitors this risk through reference to metrics relevant to the Group, review of incident reports and assessments, risk and control assessments pertaining to the first and second lines of defence functions, results of regulatory assessments, and review of results internal audit and external audit reports. Remediation of controls is conducted in a timely manner.

4. CAPITAL MANAGEMENT

The Group'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 Group 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 Group has complied with all externally imposed capital requirements throughout the year.

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. 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 2023	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
<u>Assets measured at fair value:</u>				
Free hold land and buildings	-	-	3,083,653	3,083,653
Debt instruments at FVOCI				
Treasury bonds	98,695,811	-	-	98,695,811
Equity instruments at FVOCI				
Unquoted equity instruments at FVOCI	-	-	385,479	385,479
Loans and advances				
Directors and staff loans	-	6,347,857	-	6,347,857
<u>Assets for which fair values are disclosed (Note 7(b))</u>				
Debt Instruments at Amortised cost				
Treasury bonds	72,805,752	-	-	72,805,752
Treasury bills	14,723,523	-	-	14,723,523
<u>Liabilities for which fair values are disclosed (Note 7(b))</u>				
Loans and borrowings	-	8,287,532	-	8,287,532
Derivatives	-	1,396,103	-	1,396,103
As at 31 December 2022				
<u>Assets measured at fair value:</u>				
Free hold land and buildings	-	-	3,073,296	3,073,296
Debt instruments at FVOCI				
Treasury bonds	99,963,950	-	-	99,963,950
Equity instruments at FVOCI				
Unquoted equity instruments at FVOCI	-	-	388,857	388,857
Derivatives	-	206,725	-	206,725
Loans and advances				
Directors and staff loans	-	4,205,807	-	4,205,807

5. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

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

GROUP (Continued)

As at 31 December 2022	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Assets for which fair values are disclosed (Note 5(b))				
Debt Instruments at Amortised cost				
Treasury bonds	56,453,041	-	-	56,453,041
Treasury bills	7,440,908	-	-	7,440,908
Liabilities for which fair values are disclosed (Note 5(b))				
Loans and borrowings	-	1,486,063	-	1,486,063

The transfers between levels 1 and 2 in the year are disclosed on note 5(e).

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

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

GROUP	2023		2022	
	Carrying amount KShs'000	Fair value KShs'000	Carrying amount KShs'000	Fair value KShs'000
Financial assets:				
Amortised cost				
Treasury bonds and bills	<u>90,352,053</u>	<u>87,529,275</u>	<u>73,317,139</u>	<u>63,893,949</u>
Financial liabilities:				
Loans and borrowings				
Fixed-rates borrowings	<u>6,762,420</u>	<u>4,205,807</u>	<u>1,625,745</u>	<u>1,486,063</u>

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) **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.

5. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

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

(iii) Debt securities issued by financial institutions and other debt securities

These include corporate bonds which are standard fixed rate securities. The Group uses active market prices when available, or other observable inputs in discounted cash flow models to estimate the corresponding fair value. Corporate bonds are generally Level 2 instruments.

(iv) Foreign exchange contracts

Foreign exchange contracts include foreign exchange forward and swap contracts. These instruments are valued by either observable foreign exchange rates, observable or calculated forward points and option valuation models. With the exception of contracts where a directly observable rate is available which are disclosed as Level 1, the Group classifies foreign exchange contracts as Level 2 financial instruments when no unobservable inputs are used for their valuation or the unobservable inputs used are not significant to the measurement (as a whole).

(v) Loans and borrowings

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

(d) Description of significant unobservable inputs to valuation

The significant unobservable inputs used in the fair value measurements categorised within level 3 of the fair value hierarchy, are as shown below

Asset	Valuation Technique	Significant unobservable inputs	Range (Weighted Average)	Sensitivity of the input to fair value
Free hold land and building	DCF method	Estimated rental value per s.q.m. per month	KShs 30	+/-1% (2022: +/-1%) = Fair value change of +/- KShs 23million (2022: 23million)
		Rent growth p.a.	3%	
		Long-term vacancy rate	5%	
		Discount rate	5%	
Unquoted-equity instruments	DCF method	Long term growth rate	5%	+/-1% (2022: +/-1%) = Fair value change of +/- KShs 0.3million (2022: +/- Nil)
		Discount rate (WACC)	15%	

(e) Transfers between Level 1 and Level 2

There were no transfers between Level 1 & 2 in the year (2022: NIL)

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5. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

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

	Group and Bank	
	2023 KShs'000	2022 KShs'000
At 1 January	313,157	309,038
Purchase	-	-
Remeasurement recognised through OCI	598	4,119
At December	<u>313,755</u>	<u>313,157</u>

6. CASH AND BANK BALANCES

	Group		Society	
	2023 KShs'000	2022 KShs'000	2023 KShs'000	2022 KShs'000
Cash on hand	10,370,362	9,011,795	-	-
Central Bank of Kenya:				
Restricted balances (Cash Reserve Ratio)	19,129,438	17,788,081	-	-
Unrestricted balances available for use by the Group	1,823,337	(271,155)	65,607	8,178
Central Bank of South Sudan	<u>1,199,875</u>	<u>1,612,374</u>	-	-
	32,523,012	28,141,095	65,607	8,178
Less: Allowance for credit losses	<u>(30,341)</u>	<u>(34,807)</u>	-	-
	<u>32,492,671</u>	<u>28,106,288</u>	<u>65,607</u>	<u>8,178</u>

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 2023, the Cash Reserve Ratio requirement on all deposits was 4.25% (2022- 4.25%) for Kenya and 20.0% (2022-20%) for South Sudan. The allowance for credit losses relates to deposits held by Bank of South Sudan.

7. DEPOSITS AND BALANCES DUE FROM BANKS

	Group	
	2023 KShs'000	2022 KShs'000
Local banks	10,261,357	6,971,954
Foreign banks	<u>17,054,948</u>	<u>3,027,128</u>
	27,316,305	9,999,082
Less: Allowance for credit losses	<u>(41,175)</u>	<u>(15,303)</u>
	<u>27,275,130</u>	<u>9,983,779</u>

The weighted average effective interest rate on deposits and balances due from banks as at 31 December 2023 was 1.49% (2022: 1.47%).

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8. FINANCIAL INVESTMENTS OTHER THAN THOSE MEASURED AT FVPL

DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group	
	2023	2022
	KShs'000	KShs'000
Treasury Bonds:		
Maturing within 91 days	327,608	-
Maturing after 91 days	98,368,203	99,963,950
	<u>98,695,811</u>	<u>99,963,950</u>

EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group	
	2023	2023
	KShs'000	KShs'000
Nairobi Securities Exchange: -		
7,000,000 ordinary shares of KShs 14.65 each	42,888	47,460
CIC Insurance Group Ltd: -		
8,000,000 ordinary shares of KShs 3.80 each	10,916	12,640
Uchumi Supermarkets Ltd: - 57,500,000 ordinary shares of KShs. 0.28 each	17,920	15,600
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
Kenya Mortgage Finance Company: -		
2,000,000 shares of KShs 100 each	200,000	200,000
Menno Plaza Limited: -		
9,340 ordinary shares representing 12.39% ownership	109,484	108,886
	<u>385,479</u>	<u>388,857</u>

Movement in the year for debt and equity instrument through OCI

At January 1	100,352,807	108,233,108
Additions	10,036,201	12,150,399
Disposals and maturities	(2,965,585)	(11,444,405)
Reclassification from debt instruments at amortised cost	-	-
Expected credit losses	19,458	19,024
Change in fair value recognized OCI	(8,361,591)	(8,605,319)
At December 31	<u>99,081,290</u>	<u>100,352,807</u>

The weighted average effective interest rate on debt instruments at FVOCI as at 31 December 2023 was 12.12%. (2022: 11.89%).

The above unquoted instruments relate to investments in the banking sector co-operative movement. The unquoted equities are not actively traded, and management does not intend to dispose them in the immediate future. The unquoted equity investments are placed under level 3 of fair value hierarchy. The valuation technique used is equity calculation based on EBTDA and market data. In assessing for the expected credit losses, the debt instruments at FVOCI were assessed to be of high-grade credit quality and classified under stage 1 category. The dividend income recognised in profit or loss from the equity instruments at FVOCI (Menno Plaza Limited) was KShs 1,023,094 (2022: KShs 1,022,971).

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9. 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			
	2023	2023	2022	2022
	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	477,924	27,481	2,127,853	20,944
Swaps	13,643,468	(1,423,584)	11,013,287	185,781
	<u>14,121,392</u>	<u>(1,396,103)</u>	<u>13,141,140</u>	<u>206,725</u>

10. OTHER ASSETS

	Group	
	2023	2022
	KShs'000	KShs'000
Interest receivable	4,962,638	5,411,632
Items in the course of collection from other banks	650,637	325,425
Deposits with financial institutions	233,771	233,771
Sundry debtors and prepayments	9,091,143	18,635,093
Staff loan amortisation	6,347,857	6,217,201
	<u>21,286,046</u>	<u>30,823,122</u>
Impairment losses on deposits with financial institutions	(120,461)	(486,807)
	<u>21,165,585</u>	<u>30,336,315</u>

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

11. LOANS AND ADVANCES TO CUSTOMERS

	Group	
	2023	2022
	KShs'000	KShs'000
(a) Net loans and advances		
Overdrafts	25,176,677	15,403,441
Commercial loans	370,948,176	341,801,090
Government/Donor funded loan schemes	628,477	704,924
Credit cards	874,657	823,273
Micro enterprises & SME	25,229,520	24,535,770
Gross loans and advances	<u>422,857,507</u>	<u>383,268,498</u>
Staff loans amortisation	(6,347,857)	(6,217,201)
	<u>416,509,650</u>	<u>377,051,297</u>
Allowance for expected credit losses (note 11 b)	(42,798,124)	(37,996,800)
Net loans and advances	<u>373,711,526</u>	<u>339,054,497</u>

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11. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(a) The weighted average effective interest rates at 31 December were:	Group	
	2023	2022
	%	%
Overdrafts	19.5	12.9
Commercial loans	19.5	12.9
Government/Donor funded loan schemes	9.5	12.5
Credit card balances	19.5	13

(b) Allowance for Expected Credit Losses	Group			
	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
At 1 January 2023	5,195,837	4,243,146	28,557,817	37,996,800
Expected credit loss	3,066,106	5,532,540	(2,590,488)	6,008,158
Write off	-	-	(1,130,675)	(1,130,675)
Exchange difference on translation of a foreign operation	(6,005)	(1,417)	(68,737)	(76,159)
At 31 December 2023	8,255,938	9,774,269	24,767,917	42,798,124
At 1 January 2022	4,633,615	9,027,197	19,913,509	33,574,321
Expected credit loss	353,141	(4,896,980)	13,091,363	8,547,524
Write back/ (off)	65,041	-	(4,069,396)	(4,004,355)
Exchange difference on translation of a foreign operation	144,040	112,929	(377,659)	(120,690)
At 31 December 2022	5,195,837	4,243,146	28,557,817	37,996,800

11. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Allowance for Expected Credit Losses (continued)

GROUP

31 December 2023

Internal risk rating category	Provisions for impairment					Total ECL KShs'000	
	12-month ECL Stage 1 KShs'000	Lifetime ECL not credit impaired Stage 2 KShs'000	Lifetime ECL credit Impaired Stage 3 KShs'000	Gross Carrying Amount KShs'000	12-month ECL Stage 1 KShs'000		Lifetime ECL not credit impaired Stage 2 KShs'000
Grade1	308,623,637	-	-	308,623,637	8,255,938	-	8,255,938
Grade2	-	48,128,687	-	48,128,687	-	9,774,269	9,774,269
Grade3	-	-	41,343,085	41,343,085	-	-	15,532,076
Grade4	-	-	23,190,462	23,190,462	-	-	7,801,997
Grade5	-	-	1,571,636	1,571,636	-	-	1,433,844
Total	308,623,637	48,128,687	66,105,183	422,857,507	8,255,938	9,774,269	24,767,917

31 December 2022

Internal risk rating category	Provisions for impairment					Total ECL KShs'000	
	12-month ECL Stage 1 KShs'000	Lifetime ECL not credit impaired Stage 2 KShs'000	Lifetime ECL credit Impaired Stage 3 KShs'000	Gross Carrying Amount KShs'000	12-month ECL Stage 1 KShs'000		Lifetime ECL not credit impaired Stage 2 KShs'000
Grade1	294,587,633	-	-	294,587,633	5,195,837	-	5,195,837
Grade2	-	36,146,261	-	36,146,261	-	4,243,146	4,243,146
Grade3	-	-	32,104,565	32,104,565	-	-	17,697,640
Grade4	-	-	18,463,520	18,463,520	-	-	8,893,659
Grade5	-	-	1,966,519	1,966,519	-	-	1,966,518
Total	294,587,633	36,146,261	52,534,604	383,268,498	5,195,837	4,243,146	28,557,817

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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11. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Allowance for Expected Credit losses (continued)

An analysis of changes in gross carrying amount and the corresponding ECL allowance in relation to Group loan portfolio is as follows:

Group	Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Gross carrying amount as at 1 January 2023	294,252,091	36,481,803	52,534,604	383,268,498
New financial assets originated or purchased	120,022,517	36,571,808	16,090,636	172,684,961
Financial assets that have been derecognised (excluding write-off)	(98,915,584)	(25,556,043)	(9,585,816)	(134,057,443)
Transfer to Stage 1	3,243,351	(2,135,370)	(1,107,981)	-
Transfer to Stage 2	(3,956,128)	4,587,667	(631,539)	-
Transfer to Stage 3	(7,945,384)	(2,099,686)	10,045,070	-
Write offs	-	-	(1,440,805)	(1,440,805)
Other changes	1,587,232	614,050	201,014	2,402,296
Gross carrying amount as at 31 December 2023	308,288,095	48,464,229	66,105,183	422,857,507
Impairment allowance as at 1 January 2023	5,195,837	4,243,146	28,557,817	37,996,800
New financial assets originated or purchased	7,834,304	14,745,662	1,007,869	23,587,835
Financial assets that have been derecognised (excluding write-off)	(1,342,849)	(9,535,006)	(6,656,536)	(17,534,391)
Transfer to Stage 1	174,570	(100,457)	(74,113)	-
Transfer to Stage 2	(334,381)	543,749	(209,368)	-
Transfer to Stage 3	(3,308,639)	(209,829)	3,518,468	-
Write offs	-	-	(1,440,805)	(1,440,805)
Other changes	37,096	87,004	64,585	188,685
Impairment allowance as at 31 December 2023	8,255,938	9,774,269	24,767,917	42,798,124
Staff loans amortisation	(6,347,857)	-	-	(6,347,857)
Net carrying Amount as at 31 December 2023	293,684,300	38,870,313	40,821,366	373,711,526
Gross carrying amount as at 1 January 2022	265,576,653	30,720,798	50,035,102	346,332,553
New financial assets originated or purchased	121,994,768	25,115,567	17,121,020	164,231,355
Financial assets that have been derecognised (excluding write-off)	(89,055,204)	(15,342,457)	(15,890,799)	(120,288,460)
Transfer to Stage 1	2,670,620	(2,385,363)	(285,257)	-
Transfer to Stage 2	(1,011,805)	1,492,380	(480,575)	-
Transfer to Stage 3	(4,317,833)	(3,217,600)	7,535,433	-
Write offs	-	-	(4,069,397)	(4,069,397)
Other changes	(1,605,108)	98,478	(1,430,923)	(2,937,553)
Gross carrying amount as at 31 December 2022	294,252,091	36,481,803	52,534,604	383,268,498
Impairment allowance as at 1 January 2022	5,645,050	1,942,494	25,986,777	33,574,321
New financial assets originated or purchased	4,098,103	4,041,267	7,755,699	15,895,069
Financial assets that have been derecognised (excluding write-off)	(1,440,580)	(953,563)	(3,950,530)	(6,344,673)
Transfer to Stage 1	54,136	(48,657)	(5,479)	-
Transfer to Stage 2	(257,398)	386,328	(128,930)	-
Transfer to Stage 3	(2,174,069)	(1,165,710)	3,339,779	-
Write offs	-	-	(4,069,397)	(4,069,397)
Other changes	(729,405)	40,987	(370,102)	(1,058,520)
Impairment allowance as at 31 December 2022	5,195,837	4,202,159	28,557,817	37,996,800
Staff loans amortisation	(6,217,201)	-	-	(6,217,201)
Net carrying Amount as at 31 December 2022	282,839,053	32,279,644	23,976,787	339,054,497

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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11. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Allowance for Expected Credit Losses (continued)

	Stage 1 12-month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
Deposits and balance due from banks - at amortised cost:				
- Gross carrying amount	27,316,305	-	-	27,316,305
- ECL	41,175	-	-	41,175
Net carrying amount as at 31 December 2023	27,275,130	-	-	27,275,130
Government Securities:				
- Gross carrying amount	193,097,345	-	-	193,097,345
- ECL	(2,659,775)	-	-	(2,659,775)
Net carrying amount as at 31 December 2023	190,437,570	-	-	190,437,570

12. INVENTORY

	Group	
	2023 KShs'000	2022 KShs'000
Stocks on green coffee	114,327	78,242
Roasted coffee	7,323	3,227
Instant coffee	11,926	2,501
Percolators	6,831	5,989
Packaging	7,744	6,956
	148,151	96,915

The inventory is held by Kenya Co-operative Coffee Dealers Limited a subsidiary of Kenya Co-operative Coffee Exporters Limited. The Company is licensed by the Coffee Board of Kenya as a coffee Dealer, to value add and sell coffee locally and internationally.

During 2023, Kshs 100.34 Million (2022: Kshs 198.37 Million) relating to the cost of sales for inventory was recognised as an expense carried at net realisable value. This is recognised in other operating expenses at the Group level. There were no inventory write-downs recognised as an expense or reversals of previous write-downs.

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
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13. DEBT INSTRUMENTS AT AMORTISED COST

	Group	
	2023 KShs'000	2022 KShs'000
Government treasury bills:		
Maturing within 91 days	13,186,303	5,964,643
Maturing after 91 days	<u>2,012,047</u>	<u>2,573,664</u>
	<u>15,198,350</u>	<u>8,538,307</u>
Treasury bonds:		
Maturing within 91 days	2,043,134	3,854,814
Maturing after 91 days	<u>73,110,569</u>	<u>60,924,018</u>
	<u>75,153,703</u>	<u>64,778,832</u>
Treasury bonds and bills	<u>90,352,053</u>	<u>73,317,139</u>
Corporate bonds:		
Maturing within 91 days	-	-
Maturing after 91 days	<u>1,389,706</u>	<u>1,482,824</u>
	<u>91,741,759</u>	<u>74,799,963</u>
Movement in the year:		
At 1 January	74,799,963	77,529,735
Additions	74,008,250	62,013,190
Allowance for credit losses	113,644	1,369
Maturities	<u>(57,180,098)</u>	<u>(64,744,331)</u>
At December 31	<u>91,741,759</u>	<u>74,799,963</u>

The weighted average effective interest rate on Debt instruments measured at amortised cost as at 31 December 2023 was 12.39%. In assessing for the expected credit losses, the debt instruments at amortised cost were assessed to be of high-grade credit quality and classified under stage 1 category.

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

14. INVESTMENT IN SUBSIDIARIES

The following subsidiaries are owned by the society.

	Ownership	Principal activity	2023 KShs'000	2022 KShs'000
The Co-operative Bank of Kenya Limited: 3,787,715,400 ordinary shares of KShs 1 each	64.56%	Banking	3,787,715	3,787,715
The Kenya Co-operative Coffee Exporters Limited: 6,800,000 (2021: 4,800,000) ordinary shares of KShs 100 each	91%	Coffee Marketing	-	<u>680,000</u>
			3,787,715	4,467,715
Less: Allowance for impairment losses			<u>-</u>	<u>(280,000)</u>
			<u>3,787,715</u>	<u>4,187,715</u>

The investment in Co-operative Bank of Kenya Limited is at cost. The Society relinquished its ownership in KCCE.

The Co-operative Bank of Kenya acquired Kingdom Bank Limited (previously Jamii Bora Bank) in 2020 through purchase of 90% shareholding with the objective of accessing the SME market share. The audited financial statements for the year ended 31 December 2023 show that the bank made a profit after tax of KShs 1,080,684,652 (2022 - profit after tax of KShs 915,989,827). On acquisition of Kingdom Bank Limited in year 2020, there was recognition of Goodwill of Kes. 3,294,000,000. The Group subjected the Goodwill to impairment test with no resultant impairment cost.

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 31 DECEMBER 2023

15. INVESTMENTS IN ASSOCIATES

The Group has 33.41% interest in Co-operative Insurance Society Limited which is the majority shareholder of CIC Insurance Group Limited. CIC Insurance Group Limited is a listed company at Nairobi Securities Exchange (NSE) and is incorporated in Kenya. The principal activity of the Company is insurance business and fund management. The fair value of the investment as at 31 December 2023 was KShs 1.27 billion.(2022:KShs.1.43 billion).

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

The Bank's interest in Co-operative Insurance Society Limited is accounted for at cost in the separate financial statements.

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

The Bank has a joint venture, Co-op Bank Fleet Africa Leasing Limited, with Super Group Limited to carry out leasing business. The terms of the joint venture are such that the Bank owns 25% shareholding with Super Group owning 75% shareholding with a 50:50 profit sharing arrangement.

	Group	
	2023	2022
	KShs'000	KShs'000
At 1 January	2,483,303	2,146,675
Share of profit/(loss)	345,725	416,141
Other comprehensive income	(117,942)	(170,403)
Exchange difference on translation	-	90,890
Sale of shares	-	-
Investment in Co-op Bank Fleet Africa Leasing Limited	-	-
Dividends received	-	-
As at 31 December	<u>2,711,086</u>	<u>2,483,303</u>

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

15. INVESTMENTS IN ASSOCIATES (CONTINUED)

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

Statement of financial position:	Co-operative Insurance Society Limited		CIC South Sudan Limited	
	2023 KShs'000	2022 KShs'000	2023 KShs'000	2022 KShs'000
Non-current assets	13,553,679	10,530,017	1,300,568	1,300,568
Current assets	36,782,803	36,185,327	60,301	60,301
	50,336,482	46,715,344	1,360,869	1,360,869
Current liabilities	(43,914,589)	(38,145,417)	(867,017)	(867,017)
Equity	6,421,893	8,569,927	493,852	493,852
Group's share in equity	2,145,530	2,863,180	153,094	153,094
Other adjustments	565,556	(379,877)	-	-
Group's carrying amount of the investment	2,711,086	2,483,303	153,094	153,094
Statement of comprehensive income:	Co-operative Insurance Society Limited		CIC South Sudan Limited	
	2023 KShs'000	2022 KShs'000	2023 KShs'000	2022 KShs'000
Revenue	25,590,532	22,506,416	486,131	486,131
Operating and other expenses	(23,997,519)	(20,482,961)	(426,080)	(426,080)
Profit before tax	1,593,013	2,023,455	60,051	60,051
Income tax expense	(719,637)	(914,626)	-	-
Profit after tax	873,376	1,108,829	60,051	60,051
Other comprehensive income	(522,786)	(510,044)	86,674	86,674
Total comprehensive income for the year	350,590	598,785	146,725	146,725
Attributable to parent	233,459	580,019	-	-
Attributable to Non-controlling interest	117,131	18,766	-	-
	350,590	598,785	-	-
Group's share of comprehensive income	117,131	200,052	49,020	49,020
Split as follows				
Share of profit or loss	291,792	370,456	18,616	18,616
Share of OCI				
-Fair value gain of FVOCI investment	-	(204,850)	-	-
-Translation difference	-	1,027	-	-
- Revaluation gain of building	-	33,419	86,674	86,674
	291,792	(170,404)	86,674	86,674
	117,131	200,052	105,289	105,290

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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16. INTANGIBLE ASSETS - GROUP

	Computer software KShs'000	Business Rights KShs'000	Other intangible assets KShs'000	Work-in-progress KShs'000	Total KShs'000
COST					
At 1 January 2023	7,974,159	63,453	25,000	716,822	8,779,434
Additions	520,428			616,510	1,136,938
Transfers from WIP	1,083,579			(1,083,579)	-
Asset reclassification to PPE	-			-	-
Write off	(18,523)			(92,269)	(110,792)
Exchange difference on translation	(12,591)	(11,354)		(2,086)	(26,031)
At 31 December 2023	<u>9,547,052</u>	<u>52,099</u>	<u>25,000</u>	<u>155,398</u>	<u>9,779,549</u>
AMORTISATION					
At 1 January 2023	6,107,761	63,453	-	-	6,171,214
Amortisation for the year	978,123				978,123
Write Off	(11,149)	-	-	-	(11,149)
Exchange difference on translation	(22,929)	(11,354)			(34,276)
At 31 December 2023	<u>7,051,813</u>	<u>52,099</u>	<u>-</u>	<u>-</u>	<u>7,103,912</u>
NET CARRYING AMOUNT					
At 31 December 2023	<u>2,495,239</u>	<u>-</u>	<u>25,000</u>	<u>155,398</u>	<u>2,675,637</u>
COST					
At 1 January 2022	7,892,933	123,029	25,000	175,499	8,216,461
Additions	232,175	-	-	663,098	895,273
Transfers from WIP	389,670	-	-	(382,886)	6,784
Asset reclassification to PPE	-	-	-	(2,412)	(2,412)
Disposals	(5,371)	-	-	-	(5,371)
Exchange difference on translation	(535,248)	(59,576)	-	263,523	(331,301)
At 31 December 2022	<u>7,974,159</u>	<u>63,453</u>	<u>25,000</u>	<u>716,822</u>	<u>8,779,434</u>
AMORTISATION					
At 1 January 2022	5,52,191	123,029	-	-	5,675,220
Amortisation for the year	806,212	-	-	-	806,212
Disposals	(3,223)	-	-	-	(3,223)
Exchange difference on translation	(260,444)	(59,576)	-	-	(320,020)
At 31 December 2022	<u>6,094,736</u>	<u>63,453</u>	<u>-</u>	<u>-</u>	<u>6,418,633</u>
NET CARRYING AMOUNT					
At 31 December 2022	<u>1,879,423</u>	<u>-</u>	<u>25,000</u>	<u>716,822</u>	<u>2,621,245</u>

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 Joint Venture 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.

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
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17. PREPAID LEASE RENTALS	Group and Bank 2023 KShs'000	2022 KShs'000
COST		
At 1 January 2023	<u>54,413</u>	<u>54,413</u>
AMORTISATION:		
At 1 January 2023	21,720	21,111
Charge for the year	<u>610</u>	<u>609</u>
At 31 December 2023	<u>22,330</u>	<u>21,720</u>
NET CARRYING AMOUNT		
At 31 December 2023	<u>32,083</u>	<u>32,693</u>

Prepaid lease rentals relate to the lease payments for leasehold land to the government. Amortization is done over the remaining lease period of the lease as at the time of purchase.

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 31 DECEMBER 2023

18. PROPERTY AND EQUIPMENT-GROUP

GROUP	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery, furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
COST/VALUATION							
At 1 January 2023	3,073,296	148,409	10,243,815	2,545,921	131,973	8,975,438	25,118,852
Additions	-	538,769	386,796	270,666	51,649	342,761	1,590,641
Disposals	-	-	(2,479)	(13,889)	(833)	(33,109)	(50,310)
Revaluation	10,500	-	-	-	-	-	10,500
Transfers from WIP	-	(302,000)	302,000	-	-	-	-
Asset Reclassification	-	-	(50,571)	-	-	50,571	-
Exchange difference on translation	(143)	(2,974)	(76,294)	(46,143)	(9,787)	(16,148)	(151,489)
Write off							
At 31 DECEMBER 2023	3,083,653	382,204	10,803,267	2,756,555	173,002	9,319,513	26,518,194
ACCUMULATED DEPRECIATION							
At 1 January 2023	-	-	8,857,691	1,996,291	109,555	7,346,152	18,309,689
Charge for the year	134,863	-	367,371	180,289	19,944	616,928	1,319,395
Disposals	-	-	(2,479)	(13,863)	(574)	(33,010)	(49,926)
Asset Reclassification	-	-	(1,054)	-	-	1,054	-
Write off	-	-	-	-	-	1,738	1,738
Exchange difference on translation	-	-	(70,906)	(23,734)	(7,563)	(13,910)	(116,113)
At 31 DECEMBER 2023	134,863	-	9,150,623	2,138,983	121,362	7,918,952	19,464,783
NET CARRYING AMOUNT							
At 31 DECEMBER 2023	2,948,790	382,204	1,652,644	617,572	51,640	1,400,561	7,053,411

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

(ii) Kingdom Bank Land and Buildings were revalued as at 30 January 2023 by Morgan Wright Limited. The Bank revalued the Land and Buildings on open market value basis by professional valuers (Miligan Valuers, Hallmark Valuers and Crystal Valuers) as at 31 December 2022. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs 2,948,790,089 (2022: KShs 3,073,296,409).

(iii) 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 14,283,110,953 (2022- KShs 13,472,995,738), 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 2,185,036,288 (2022 - KShs 2,182,264,329).

(iv) The Group has not pledged any item of property, plant and equipment as security as at 31 December 2023 (31 December 2022: Nil).

The write offs in PPE & Intangibles relate to abandoned projects during the year. Their book values were written off through the statement of Profit or Loss

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
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18. PROPERTY AND EQUIPMENT-GROUP (continued)

COST/VALUATION	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	KShs'000
At 1 January 2022	3,115,073	466,884	7,955,045	3,258,080	143,428	8,318,906	23,257,416
Additions	-	639,048	212,372	219,680	12,416	365,824	1,449,341
Disposals	-	-	-	(36,369)	(13,252)	(77)	(49,698)
Revaluation	(41,400)	-	-	-	-	-	(41,400)
Transfers from WIP	-	(625,684)	261,514	7,570	-	356,600	-
Asset Reclassification	-	2,412	(1,770)	-	-	1,770	2,412
Asset Reclassification from intangible assets	-	(6,784)	-	-	-	-	(6,784)
Exchange difference on translation	(377)	(327,467)	1,833,892	(903,040)	(10,619)	(67,710)	524,679
Write off	-	-	(17,238)	-	-	125	(17,113)
At 31 December 2022	3,073,296	148,409	10,243,815	2,545,921	131,973	8,975,438	25,118,852
ACCUMULATED DEPRECIATION							
At 1 January 2022	207,582	-	7,067,938	2,572,154	106,389	6,913,605	16,867,668
Charge for the year	103,791	-	348,212	223,825	21,470	490,175	1,187,473
Disposals	-	-	-	(20,119)	(7,212)	(1,049)	(28,380)
Asset Reclassification	-	-	(1,051)	-	-	1,051	0
Asset Reclassification from intangible assets	(311,373)	-	-	-	-	-	(311,373)
Write off	-	-	(180)	-	-	-	(180)
Exchange difference on translation	-	-	1,442,772	(779,569)	(11,092)	(57,630)	594,481
At 31 December 2022	-	-	8,857,691	1,996,291	109,555	7,346,152	18,309,689
NET CARRYING AMOUNT							
At 31 December 2022	3,073,296	148,409	1,386,124	549,630	22,418	1,629,286	6,809,163

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

(ii) Land and Buildings were revalued on open market value basis by professional valuers (Miligan Valuers, Hallmark Valuers and Crystal Valuers) as at 31 December 2022. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs 3,073,296,409 (2021: KShs 3,032,908,852).

(iii) 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 13,472,995,738 (2021- KShs 11,572,320,532), 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 2,182,264,329 (2021 - KShs 1,904,189,526).

(iv) The Group has not pledged any item of property, plant and equipment as security as at 31 December 2022 (31 December 2021: Nil).

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 31 DECEMBER 2023

19. LEASES

i) Right-of-use assets

	GROUP 2023			GROUP 2022		
	Buildings and Equipment KShs'000	Motor Vehicles KShs'000	Total KShs'000	Buildings and Equipment KShs'000	Motor Vehicles KShs'000	Total KShs'000
COST						
At 1 January	7,322,067	208,273	7,530,340	7,528,628	208,273	7,736,901
Additions	2,869,518	69,902	2,939,420	121,474	-	121,474
Acquisition of a subsidiary				-	-	-
Disposals	(2,030)		(2,030)	-	-	-
Retirement of lease						
Exchange differences	(16,265)		(16,125)	(328,035)	-	(328,035)
Write off	(42,961)		(42,961)			42,961
At 31 December	10,130,329	278,175	10,408,504	7,322,067	208,273	7,530,340
DEPRECIATION						
At 1 January	4,695,598	160,983	4,856,581	3,647,476	108,950	3,756,426
Depreciation for the year	1,381,377	47,840	1,429,217	1,122,696	52,033	1,174,729
Disposals						
Retired lease depreciation	2,030	-	2,030	-	-	-
Exchange differences				(45,749)	-	(45,749)
Write off						
At 31 December	6,121,966	208,823	6,330,789	4,724,423	160,983	4,885,406
NET CARRYING AMOUNT						
At 31 December	4,051,324	69,352	4,120,676	2,597,644	47,290	2,644,934

ii) Lease liability

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

	Group	
	2023 KShs'000	2022 KShs'000
As at 1 January	3,207,707	4,311,709
Additions/ modification	2,741,275	121,474
Accretion of interest	377,494	200,154
Payments	(1,662,052)	(1,336,372)
Translation difference	129,023	(89,258)
As at 31 December	4,793,447	3,207,707

The Group and Bank lease holdings include leased space where the bank's branches and subsidiaries conduct their business as well as twenty-three leased motor vehicles used by various departments and branches of the bank. The leased spaces have a tenor of six years while the motor vehicles have a tenor of four years. Some of the leases have termination or extension clauses. However, the lease contracts do not have a residual value guarantee. Some of the leases have escalations clauses after two years, which vary from contract to contract on the leases mentioned above.

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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	2023			2022		
	Deferred tax assets KShs'000	Through Profit or loss KShs'000	Through reserves KShs'000	Deferred tax assets KShs'000	Through Profit or loss KShs'000	Through reserves KShs'000
Collective allowance for impairment disallowed for tax purposes	(5,242,616)	(259,179)	-	(4,983,437)	(511,445)	-
Revaluation surplus	540,096	-	(9,322)	549,418	-	80,992
Excess of tax wear and tear allowance over depreciation	(686,507)	249,971	-	(936,478)	42,564	-
Unrealised exchange gains	-	(17,082)	-	17,082	(195,621)	-
Leases	(145,107)	3,693	-	(148,800)	(18,882)	-
Unutilised tax losses	3,297	442,527	-	(183,466)	(183,466)	-
Other temporary differences	(818,221)	(612,011)	-	(461,975)	59,652	-
Deferred tax asset	(6,349,058)	(192,081)	(9,322)	(6,147,656)	(807,198)	80,992
Collective allowance for impairment disallowed for tax purposes	(13,319)	31,209	-	(5,772)	10,362	-
Excess of tax wear and tear allowance over depreciation	(10,763)	8,564	-	(5,266)	(2,734)	-
Leases	22,736	(35,737)	-	94,835	(133,717)	-
Other temporary differences	11,658	7,991	-	19,284	25,435	-
Deferred tax liability	10,312	12,027	-	103,081	(100,654)	-
Net deferred tax asset	(6,338,746)	(180,054)	(9,322)	(6,044,575)	(907,852)	80,992

21. DEPOSITS AND BALANCES DUE TO BANKS

	Group	
	2023 KShs'000	2022 KShs'000
Payable within 30 days	4,457,254	250,571
Payable after 30 days but within 1 year	24	836,930
	4,457,278	1,087,501

The weighted average effective interest rate on deposits from other banks at 31 December 2023 was 1.92% (2022: 1.15%). These current accounts do not accrue any interest.

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22. CUSTOMER DEPOSITS

	2023	Group 2022
(a) Deposit category	KShs'000	KShs'000
Call deposits	79,945,345	46,837,749
Fixed deposits	107,604,894	103,468,489
Transaction accounts	127,561,393	126,412,537
Savings accounts	24,447,352	22,763,493
Current accounts	108,735,449	121,369,264
Foreign currency deposits	<u>3,279,811</u>	<u>2,849,577</u>
	<u>451,574,244</u>	<u>423,701,109</u>
(b) From government and parastatals: -		
Payable on demand	26,968,358	32,157,603
Payable within 30 days	15,905,837	9,706,827
Payable after 30 days but within 1 year	<u>17,863,549</u>	<u>18,939,272</u>
	<u>60,737,744</u>	<u>60,803,702</u>
From private sector and individuals: -		
Payable on demand	212,031,409	221,716,000
Payable within 30 days	86,066,310	37,602,221
Payable after 30 days but within 1 year	<u>92,738,781</u>	<u>103,579,186</u>
	<u>390,836,500</u>	<u>362,897,407</u>
	<u>451,574,244</u>	<u>423,701,109</u>

Included in customers' deposits is an amount of KShs. 6,585 million (2022: KShs 1,634 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 4.13% (2022: 3.37%).

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 FOR THE YEAR ENDED 31 DECEMBER 2023

23. LOANS AND BORROWINGS

	Group	
	2023	2022
Long-term borrowing	KShs'000	KShs'000
Kenya Mortgage Refinance Company	389,783	467,450
International Finance Corporation (IFC)	16,078,640	15,546,497
AFD Microfinance & line of credit	-	1,158,249
EIB- East Africa	7,897,748	6,888,788
DEG	15,719,835	-
	40,086,006	24,060,984
Central Bank of Kenya	27,248,310	24,041,088
	67,334,316	48,102,072
Movement in the year:		
At 1 January	48,102,072	42,914,622
Additional loan disbursement	16,030,174	6,458,253
Central Bank REPO	7,000,000	823,480
Accrued interest	361,305	139,674
Loan Repayment	(8,200,095)	(4,881,479)
Foreign exchange difference	4,040,860	2,647,522
At 31 December	67,334,316	48,102,072

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

European Investment Bank

A loan agreement of equivalent to Euros 50 million was entered in November 2021 between the European Investment Bank and The Co-operative Bank of Kenya Limited. The loan was to be disbursed upon request for onward lending to eligible investment projects undertaken by private enterprises in Kenya. The loan is part of the East Africa Covid-19 Rapid Response Facility. The loan has a fixed interest rate of 10.301%. As at end of 2023, equivalent of Euros 50 Million had been disbursed to the bank.

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 2022, 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 been disbursed. The facility was fully repaid in 2023.

23. LOANS AND BORROWINGS (CONTINUED)

International Finance Corporation

In December 2015 the bank entered into agreement with IFC for a senior unsecured loan of USD 105 Million to finance the growth of SMEs portfolio, Women Owned Enterprises (WOE) 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 2022, the bank had received a drawdown of USD 105 Million.

In March 2019, the bank entered into agreement with IFC for a total loan of USD 150 Million. The loan is repayable in eleven equal instalments and will mature in December 2025. The loan was disbursed in two tranches, as at the end of year 2019, the bank had received a drawdown of USD 150 Million. In December 2020, the bank made a repayment of USD 75M of the loan.

In December 2020, the bank secured a long-term financing facility arranged by IFC amounting to USD 75 Million for on-lending to MSMEs. The syndicated loan was financed by IFC (USD 50,000,000), Eco-Business Fund S. A (USD 10,000,000) and SwedFund International AB (USD 15,000,000). The loan has a maturity period of 7 years and a 5-year grace period on principal repayment. As at the end of year 2023, the bank had received a drawdown of USD 75 Million.

Kenya Mortgage Refinance Company Limited

In June 2021, the bank entered into agreement with Kenya Mortgage Refinance company for a credit facility at fixed rate of 5% to finance affordable housing mortgage loans. As at the end of year 2023, the amount disbursed to the bank was KES 549.79 Million.

Housing Finance Group

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

DEG - Deutsche Investitions- Und Entwicklungsgesellschaft Mbh

The Co-operative Bank of Kenya Limited signed USD 100 Million Subordinated Term facility agreement arranged by DEG in December 2022. The loan facility was disbursed in 2023. The facility is for onward lending to micro, small and medium-sized enterprises. The loan has a maturity period of 7 years and a 5-year grace period on principal repayment.

Central Bank of Kenya Borrowing

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

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

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
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24 TAXATION

	Group	
	2023	2022
	KShs'000	KShs'000
(a) Income Statement: -		
Current tax at 30% on the taxable profit for the year (2022: 30%)	9,367,563	8,296,906
Deferred tax (credit) / charge	<u>(192,080)</u>	<u>(907,851)</u>
Income tax expense	<u>9,175,483</u>	<u>7,389,055</u>
(b) Statement of Financial Position: -		
Tax (Recoverable)/Payable		
Balance brought forward	(330,854)	903,763
Under provision in previous year	-	-
Charge for the year	9,367,563	8,296,906
Paid during the year	<u>(9,691,485)</u>	<u>(9,531,523)</u>
	<u>(654,776)</u>	<u>(330,854)</u>
(c) Reconciliation of tax expense to tax based on accounting profit: -		
Accounting profit	<u>32,363,848</u>	<u>29,427,223</u>
Tax applicable rate at 30% (2022: 30%)	9,709,154	8,828,167
Share of profit in associate	103,718	124,842
Unrecognized deferred tax asset on tax loss	-	-
Hyper inflationary adjustments	2,174	1,293
Tax effect of items not eligible for tax	<u>(639,563)</u>	<u>(1,565,247)</u>
Tax expense in the income statement	<u>9,175,483</u>	<u>7,389,055</u>

The corporation tax rate applicable to the Bank, subsidiaries and associates is 30%.

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.

The Society did not have taxable income as dividend income is exempt from taxation.

25. PROVISIONS	Group	
	2023	2022
	KShs'000	KShs'000
Leave liability	<u>284,379</u>	<u>276,702</u>
Balance at 1 January	<u>276,702</u>	173,866
Movement through profit or loss	<u>7,677</u>	<u>102,836</u>
Balance at 31 December	<u>284,379</u>	<u>276,702</u>

This provision is for obligations in respect of annual leave entitlements not taken as at close of the period. The amount has been accrued at remuneration rates expected to apply when the obligation is settled.

26. OTHER LIABILITIES	Group		Society	
	2023	2022	2023	2022
	KShs'000	KShs'000	KShs'000	KShs'000
Bills payable	7,413,300	6,053,611	-	-
Lease Liability(Note 19(ii))	4,793,447	3,207,707	-	-
Sundry creditors and accruals	<u>21,842,217</u>	<u>16,824,668</u>	<u>106,628</u>	<u>102,777</u>
	<u>34,048,964</u>	<u>26,085,986</u>	<u>106,628</u>	<u>102,777</u>

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27. GOVERNMENT GRANTS

	Group	
	2023 KShs'000	2022 KShs'000
At 1 January	387,989	406,465
Amortisation for the year	(18,476)	(18,476)
At 31 December	<u>369,513</u>	<u>387,989</u>

The grants relate to rehabilitation work on Co-operative House financed by USAID following the August 1998 bomb blast. The grant is amortised in line with the depreciation on the building. The grant is amortised for the same period of the building since it was part of the cost to reconstruct the building.

28. SHARE CAPITAL

	Group and Society	
	2023 KShs'000	2022 KShs'000
Authorised: - An unlimited number of ordinary shares of KShs 1 each.		
Issued and fully paid: - 3,787,715,400 (2022: 3,787,715,400 ordinary shares of KShs 1 each)	<u>3,787,715</u>	<u>3,787,715</u>

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 Society	
	2023 KShs'000	2022 KShs'000
At 1 January	<u>1,234,295</u>	<u>1,234,295</u>
At 31 December	<u>1,234,295</u>	<u>1,234,295</u>

30. RESERVES

(a) Revaluation reserve

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

(b) Retained earnings

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

(c) Fair value reserve

This comprises changes in fair value on debt instruments at fair value through other comprehensive income, excluding impairment losses, until the net investment is derecognised. This reserve is not distributable as it relates to unrealised fair value changes.

(d) Statutory reserve

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

For the year ended 31 December 2023, the Group and the Bank's allowance for expected credit losses calculated in line with IFRS 9 amounted to KShs 42.8 billion and KShs 40.6 billion (2022: KShs 38.0 billion and KShs 34.89 billion) respectively while the Group and the Bank's Statutory loan loss provisions amounted to KShs 53 million and Nil in 2023, (2022: KShs 67 million and KShs Nil) respectively.

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

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30. RESERVES (CONTINUED)

(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 Society	
	2023 KShs'000	2022 KShs'000
Proposed dividends	<u>5,359,617</u>	<u>5,537,640</u>

- (a) Dividend per share is arrived at by dividing the total dividends by the weighted average number of shares in issue during the year.
- (b) 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 2023 financial statements, a first and final dividend in respect of year 2023 of KShs 1.42 (2022 - KShs 1.46 cents) for every ordinary share of KShs 1 each will be proposed by the directors and is subject to approval by shareholders.
- (c) The Society recognized dividend receivable from the bank at KShs 1.50 (2022: KShs 1.50) for every ordinary share. Dividend payable in the society's books represent uncollected dividend by the shareholders.

32. INTEREST AND SIMILAR INCOME

	Group	
	2023 KShs'000	2022 KShs'000
<i>Interest income calculated using the effective interest method</i>		
Loans and advances to customers	44,708,509	40,362,358
Debt instruments at amortised cost	10,657,504	8,258,669
Debt instruments at FVOCI	12,474,810	12,609,343
Deposits and balances due from other banks	<u>1,173,269</u>	<u>479,990</u>
	<u>69,014,092</u>	<u>61,710,360</u>

33. INTEREST AND SIMILAR EXPENSE

Interest expense calculated using the effective interest method

Call deposits	3,183,554	2,812,291
Fixed deposits	12,465,442	8,641,896
Savings accounts	907,359	974,014
Current accounts	1,623,016	1,783,489
Deposits and balances due to banks	1,231,766	426,186
Lease obligations	377,494	200,154
Borrowed funds	<u>4,053,422</u>	<u>1,383,153</u>
	<u>23,842,053</u>	<u>16,221,183</u>

34. FEES AND COMMISSIONS

	Group	
	2023 KShs'000	2022 KShs'000
Fees and commissions income	22,573,537	20,498,440
Fees and commissions expense	<u>(143,141)</u>	<u>(341,229)</u>
Net fees and commissions income	<u>22,430,396</u>	<u>20,157,211</u>

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34. FEES AND COMMISSIONS (CONTINUED)

Disaggregated fees and commission information as at year end						
31 DECEMBER 2023	Banking services KShs'000	Advisory & training KShs'000	Banc assurance KShs'000	Investment management KShs'000	Brokerage & Coffee Sale KShs'000	Total KShs'000
Fees and commission income						
Custodial	333,777	-	-	-	-	333,777
Share registration	14,207	-	-	-	-	14,207
Fund management	-	-	-	392,045	-	392,045
Brokerage	-	-	-	-	54,582	54,582
Consultancy	-	37,298	-	-	-	37,298
Training	-	34,472	-	-	-	34,472
Insurance agency	-	-	999,114	-	-	999,114
Ledger fees and service charges	1,468,391	-	-	-	-	1,468,391
Other fees & commissions	18,902,969	-	-	-	193,541	19,096,510
Total revenue from contracts with customers	20,719,344	71,770	999,114	392,045	248,123	22,430,396
Timing of revenue recognition						
Services transferred at a point in time	20,371,361	71,770	999,114	-	54,582	21,496,827
Services that are provided over time	347,983	-	-	392,045	193,541	933,569
Total revenue from contracts with customers	20,719,344	71,770	999,114	392,045	248,123	22,430,396
31 December 2022						
	Banking services KShs'000	Advisory & training KShs'000	Banc assurance KShs'000	Investment management KShs'000	Brokerage & Coffee Sale KShs'000	Total KShs'000
Fees and commission income						
Custodial	234,437	-	-	-	-	234,437
Share registration	31,532	-	-	-	-	31,532
Fund management	-	-	-	343,082	-	343,082
Brokerage	-	-	-	-	84,855	84,855
Consultancy	-	42,107	-	-	-	42,107
Training	-	57,820	-	-	-	57,820
Insurance agency	-	-	1,143,184	-	-	1,143,184
Ledger fees and service charges	1,362,825	-	-	-	-	1,362,825
Other fees & commissions	16,857,369	-	-	-	-	16,857,369
Total revenue from contracts with customers	18,486,163	99,927	1,143,184	343,082	84,855	20,157,211
Timing of revenue recognition						
Services transferred at a point in time	18,220,194	99,927	1,143,184	-	84,855	19,548,160
Services that are provided over time	265,969	-	-	343,082	-	609,051
Total revenue from contracts with customers	18,486,163	99,927	1,143,184	343,082	84,855	20,157,211
Fees and commission income						

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35. NET TRADING INCOME

	Group	
	2023	2022
	KShs'000	KShs'000
Foreign exchange gain	<u>3,003,917</u>	<u>4,717,290</u>

36 OTHER OPERATING INCOME

	Group		Society	
	2023	2022	2023	2022
	KShs'000	KShs'000	KShs'000	KShs'000
Gain on disposal of property and equipment	2,504	1,288	-	-
Dividend income	-	1,444	5,681,573	5,681,573
Rental income	140,722	131,043	-	-
Gain on sale of financial assets at Fair value	115,868	103,164	-	-
Sundry Income	<u>622,993</u>	<u>693,327</u>	-	-
	<u>882,087</u>	<u>930,266</u>	<u>5,681,573</u>	<u>5,681,573</u>

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.

37 OTHER OPERATING EXPENSES

	Group		Society	
	2023	2022	2023	2022
	KShs'000	KShs'000	KShs'000	KShs'000
Staff costs (37(a))	16,703,657	14,804,555	-	-
Depreciation on property and equipment	1,319,395	1,187,473	-	-
Depreciation on Right of use assets	1,429,217	1,174,729	-	-
Rent and maintenance costs	779,080	888,039	-	-
Motor vehicle running & other equipment maintenance	3,099,135	2,341,958	-	-
Contribution to Deposit Protection Fund	675,506	661,114	-	-
Amortization of intangible assets	978,123	806,212	-	-
Amortization of leasehold land	610	610	-	-
Directors' emoluments	276,309	240,821	-	-
Other administrative expenses	9,292,288	9,346,305	-	-
Other operating expenses	<u>(128,697)</u>	<u>1,849,216</u>	<u>124,384</u>	<u>98,108</u>
	<u>34,424,623</u>	<u>33,301,032</u>	<u>124,384</u>	<u>98,108</u>

37. (a) EMPLOYEE COSTS

	Group	
	2023	2022
	KShs'000	KShs'000
Basic salaries	13,551,910	12,022,355
Allowances	520,202	448,105
Pension scheme contribution	-	-
-Statutory scheme	48,860	9,179
-Employee scheme	970,719	910,668
Medical expenses	787,672	674,983
Education and training	62,177	77,441
Others	<u>762,119</u>	<u>661,824</u>
	<u>16,703,659</u>	<u>14,804,555</u>

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 FOR THE YEAR ENDED 31 DECEMBER 2023

38. 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. There were no potentially dilutive shares outstanding at the respective reporting dates, hence diluted earnings per share was the same as basic 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.

	Group		Society	
	2023	2022	2023	2022
Profit for the year attributable to shareholders (KShs'000)	<u>14,713,480</u>	<u>14,126,210</u>	<u>5,557,213</u>	<u>5,583,489</u>
Weighted average number of ordinary shares for basic earnings per share ('000)	<u>3,787,715</u>	<u>3,787,715</u>	<u>3,787,715</u>	<u>3,787,715</u>
Weighted average number of ordinary shares for diluted earnings per share ('000)	<u>3,787,715</u>	<u>3,787,715</u>	<u>3,787,715</u>	<u>3,787,715</u>
Basic earnings per share (KShs)	<u>3.88</u>	<u>3.73</u>	<u>1.42</u>	<u>1.47</u>
Diluted earnings per share (KShs)	<u>3.88</u>	<u>3.73</u>	<u>1.42</u>	<u>1.47</u>

39. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include in the cash flow statement comprise the following amounts: -

	Group		Society	
	2023	2022	2023	2022
	KShs'000	KShs'000	KShs'000	KShs'000
Cash on hand	10,372,273	9,011,686	-	-
Cash with Central Banks	22,150,738	19,129,408	-	-
Deposits and balances due from banking institutions	27,316,305	9,999,082	65,607	8,178
Items in the course of collection from other Banks	<u>(650,637)</u>	<u>325,425</u>	<u>-</u>	<u>-</u>
	59,188,679	38,465,601	65,607	8,178
Less: Restricted cash (CRR)	<u>(19,129,464)</u>	<u>(17,788,081)</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents	<u>40,059,215</u>	<u>20,677,520</u>	<u>65,607</u>	<u>8,178</u>

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
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40. 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 Co-operative Bank of Kenya and other related parties in the ordinary course of business is as follows:

	Group	
	2023 KShs'000	2022 KShs'000
Directors	168,125	188,332
Employees	12,521,785	12,204,327
Associates	<u>6,622,490</u>	<u>6,490,964</u>
	<u>19,312,400</u>	<u>18,883,623</u>
Interest income earned	<u>876,367</u>	<u>767,363</u>
Weighted average interest rate	<u>6%</u>	<u>6%</u>

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 (2022-Nil) as staff and directors are all active and currently in-service for the bank and recoveries are made directly through payroll.

All loan repayments are made through cash repayments.

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

Kingdom Securities Limited has an outstanding loan of KShs 544 Million (2022: Kshs.45 Million) with the Bank at the prevailing market rate of 13%. The terms of the facility are such that the facility is to be repaid in cash once the company's liquidity/capital has improved to above regulatory levels and the company is profitable. The loan is non-secured.

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40. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

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

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

	Group	
	2023 KShs'000	2022 KShs'000
Directors and Employees (Key personnel)	<u>760,950</u>	<u>660,950</u>
Subsidiaries and Associate companies	<u>362,620</u>	<u>206,949</u>
Interest expensed	<u>58,649</u>	<u>29,621</u>
Weighted average interest rate	7.7%	4.5%

(c) Intercompany balances: -

The financial statements include the following balances due to the Co-operative Bank of Kenya Limited:

	Group	
	2023 KShs'000	2022 KShs'000
Delegate expenses	<u>45,866</u>	<u>11,279</u>

(d) Compensation of key management personnel: -

	Group	
	2023 KShs'000	2022 KShs'000
Non-executive directors		
Directors' emoluments:		
-Fees	237,715	220,626
-Others	<u>26,780</u>	<u>15,103</u>
	<u>264,495</u>	<u>235,729</u>
Executive director		
-Short-term employee benefits	154,391	140,711
-Post-employment benefits/bonus	<u>301,138</u>	<u>287,511</u>
	<u>455,529</u>	<u>428,222</u>
Senior Managers:		
-Short-term employee benefits	1,896,020	1,584,486
-Post-employment pension	161,644	147,227
-Termination benefits	<u>678</u>	<u>1,446</u>
	<u>2,058,342</u>	<u>1,733,159</u>

(e) Co-operative Bank Foundation:-

The Foundation is a registered trust established to assist bright needy students from the Co-operative movement in paying school fees. In 2023, KShs 144,889,245 (2022-KShs 134,980,164) was disbursed to the Foundation. At 31 December 2023, the Foundation held deposits of KShs 44,779,861 (2022-KShs 91,508,075) with the Bank. The Bank also gives donation in kind through payment of the Foundation operating expenses. The total costs covered as at 31 December 2023 amounted to Ksh 69,162,606 (2022-KShs 48,444,492)

(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 966 million as at 31 December 2023 (2022- KShs 912 million). Under the terms of their appointment, Co-optrust Investment Services Limited, a subsidiary of the Bank, is responsible for the investment of funds.

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
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FOR THE YEAR ENDED 31 DECEMBER 2023

40. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED) (CONTINUED)

Transactions during the year are as highlighted below and were at similar terms and conditions as those offered to other customers:

	2023 KShs'000	2022 KShs'000
Rent paid to the scheme on leased property	<u>10,955</u>	<u>8,584</u>
Dividends paid on the Bank's ordinary shares	<u>53,167</u>	<u>53,167</u>

41. ECL-OTHER FINANCIAL ASSETS

Group

	2023 KShs'000	2022 KShs'000
Credit loss expense		
ECL- Local Bank balances	452	2,226
ECL-off balance sheet balances	-	253,530
ECL- Investments in Government securities	167,455	46,257
ECL- Sundry debtors	-	137,044
	<u>167,907</u>	<u>439,057</u>
Credit loss write back		
ECL- Local Bank balances		-
ECL-Foreign bank balances	-	-
ECL-off balance sheet balances	(433,507)	-
ECL- Sundry debtors	(309,875)	-
	<u>(743,382)</u>	<u>-</u>
Net credit loss (write back)/expense	<u>(575,475)</u>	<u>439,057</u>

42. PROFIT BEFORE TAX

Profit before tax is stated after charging: -

	2023 KShs'000	Group 2022 KShs'000
Staff costs	16,703,659	14,804,555
Directors' emoluments:		
-Fees	249,529	225,718
-Others	26,780	15,103
Depreciation on property and equipment	1,319,395	1,187,473
Depreciation on Right of use assets	1,429,217	1,174,729
Amortisation of leasehold land	609	609
Amortisation of intangible assets	978,123	806,212
Auditors' remuneration		51,217
Impairment of loans and advances	6,008,159	8,676,735
Contribution to Deposit Protection Fund	675,506	661,114
Contribution to staff retirement benefit scheme	1,019,579	919,847
and after crediting: -		
Foreign exchange gains	3,003,917	4,717,291
Gain on disposal of property and equipment	2,504	1,288
Net rental income	<u>140,722</u>	<u>131,043</u>

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 FOR THE YEAR ENDED 31 DECEMBER 2023

43. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Financial Assets at fair value through other comprehensive income	Group	
	2023 KShs'000	2022 KShs'000
Gains arising from debt instruments at FVOCI Reclassification to profit or loss	(8,361,591)	(8,605,319)
	<u>-</u>	<u>-</u>
Net movement on debt instruments at fair value through other comprehensive income	<u>(8,361,591)</u>	<u>(8,605,319)</u>
Gains arising from equity instruments at FVOCI	<u>-</u>	<u>943</u>

44. MATERIAL PARTLY OWNED SUBSIDIARY

The Co-operative Bank of Kenya Limited

The Society owns 64.56% shareholding in the Co-operative Bank of Kenya Limited and the remaining shares are listed at the Nairobi Stock Exchange. The Company offers banking services and is a commercial bank registered and regulated by the Central Bank of Kenya. One of the Bank's main subsidiaries is Co-operative Bank of South Sudan, which 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 financial statements of the Co-operative Bank of Kenya Limited are summarised below:-

Summarised statement of profit or loss and other comprehensive income: -

	2023 KShs'000	2022 KShs'000
Interest and other income	95,348,968	87,533,603
Interest and commission expenses	<u>(23,842,053)</u>	<u>(16,221,183)</u>
	71,506,915	71,312,420
Operating expenses	(39,857,307)	(42,416,825)
Profit before tax	<u>31,649,608</u>	<u>28,895,595</u>
Share of profit of an associate	345,725	416,141
Income tax expense	<u>(9,175,482)</u>	<u>(7,389,055)</u>
Profit for the year	22,819,851	21,922,681
Other comprehensive income	<u>(8,361,591)</u>	<u>(8,586,742)</u>
Total comprehensive income	<u>14,458,260</u>	<u>13,335,939</u>
Allocated to non-controlling interest	<u>5,517,784</u>	<u>4,429,275</u>

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 31 DECEMBER 2023

44. MATERIAL PARTLY OWNED SUBSIDIARY (CONTINUED)

Summarised statement of financial position: -

	2023 KShs'000	2022 KShs'000
Current assets	625,105,302	552,508,967
Non-current Assets	47,391,224	54,178,305
Liabilities	<u>559,464,796</u>	<u>(499,559,872)</u>
Total equity	<u>113,031,730</u>	<u>107,556,694</u>
Attributable to:-		
Equity holders of the parent	<u>75,701,551</u>	<u>71,475,195</u>
Accumulated non-controlling interests of the subsidiary	<u>37,330,179</u>	<u>36,081,499</u>

Hyperinflationary economy in South Sudan

With effect from 2016, the South Sudanese economy is considered to be hyperinflationary in accordance with the criteria in International Accounting Standards (IAS) 29- *Financial Reporting in Hyperinflationary Economies*

IAS 29 requires that the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy, shall be stated in terms of the measuring unit current at the end of the reporting period. The corresponding figures for the previous period and any information in respect of earlier periods shall also be stated in terms of the measuring unit current at the end of the reporting period. The management applied this standard to prepare the financial statements for the Co-operative Bank of South Sudan for the financial years ended 2016 to 2022 using consumer price index (CPI) figures derived from South Sudan Consumer Price Index (CPI) compiled by the National Bureau of Statistics, South Sudan. CPIs and the corresponding conversion coefficients used in the previous period are presented below:

Year	CPI	Conversion factor
2016	2,799	1
2017	4,502	2.2
2018	6,503	1.4
2019	7,751	1.2
2020	14,549	1.9
2021	14,434	1.03
2022	12,961	0.93

The International Monetary Fund - World Economic Outlook forecasts an annual rate of inflation of 46% and 6% for 2023 and 2024, respectively. Therefore, it is expected that South Sudan will no longer be hyperinflationary at the end of 2023 subject to further monitoring. Co-operative bank of South Sudan has aligned with IAS 29 standard by unwinding from application of the standard effective the year ended 31 Dec 2023.

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 FOR THE YEAR ENDED 31 DECEMBER 2023

45. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The Group presents its statement of financial position in order of liquidity. The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	31 DECEMBER 2023			31 December 2022		
	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
ASSETS						
Cash and balances with Central Banks	32,492,671	-	32,492,671	28,106,288	-	28,106,288
Deposits and balances due from banks	27,275,130	-	27,275,130	9,983,779	-	9,983,779
Investment in Financial Instruments	28,282,460	162,540,589	190,823,049	13,330,788	161,821,982	175,152,770
Loans and advances	79,582,540	294,128,986	373,711,526	54,792,565	284,261,932	339,054,497
Tax recoverable	-	654,776	654,776	-	330,854	330,854
Inventory	-	148,151	148,151	96,915	-	96,915
Deferred tax asset	-	6,338,746	6,338,746	-	6,044,575	6,044,575
Prepaid Lease Rentals	-	32,083	32,083	-	32,693	32,693
Other assets	1,884,076	19,281,509	21,165,584	1,414,061	29,128,979	30,543,040
Investment in associates	-	2,711,086	2,711,086	-	2,483,303	2,483,303
Property and equipment	-	7,053,411	7,053,411	-	6,809,163	6,809,163
Right of Use assets	1,525	4,119,151	4,120,676	-	2,644,934	2,644,934
Intangible assets	-	2,675,637	2,675,637	-	2,621,245	2,621,245
Good Will	-	3,294,000	3,294,000	-	3,294,000	3,294,000
Total assets	169,518,402	502,978,125	672,496,526	107,724,396	499,473,660	607,198,056
LIABILITIES						
Customer Deposits	406,730,881	44,843,363	451,574,244	392,590,348	31,110,761	423,701,109
Deposits and balances due to banks	4,457,278	-	4,457,278	1,087,501	-	1,087,501
Tax Payable	-	-	-	-	-	-
Provisions	3,935	280,444	284,379	-	276,702	276,702
Other Liabilities	34,048,964	-	34,048,964	26,085,986	-	26,085,986
Government grants	-	369,512	369,513	-	387,989	387,989
Loans and borrowings	4,358,406	62,975,910	67,334,316	4,658,485	43,443,587	48,102,072
Derivative financial instruments	1,396,103	-	1,396,103	-	-	-
Total liabilities	450,995,567	108,469,230	559,464,796	424,422,320	75,219,039	499,641,359
Net	(281,477,165)	394,508,895	113,031,730	(316,697,924)	424,254,621	107,556,697

Apart from investment in subsidiaries that is non-current (2022: non-current), all the assets and liabilities balances for the Society are current (2022: Current).

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46. OPERATING LEASE COMMITMENTS

As lessor:

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

	Group 2023 KShs'000	2022 KShs'000
Within One year	138,245	189,218
Between 2 and 5 years	645,510	756,873
Over 5 years	<u>-</u>	<u>-</u>
	<u>783,755</u>	<u>946,091</u>

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 2023 KShs'000	2022 KShs'000
Within one year	1,183,065	999,571
Between 2 and 5 years	2,474,952	2,190,115
Over 5 years	<u>97,633</u>	<u>131,407</u>
	<u>3,755,650</u>	<u>3,321,093</u>

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

a) Financial guarantees, Letters of credit and other undrawn commitments

To meet the financial needs of customers, Co-operative Bank of Kenya 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.

	Group 2023 KShs'000	2022 KShs'000
Letters of credit	11,741,114	19,594,888
Guarantees	<u>9,329,240</u>	<u>23,197,253</u>
	<u>21,070,354</u>	<u>42,792,141</u>
Unutilised overdraft	7,478,877	4,185,425
Unutilised Credit Card	<u>468,333</u>	<u>444,364</u>
	<u>7,947,210</u>	<u>4,629,789</u>
Gross Carrying Amount	29,017,564	47,421,930
Allowance for credit losses	<u>(850,266)</u>	<u>(1,267,266)</u>
Net Carrying Amount	<u>28,167,298</u>	<u>46,154,664</u>

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
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 FOR THE YEAR ENDED 31 DECEMBER 2023

47. CONTINGENT LIABILITIES (CONTINUED)

- 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

	Group Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 1 January 2023	19,463,117	-	-	19,463,117
Disbursement	18,785,782	-	-	18,785,782
Repayment (excluding write-off)	(26,507,785)	-	-	(26,507,785)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2023	<u>11,741,114</u>	<u>-</u>	<u>-</u>	<u>11,741,114</u>
ECL allowance as at 1 January 2023	395,173	-	-	395,173
ECL on disbursements	98,760	-	-	98,760
ECL on Repayment (excluding write-off)	(423,390)	-	-	(423,390)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2023	<u>70,543</u>	<u>-</u>	<u>-</u>	<u>70,543</u>

	Group Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Guarantees				
Gross carrying amount as at 1 January 2023	23,197,253	-	-	23,197,253
Disbursements	16,792,632	-	-	16,792,632
Repayment (excluding write-off)	(30,660,645)	-	-	(30,660,645)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2023	<u>9,329,240</u>	<u>-</u>	<u>-</u>	<u>9,329,240</u>
ECL allowance as at 1 January 2023	650,339	-	-	650,339
ECL on disbursements	207,661	-	-	207,661
ECL on Repayment (excluding write-off)	(716,431)	-	-	(716,431)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2023	<u>141,266</u>	<u>-</u>	<u>-</u>	<u>141,266</u>

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
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 FOR THE YEAR ENDED 31 DECEMBER 2023

47. CONTINGENT LIABILITIES (CONTINUED)

b) Impairment losses on financial guarantees, letters of credit and other undrawn commitments
 (Continued)

	Group			Total KShs'000
	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	
Gross carrying amount as at				
1 January 2023	21,629,283	-	-	21,629,283
Disbursements	15,774,347	-	-	15,774,347
Repayment (excluding write-off)	(28,640,104)	-	-	(28,640,104)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2023	8,763,526	-	-	8,763,526
ECL allowance as at 1 January 2023	639,036	-	-	639,036
ECL on disbursements	166,780	-	-	166,780
ECL on Repayment (excluding write-off)	(692,360)	-	-	(692,360)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2023	113,456	-	-	113,456
Undrawn commitment				
	Group and Bank			Total KShs'000
	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	
Gross carrying amount as at				
1 January 2023	4,629,789	-	-	4,629,789
Disbursements	15,099,699	-	-	15,099,699
Repayment (excluding write-off)	(11,782,278)	-	-	(11,782,278)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2023	7,947,210	-	-	7,947,210
ECL allowance as at 1 January 2023	215,822	-	-	215,822
ECL on disbursements	1,021,531	-	-	1,021,531
ECL on Repayment (excluding write-off)	(598,896)	-	-	(598,896)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2023	638,457	-	-	638,457

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 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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47. CONTINGENT LIABILITIES (CONTINUED)

b) Impairment losses on financial guarantees, letters of credit and other undrawn commitments
 (Continued)

Letters of credit

	Group			
Gross carrying amount as at 1 January 2022	19,463,117	-	-	19,463,117
Disbursement	135,126,493	-	-	135,126,493
Repayment (excluding write-off)	(134,994,722)	-	-	(134,994,722)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2022	19,594,888	-	-	19,594,888

ECL allowance as at 1 January 2022	395,173	-	-	395,173
ECL on disbursements	235,123	-	-	235,123
ECL on Repayment (excluding write-off)	(229,191)	-	-	(229,191)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2022	401,105	-	-	401,105

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 1 January 2022	20,761,900	-	-	20,761,900
Disbursements	103,145,121	-	-	103,145,121
Repayment (excluding write-off)	(102,277,738)	-	-	(102,277,738)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2022	21,629,283	-	-	21,629,283

ECL allowance as at 1 January 2022	589,914	-	-	589,914
ECL on disbursements	921,612	-	-	921,612
ECL on Repayment (excluding write-off)	(872,490)	-	-	(872,490)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2022	639,036	-	-	639,036

47. CONTINGENT LIABILITIES (CONTINUED)

b) Impairment losses on financial guarantees, letters of credit and other undrawn commitments
 (Continued)

Undrawn commitment

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at				
1 January 2022	1,010,898	-	-	1,010,898
Disbursements	5,132,141	-	-	5,132,141
Repayment (excluding write-off)	(1,513,250)	-	-	(1,513,250)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2022	4,629,789	-	-	4,629,789
	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
ECL allowance as at 1 January				
2022	17,346	-	-	17,346
ECL on disbursements	312,621	-	-	312,621
ECL on Repayment (excluding write-o	(114,145)	-	-	(114,145)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2022	215,822	-	-	215,822

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) *Boaz Mathews Ouma Awiti & three others*

This is a claim for KShs 31,864,120 against the Bank relating to the sale and purchase of shares in Bob Mathews Stockbrokers Ltd (now Kingdom Securities Limited). The Bank has successfully applied for and obtained a stay of proceedings and referral of the matter to arbitration as per the terms of the Share purchase agreement. On 1st December 2022, the Arbitrator ordered the parties to each appoint a firm of auditors to prepare a report on the claim. The Plaintiff chose Sierra and Associates while the Bank chose PKF East Africa. Parties are to file their respective audit reports with the Arbitrator by 5th April 2024 and the matter will then be mentioned on 24th April 2024 for further directions.

47. CONTINGENT LIABILITIES (CONTINUED)

c) Pending legal suits (Continued)

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

This is an appeal against the RBA ruling dated 26 May 2011 confirming that member benefits were duly paid in accordance with the applicable Trust Deed and Rules. The ruling is in regard to the initial claim filed with the Retirement Benefits Authority (RBA) under section 46 of the RBA Act alleging that the scheme had not computed and paid the ex-staff the correct amounts. They claimed that the estimated amount allegedly due to them is approximately KShs 2 billion. The ex-staff being dissatisfied with the ruling appealed against the same citing various grounds of appeal. Judgment was entered in the Scheme's favor by the Retirement Benefits Tribunal On 12th October 2021. The Claimant's appeal was dismissed. The Claimants sought leave to institute Judicial Review proceedings against the Tribunal's decision with the High Court. Ruling on the application for leave to institute Judicial Review was delivered on 9th February 2023.

The Court declined to grant leave for the Applicants to challenge the decision of the RBA Tribunal. The Applicants have indicated an intention to challenge the decision of the High Court in the Court of Appeal and they lodged an appeal in July 2023. The Court of Appeal is yet to give a date for the hearing of the appeal. Based on advice received from the Scheme Administrators and the Actuaries and also noting that the appellants lost the case at the RBA, the RBA Tribunal and at the High Court, no liability is expected to arise in future in respect of this claim.

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

(d) Excise duty on financial transactions

In 2016, the Kenya Revenue Authority (KRA) demanded from the Bank tax amounting to KShs 621,537,611 relating to alleged non-payment of excise duty for the period 2013 to 2015. This amount is made up of principal excise duty of KShs 495,403,544 and interest of KShs 126,134,067 as shown below:

Period	Principal KShs	Interest KShs	Total KShs
2013	134,213,458	51,167,844	185,381,302
2014	263,528,443	63,246,826	326,775,269
2015	<u>97,661,643</u>	<u>11,719,397</u>	<u>109,381,040</u>
	<u>495,403,544</u>	<u>126,134,067</u>	<u>621,537,611</u>

The management, through the tax agent, disputed the demand on factual and technical grounds and the matter was referred to the Tax Appeals Tribunal. The subject of the dispute is industry wide. In July 2020, the case was determined by the Tax Appeals Tribunal and ruled in favour of the Bank. KRA challenged the ruling at the High Court of Kenya and a ruling was made in favour of KRA in November 2022, therefore setting aside the ruling by the Tax Appeals Tribunal. Following this unfavourable ruling to the bank, the bank challenged the High Court Ruling at the Court of Appeal. As at 31 December 2023, the Court of Appeal is yet to hear and render its ruling on the case.

No provision has been made in these financial statements for the principal tax and interest shown above as the directors based on the TAT ruling and facts of the matter are of the opinion that no liability will arise

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.

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

48. FIDUCIARY ACTIVITIES (CONTINUED)

The Group at Custodial & Investor Services department holds assets on behalf of customers with a value of KShs 233.0 billion (2022 - KShs 185.2 billion). The income for the period for custodial services was KShs 355.9 million (2022- KShs 301.3 million) while the expenses amounted to KShs 63.4 million (2022- KShs 62.8 million).

The Group, through Co-op Trust Investment Services Limited manages securities with a value of KShs 218.38 billion (2022- KShs 196.47 billion) on behalf of customers. The total income for the period from fund management was KShs 392.05 million (2022- KShs 343.08 million), with total expenses amounting to KShs 209.06 million (2022- KShs 182.51 million).

49. ASSETS PLEDGED AS SECURITY

As at 31 December 2023, there were no assets pledged by the Group to secure liabilities.

50. CURRENCY

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

51. EVENTS AFTER REPORTING PERIOD

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