CO-OP BANK

2020
Integrated Report

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About this Integrated Report

This report has been prepared as per the International Integrated Reporting Council (IIRC) framework. It shows how our sustainable business model has led to long-term value creation for all our stakeholders. The report assesses our strategic focus, key capital trade offs, and highlights material risks and opportunities that have arisen in our operating environment. The impact of the ongoing Covid-19 pandemic has been detailed in Material Matters section of this report highlighting the risks, strategies and the stakeholder support in place.

The scope of this report
This report covers the period from 01 January 2020 to 31 December 2020. We have referred to other periods for comparison purpose. The report covers Co-operative Bank of Kenya Ltd, Co-operative Bank of South Sudan Ltd, Co-op Consultancy and Insurance Agency Ltd, Co-op Trust Investment Services Ltd, Kingdom Securities Ltd and Kingdom bank. By extension, we have covered some areas of our associate companies CIC Insurance Company Ltd and Co-opBank Africa Leasing Ltd. We have included both financial and non-financial facets of our business in order to communicate how we create long-term stakeholder value.
The targeted readers of this report are our shareholders who need to make informed decisions about our stock for short, medium or long-term investment. This report is also meant for all our other stakeholders who include but are not limited to our customers, staff members, the co-operative movement, strategic partners, suppliers, regulators & policy makers, the media and the communities within which the Group operates in.

Framework and Guidelines
This report has been prepared as per the International Integrated Reporting Council (IIRC) framework. It has also been prepared in accordance with the requisite regulatory requirements as prescribed by the Central Bank of Kenya, the Capital Markets Authority and Nairobi Securities Exchange, Kenya Companies Act 2015, the Code of Corporate Governance 2015, and the Banking Act of Kenya. An assurance relating to the annual financial statements has been provided by the independent external auditor and is incorporated in this report.

Key concepts

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

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

- Overview of who we are.
- A description of our value creation process.
- A description of the strategic trade-off that took place between our capitals as we undertook value creation.
- Analysis of matters that are material to us and how we are responding to them. This section details Covid_19 Pandemic assessment, impact and response.
- Macro-economic environment analysis.
- Review of the Strategic Focus of the group.

- A Description of our key stakeholders, their expectations and how we are responding to those expectations.
- Economic value distribution.
- Creating sustainable value. A description of economic, social and environmental sustainability
- 5 Year Financial performance: Key Numbers.
- Integrated risk management review.
- Corporate governance.
- Financial statements.

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

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

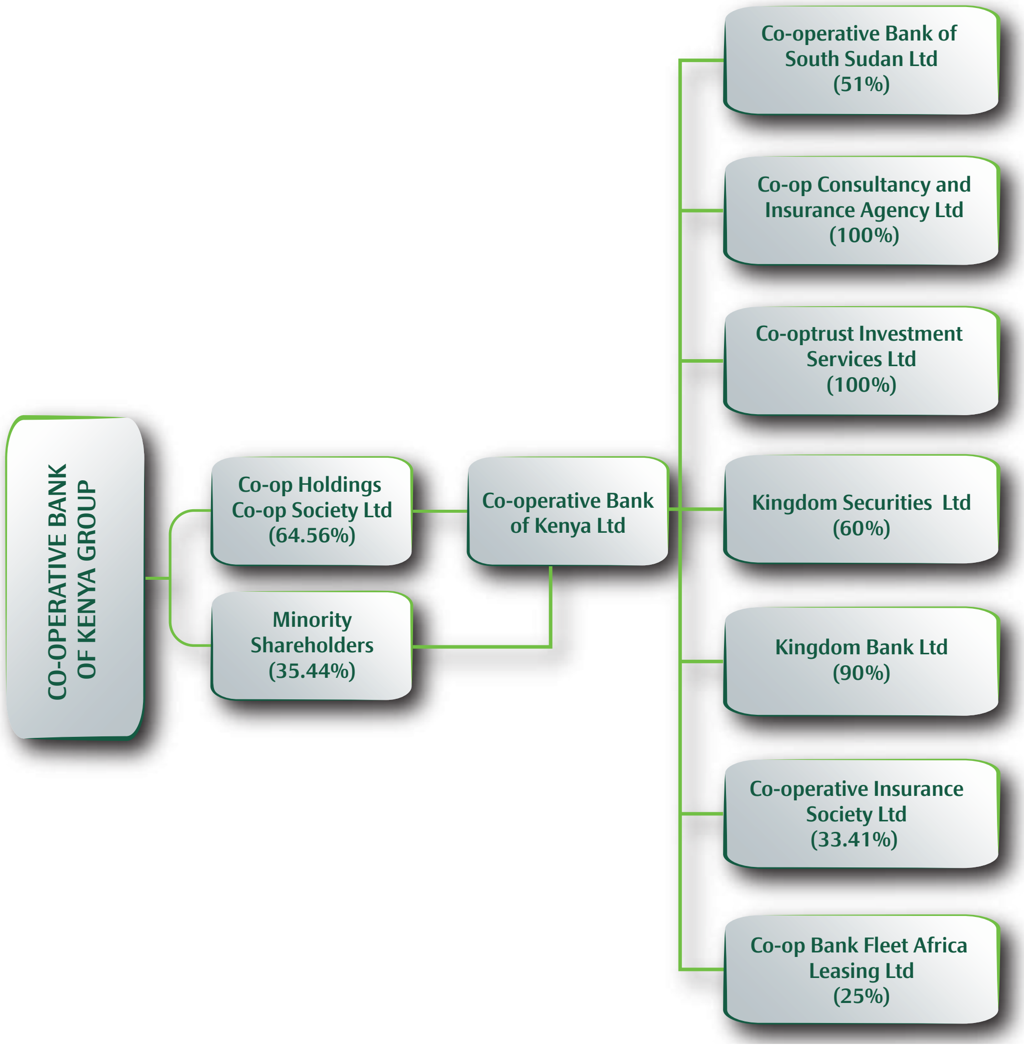
Responsibility of the Board on Integrated Report
This integrated report was approved by our Board of Directors on 17th March 2021.

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

Mr. John Murugu, OGW
Bank Chairman

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

Overview
Group structure



Top 10 shareholders as 31 December 2020

Shareholder	No. of shares	% shareholding
CO-OP HOLDINGS CO-OPERATIVE SOCIETY LIMITED	3,787,715,404	64.56%
MURIUKI, GIDEON MAINA	102,528,400	1.75%
NIC CUSTODIAL SERVICES A/C 077	63,166,543	1.08%
KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 915B	45,420,739	0.77%
PATEL, BALOOBHAI; PATEL, AMARJEET BALOOBHAI	31,290,499	0.53%
KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 915A	27,380,400	0.47%
STANBIC NOMINEES LTD A/C NR1030682	20,877,638	0.36%
ICEA LION LIFE ASSURANCE COMPANY LIMITED-POOLED	20,373,885	0.35%
CO-OP BANK CUSTODY A/C 23000	19,585,400	0.33%
KENYA REINSURANCE CORPORATION LIMITED	18,404,024	0.31%
TOTAL	4,136,742,932	70.51%
Other Shareholders	1,730,437,171	29.49%
TOTAL	5,867,180,103	100.00%

Category summary of shareholders as at 31 December 2020

Category	No. of shareholders	No. of shares	% shareholding
Foreign Companies	26	51,692,468	0.88%
Foreign Individuals	189	4,402,425	0.08%
Local Companies	3,038	4,811,369,135	82.00%
Local Individuals	95,874	967,020,974	16.48%
East African Companies	50	32,164,101	0.55%
East African Investors	74	531,000	0.01%
			100.00

Shareholder distribution as at 31 December 2020

Shareholding	No. of shareholders	No. of shares	% shareholding
1-500	14,563	2,730,788	0.05%
501-5,000	37,330	75,976,238	1.29%
5,001-10,000	31,162	252,125,749	4.30%
10,001-100,000	15,103	340,650,466	5.80%
100,001-1,000,000	837	245,666,453	4.19%
above 1,000,000	255	4,950,030,409	84.37%
			100.00

Co-op Holdings Co-operative Society Limited is the group's strategic investor. It is owned by co-operative societies within Kenya, who jointly hold 64.56% controlling stake of all company stock.
The Bank was listed at the Nairobi Securities Exchange in December 2008 and Shares previously held by 3,805 Co-operatives Societies and unions were ring-fenced under Co-op Holdings Co-operative Society Limited in order to retain the critical cooperative identity of the bank.

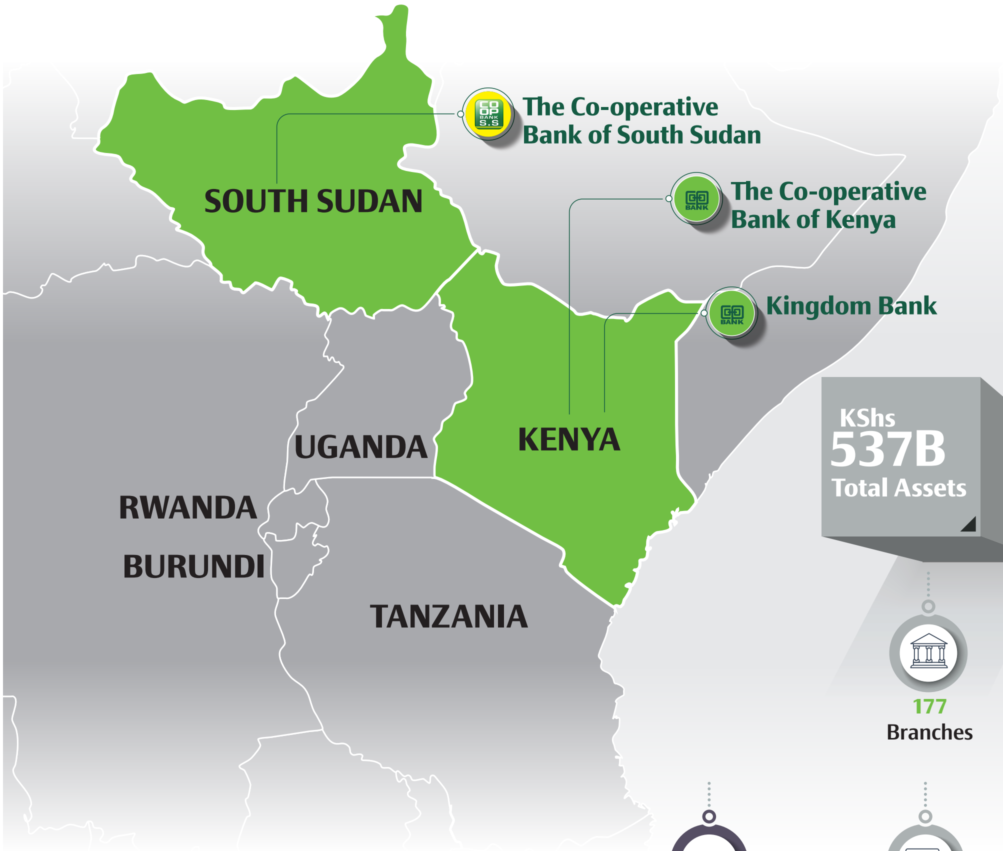
At the end of December 2020, Co-op Holdings had 3799 (2019-3815) individual co-operative society shareholders with a well-established Over-The-Counter (OTC) trading of shares held by them. Trading of these shares is only open to registered co-operative societies.

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

Top 10 Co-op Holdings Shareholders as at 31 December 2020

Shareholding	No. Of Shares	% Shareholding
HARAMBEE COOPERATIVE SAVINGS & CREDIT SOCIETY LTD	144,929,400	3.83
H & M COOPERATIVE SAVINGS & CREDIT SOCIETY LTD	125,247,471	3.31
KENYA POLICE SACCO SOCIETY LTD	119,885,226	3.17
AFYA COOPERATIVE SAVINGS & CREDIT SOCIETY LTD	111,395,592	2.94
MASAKU TEACHERS COOP SAVINGS & CREDIT SOCIETY LTD	110,037,033	2.91
KIPSIGIS TEACHERS COOP SAVINGS & CREDIT SOCIETY LTD	101,495,520	2.68
CO-OPERATIVE BANK COOP SAVINGS & CREDIT SOCIETY LTD	96,103,831	2.54
K-UNITY SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED	90,162,633	2.38
TELEPOST CO-OPERATIVE SAVINGS & CREDIT SOCIETY LIMITED	86,432,771	2.28
NAWIRI SAVINGS AND CREDITCO-OPERATIVE SOCIETY LTD	69,453,216	1.83
TOTAL	1,055,142,693	27.87

Regional Presence



KShs 537B Total Assets

8.8 Million Customers

4628 Staff

177 Branches

5 Million Mcoop cash Customers

23,300+ Co-op Kwa Jirani Agents

581 ATMs

115K+ CoopNet– Internet Banking

479 Sacco Front Offices Branch network

16K+ Diaspora Banking Customers

Strategic Focus

We operate in the Region using the co-operative model to ensure that we socially and economically transform our stakeholders by the innovative financial solutions that we offer and the positive engagements that we have. For a detailed analysis refer to The Strategic Focus Review section of this report.

Our Mission Statement

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

Our Purpose

"A financial institution predominantly owned by the Kenyan Co-operative movement transforming lives

Vision

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

Strategic Themes

Corporate Strategic Plan

- Aggressive deepening of our dominance.
- Dominant provider of financial services to the co-operative movement in Kenya and in the region.
- Customer experience that is seamless across all our touch points.
- Operating efficiency driven by digitization, innovative products & processes, efficient business models and staff productivity.
- Optimal enterprise risk and compliance in the dynamic environment.
- Operate as a good corporate citizen.

Our Values:

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

"We are you"

We are all our stakeholders. We seek to meet the needs of all our stakeholders through our sustainable business model

Key enablers:

Soaring eagle transformation is an efficiency and growth project that we began in 2014 and it continues to be a key strategic enabler in every area of our business. It is discussed in detail in the strategic focus review section of this report

Financial Capital

Total Assets	KShs 537.1B (2019 KShs. 440B)
Customer Deposits	KShs 378.6B (2019 KShs. 332.8B)
Borrowed funds	KShs 46.0B (2019 KShs. 26.4B)
Profit Before Tax	KShs 14.3 (2019 KShs. 20.7B)
Retained earnings	KShs 74.6B (2019 KShs. 62.4B)
Total Capital	KShs 79.4B (2019 KShs. 64.7B)
Liquidity of	52.2% (2019 46.2%)

Human Capital

4628
(2019 4422)
Diverse human resource capable of meeting our current and future needs

Social & Relationship Capital

An optimal relationship with all our stakeholders to ensure long term value addition.

See stakeholder engagement section of this report

Manufactured Capital

Efficient, innovative delivery channels and touchpoints that enable us to serve our 8.8 Million customers optimally. Adequate ICT infrastructure to support all our strategic initiatives

177 Branches

581 ATMs

Mcoop Cash mobile banking platform (5M)

Agency Banking (23,389)

CoopNet internet banking platform (115,911)

Omnichannel platform.

Core Banking System & other infrastructure.

Intellectual Capital

- Skills/Knowledge of our staff
- Our brand positioning and reputation
- Dynamic policies and frameworks covering all areas of our business
- Risk management framework
- Good governance and corporate planning skills
- Intellectual property
- Dynamic IT capabilities

Natural Capital

Contributing positively towards preserving the natural resources that we employ in our value creation process.

See creating sustainable value section of this report

Our Stakeholders

- Customers – Innovative universal banking model
- Shareholders – Optimal return on investment
- Employees – Effective performance and reward mechanism
- Co-operative movement – Unique value proposition
- Strategic partners – Long term credit lines for specific purpose
- Regulators – Compliance to all regulations
- Suppliers – Responsible engagement
- Community – Positive economic, social and environmental impact from all our activities

Our Key Business

We enable our Customers to;

<table>
<tr><th></th><th>What we do</th><th>What we offer</th></tr>
<tr><td>Retail and Business Banking Division</td><td>Providing financial solutions to individual Customers, Micro, Small and Medium Enterprises.</td><td rowspan="9">➢ Deposit/ Instant Access accounts
➢ Savings Accounts
➢ Current accounts
➢ Fixed/Call deposit accounts
➢ Forex products
➢ Payment solutions
➢ Funds transfer
➢ Funds access across all our channels
➢ M-Wallet loans
➢ Trade Finance
➢ MSME Loans
➢ Personal/Consumer Loans
➢ Working Capital Loans
➢ Asset Finance
➢ Insurance Premium Financing
➢ Mortgage Finance
➢ Investment services
➢ BancAssurance
➢ Consultancy and capacity building
➢ Stock Brokerage
➢ Leasing</td></tr>
<tr><td>Corporate and Institutional Banking Division</td><td>Providing financial solutions to;
• Corporates
• Institutions
• Government
• Parastatals
• Non- Governmental Institutions
• International Financial Institutions</td></tr>
<tr><td>Co-operatives Division</td><td>Providing financial solutions to;
• Large Saccos
• Housing Saccos
• Agricultural and other Co-operatives
• PSV/ Transport Saccos
• Investment Saccos
• Housing Saccos</td></tr>
<tr><td>Kingdom Bank Ltd</td><td>A Niche MSME Bank</td></tr>
<tr><td>Co-optrust Investment Services Ltd</td><td>Fund Management Services</td></tr>
<tr><td>Coop Consultancy and Insurance Agency Ltd</td><td>• BancAssurance Services
• Consultancy and capacity building services to Co-operative Societies</td></tr>
<tr><td>Kingdom Securities Ltd</td><td>Stock Brokerage Services</td></tr>
<tr><td>Co-op Bank Fleet Africa Leasing Limited</td><td>Leasing solutions</td></tr>
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Key Performance Highlights

FINANCIAL (Kshs. Billions)	2020	2019	SYMBOL
Profit Before Tax	14.3	20.7	▼
Total Assets	537	457	▲
Loan and advances (Net)	286.6	266.7	▲
Customer Deposits	378.6	332.8	▲
Non-Performing Loan (%)	18.1%	9.9%	▲
Dividend per share	1.00	1.00	•
Market Capitalization Kshs. (Billions)	72.8	95.5	▼
Average ROA	2.2%	3.3%	▼
Average ROE	12.7%	18.9%	▼
Cost to Income (CIR)	58.1%	52%	▲
Debt to Equity	50.7%	33%	▲
OTHER KEY INDICATORS			
Staff numbers	4628	4422	▲
Training spend Ksh. (Million)	24.3	70	▼
Remuneration Kshs. (Billions)	13.4	12.4	▲
Digital channel transactions (Million)	166	136	▲
Wide branch network	177	159	▲
Branches County presence	44	42	▲
ATMs	581	583	▼
Renewable energy lending Ksh. (Billions)	3.4	2.59	▲
CCIA consultancies	2885	2800	▲
Coop Foundation students to date	7713	7657	▲
Electricity cost (Million)	235	261	▼
Generator fuel cost (Million)	15	19	▼
Water cost (Million)	32	35	▼

(L-R) Co-operative Bank Group Managing Director and CEO, Dr. Gideon Muriuki, Co-operative Bank Chairman Mr. John Murugu and the Bank Vice-chairman, Mr. Macloud Malonza discuss the Group's Integrated Report at the virtual AGM, for the financial year 2019.

Our Business Model

A summary business model. For a detailed analysis refer to The Co-op Bank Model section of this report.

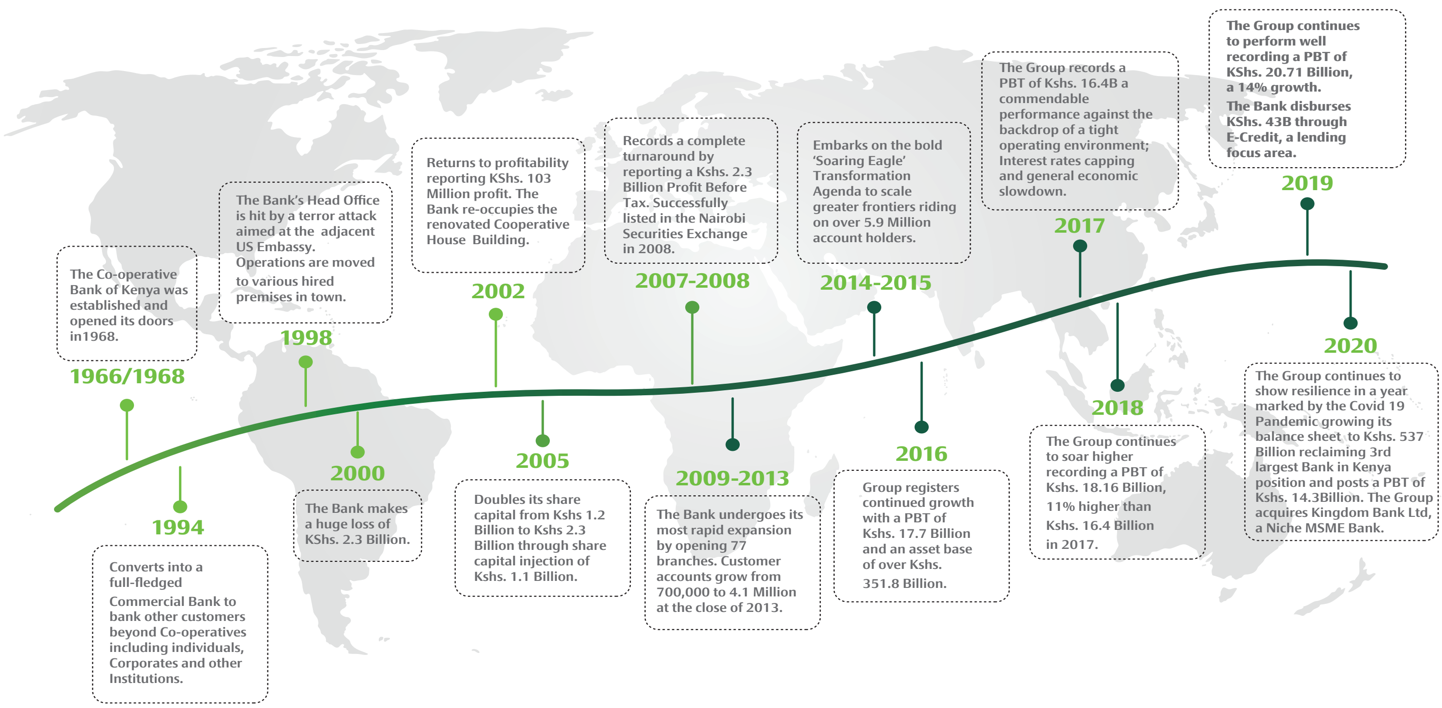
Wealth Creation and Distribution

Value Distribution Kshs. 31.8B (2019 – Kshs. 36.6B)

Our Stakeholders

Milestones in Co-op Bank's Development

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



Chairman's Statement

Dear Shareholders,
I am delighted to present to you our achievements for the year 2020. Your support, and the support of all our stakeholders enabled us to remain resilient, grow our business and adapt quickly in a period that was marked by global economic disruption occasioned by the ongoing Covid_19 Pandemic. The Bank, in line with our vision and purpose, has continued to transform the lives of millions through the innovative products and solutions that we offer.

Overview of the Operating Environment
We started the year 2020 with an outlook of a strong economic growth supported by, among others, the recovery of the agricultural sector, reduced fiscal deficit cuts, payments of pending bills by the government, stronger growth in private sector credit following the repeal of interest rate caps, the continued implementation of the Big 4 agenda and a stable macroeconomic environment.

These hopes were soon dashed when COVID-19 pandemic was confirmed to have spread to Kenya on March 12, 2020 and so far over 3000 Kenyans have succumbed. What started as a health crisis soon became an economic and social crisis as the Country acted to mitigate the spread of the highly contagious virus. Among the mitigants was the suspension of commercial flights in and out of Kenya, dusk to dawn curfews, and banning of public gatherings. The Government also went ahead to issue a cessation of movement in and out of Nairobi Metropolitan Area, Mombasa, Kilifi and Kwale, closure of schools, places of worship, entertainment spots, and a raft of other measures were issued. Since then containment measures have continued to take place with the latest measures being around the containment of the third wave of the Pandemic.

The collateral effects of these mitigants on key economic sectors such as transport, tourism, manufacturing and agriculture were significant. Measures taken in other regions also threatened global recession and increased the risks of Kenya's export demand, tourism earnings and remittances.

The Banking Industry was impacted by the rise in non-performing loans even as the regulator took various emergency measures to mitigate the adverse economic effects on bank borrowers. Among these measures was loans restructuring by banks, for a period of up to one year of loans that were performing as at March 2, 2020 and the provision of regulatory flexibility to banks by CBK. The measures expired on March 2, 2021. From March 2020, loans amounting to Ksh.1.7 trillion were restructured by end February 2021 accounting for 57 percent of the banking sector's gross loans. Outstanding restructured facilities in February 2021 amounted to Ksh.569.3 billion, or 19 percent of the total gross loans indicating that over 95 percent of the outstanding restructured loans are performing as per restructured terms.

In addition to the Pandemic, the country was also facing a locust attack which started early 2020 affecting many parts of Kenya especially the North East. This had a negative impact on the food security and growth of the agriculture sector in the country.
South Sudan continues to face macro-economic challenges resulting in monetary losses due to hyperinflation.
As a result of the above, Kenya's GDP growth contracted by 5.7 percent in the second quarter of 2020 from a growth of 4.9 percent in the first quarter of 2020. Our economy is estimated to have contracted by 0.6% in the year 2020. The global contraction for 2020 is estimated at 3.5 percent.

Stakeholder Support in a Pandemic Period
The Group continues to proactively support all stakeholders throughout the Pandemic period. This has seen a restructure of Kshs. 49 Billion in loans to support customers impacted by the pandemic. The Bank's huge investment in Digital has paid off with a seamless execution of uninterrupted financial services and a work from home model that supports social distancing which is critical to the pandemic containment. We worked closely with our regulators and the Government in supporting all the measures and guidelines including Kshs.100 million to the private sector led Covid_19 Task force. We paid a Kshs. 5.8B Dividend which is a critical support/ income to the 15-million-member Co-operative Movement that predominantly owns the Bank. We have also managed to secure USD 85 Million from our long-term funding partners towards supporting our customers in the MSME segment, the health sector and Businesses undertaking Climate-Smart Projects.

Corporate Strategic Plan 2020-2024
We continue to pursue our strategic goals that will see us achieve our vision to be the dominant bank in Kenya and the region. The Bank is now solidly the third largest Bank in Kenya by asset size of Kshs. 537 Billion.
We are deepening our dominance in Kenya through offering customer centric solutions such as the E-Credit where we are disbursing Kshs. 4.9Billion per month and have so far disbursed Kshs. 122 Billion since inception.
The Bank continues to digitize, employ an efficient universal business model and support staff productivity. This is evidenced by the migration of 92% of our transactions to alternative banking channels and the sustained MSME offering that has seen 116000 MSME on boarded. We have an ongoing Core Banking Upgrade project that will see us optimize cost further, improve customer experience and roll out more innovative solutions. We expect this project to be completed in 2021. Our staff continue to be

productive with 93% having met their performance expectations showing their commitment towards the Bank goals.
We remain compliant to rules and regulations and ensure proactive enterprise risk management and sustainability. The Bank has an ongoing Credit Risk Adaptation project that is geared towards End to end assessment of credit risk management practices, strengthening portfolio assessment & risk frameworks and the enhancement of Collection platforms aligned to the new business operating environment.
To support sustainable financing, we are careful to follow our environment and social policy in all the facilities that we give.
Transformation, a key project that we began in 2014 continues to spur efficiency and growth.

Acquisition
Effective 22nd August 2020, Co-op Bank completed acquisition of 90% of the issued share capital of Jamii Bora bank. Co-op Bank is entitled to 90% of the voting rights in the Company, 90% of the distributable profits of the Company and the right to appoint all the members of the Board of Directors. During our AGM on 22nd October 2020 this deal was ratified.
The Bank has appointed a new Board to drive the needed Transformation Agenda. The former Jamii Bora Bank has also changed its name and will henceforth operate as 'Kingdom Bank Limited'. The Group has continued with a strategy for continued deepening and dominance in our domain market segment while harnessing opportunities for expansion to other services like BancAssurance and Leasing business which are being done through our various other subsidiaries. Kingdom Bank Limited is a fully-fledged Commercial Bank, licensed and regulated by the Central Bank of Kenya, with over 444,000 customers in 17 branches.

Performance Overview
Our balance sheet expanded by 17.5% to Kes.537 Billion as at the close of 2020 from Kes.457 Billion in 2019. Profit after tax declined by 24.4% to Kes.10.8 Billion compared to Kes.14.3 Billion the previous year. This is after contingency provisioning of Ksh.8.1 Billion for loan losses expected from the disruption of the Covid-19 pandemic on businesses and households and the absorption of monetary loss from our South Sudan operation due to hyperinflation.

This performance points to our resilience as an organization and it reflects the success of the transformation initiatives which have re-tooled and equipped our business with the strategic agility necessary in a difficult operating environment. The group will continue to focus on improving operational efficiencies and leveraging on innovative customer delivery channels to serve our growing customer base, which currently stands at 8.8 million.

Corporate Governance
The Board is responsible for corporate governance practices and embraces its responsibilities to shareholders and other stakeholders through upholding the highest ethical standards and ensuring that the Bank conducts its business in accordance with global best practices.

The Bank recognizes and embraces the benefits of a diverse Board and acknowledges that diversity at the Board level is an essential element in enhancing the decision-making process and the resultant policy and strategy direction. This is also to ensure a balanced mix in the capabilities and competences in the Board in order to remain relevant in a fast changing, dynamic and competitive market environment. Our Board consists of thirteen directors including the Group Managing Director & CEO who is an executive. The Directors have a variety of skills, experience and competences in their relevant fields of expertise and are well placed to drive the bank's business forward. Having the appropriate governance mechanisms and pillars that support ethical behaviour are foremost in our business.
The directors of the Bank/subsidiaries are committed to excellence in corporate governance and support the principles of Good Corporate Governance as the basis for enhancing credibility and transparency in the financial services industry.

The Board is constantly monitoring the operations of the Bank through regular and constant communication with the Group Managing Director & CEO. In addition, the Board has held several virtual board meetings to discharge its mandate as required by law and also to ensure that there is business continuity. The Board has been regularly updated on the progress of performance of the Bank during this Covid 19 season.

We also have in place a Business Continuity Management Team (BCMT) comprised of the Board of Management. This team has been meeting regularly to discuss and ensure that the Bank is aligned to Government and Central Bank of Kenya guidelines on how to manage the COVID-19 issue among its staff and business. Decisions that have been arrived at this level are cascaded to the rest of the Bank staff for action and compliance.

Board Changes
During the year Mrs. Rose Simani retired from the Board and was replaced by Mrs. Weda Welton. Mrs. Simani joined the bank's board in 2009 and has devotedly served the bank for the last 11 years. We thank her for her devotion and selfless service and wish her success in her future endeavours. Join me in welcoming Mrs. Weda Welton to the board. She brings to our service her immense experience in Human Resource Management in the Banking and Financial Sectors and has previously served in various senior positions in Co-operative Bank of Kenya including as Director of Human resource. We wish her success and God's guidance in execution of her new role.

Risk and Compliance
We operate in a heavily regulated environment and we are required to comply with various rules, laws and regulations. The Co-operative Bank Group is cognizant of the enduring need to ensure that we adhere to sound local and global compliance practices. The Group retains a zero-tolerance posture towards unethical behaviour of any type or magnitude. The board of directors and indeed all our staff regularly undergo training on emerging regulatory issues and compliance, risk threats and anti-money laundering and countering the financing of terrorism (AML/CFT) to keep them on high alert and abreast of emerging issues in the industry. The Group has continued to set and implement effective systems and controls that help to detect, prevent and deter financial crime, corruption and bribery. Such continuous interventions we believe will embed a culture of ethical and responsible banking in the core of our institution.

We strongly believe in compliance and ethical code of conduct. The value of ethics and responsibility is indisputable as stakeholders are now increasingly interested in building sustainable partnerships with businesses and markets which uphold such values.

Dividend and the Annual General Meeting
Our strong performance against the insurmountable odds we faced in the year 2020 is a clear indication of our commitment to increase our shareholders value and returns. With the adequate capital buffers in the tough operating environment, the Board of

Directors, as per Capital Markets Authority guidance vide circular dated 16th April 2020 on Board of Directors Mandate under COVID-19, has approved the payment of Kshs. 1.00 per ordinary share (2019 - Kshs. 1.00) to be paid on or about 14th April 2021 to the shareholders registered on the Bank register at the close of business 31st March 2021.The register will remain closed for one day on 13th April 2021 for the preparation of dividend warrants. The Kshs. 5.8B Dividend is a much needed relief in a pandemic year to the over 15 Million-member co-operative movement that predominantly owns the Bank.
The Twelfth Annual General Meeting of the Co-operative Bank of Kenya Limited will be held at a later date to be confirmed.

Looking Ahead
The global economy is expected to grow by 5.5 percent in 2021. This outlook is supported by the ongoing global rollout of COVID-19 vaccination program and additional stimulus policy measures. However, the outlook remains highly uncertain, partly due to the emergence of new variants of the virus and the reintroduction of containment measures in some economies.

Here at home, there has been an improvement in economic activity since the fourth quarter of 2020. This recovery is supported largely by strong performance in the agriculture and construction sectors, resilient exports, and continued recovery in manufacturing and services. Against this performance and the favorable global outlook, the economy is expected to rebound strongly in 2021, supported by recovery in the services sectors particularly education, manufacturing, resilient agriculture and the ongoing policy support through the Government's economic recovery plan.
I believe these efforts and a clear strategy will serve as a source of inspiration for our customers, staff and all other stakeholders.

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

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

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

May God bless The Co-operative Bank; may he bless you all.

JOHN MURUGU, OGW
CHAIRMAN

(L-R) A customer inserts his electronic signature during the launch of paperless end-to-end digital account-opening by Co-opBank, assisted by the bank team including Sally Waigwa of Co-op House Branch (seated), Director Retail Banking William Ndumia, Director Operations Lydia Rono and Director ICT and Innovation Charles Washika.

Taarifa ya Mwenyekiti

Wapendwa Wamilikihisa,
Nina furaha kuwasilisha kwenu matokeo yetu ya mwaka wa 2020. Kuungwa mkono nanyi, na usaidizi wa washikadau wetu wote kulituwezesha kufanikisha, kukuza biashara yetu na kuchukuana kwa haraka na hali ya kipindi ambacho kilikuwa na shida za kiuchumi ulimwenguni kutokana na janga kubwa la gonjwa tandavu linaloendelea la Covid_19. Benki hii, kwa kufuata maono na kusudi letu, imeendelea kubadilisha maisha ya mamilioni kupitia bidhaa na suluhisho bunifu tunazotoa.

Maelezo ya jumla ya Mazingira ya Uendeshaji
Tulianza mwaka wa 2020 tukiwa na mtazamo wa ukuaji thabiti wa uchumi unaoungwa mkono na, kati ya mengine, kupata afueni kwa sekta ya kilimo, kuimarika kwa mapato ya serikali, malipo ya madeni yaliyosubiriwa na serikali, ukuaji mkubwa wa mikopo ya sekta ya kibinafsi kufuatia kuondolewa uwekaji viwango vya riba, utekelezaji unaoendelea wa zile ajenda 4 kubwa na mazingira thabiti ya kiuchumi.
Matumaini haya yote yalififia haraka pale gonjwa tandavu la COVID-19 lilipothibitishwa kuenea hapa Kenya mnamo Machi tarehe 12, 2020 na hadi kufikia sasa zaidi ya wakenya 2400 wamefariki. Hali ilionaza kama upeo wa shida ya kiafya punde ikageuka na msukosuko mkubwa wa kiuchumi na kijamii wakati ambapo serikali ilipochokua hatua kupambana na kuenea kwa virusi hivi vinavyoambukiza haraka. Miongoni mwa hatua hizo zikiwa ni pamoja na kusitishwa ka safari za ndege za abiria kuingia na kutoka Kenya, kuzuiya watu kutotoka nje jioni hadi alfajiri, na marufuku ya mikutano ya hadhara.
Serikali pia ilizidisha hatua kwa kusitisha harakati za kuingia na kutoka Jiji la Nairobi, Mombasa, Kilifi na Kwale, kufungwa kwa shule, maeneo ya ibada, maeneo ya burudani, na msururu wa hatua zingine kutolewa. Tangu wakati huo hatua za

kuzuia zimeendelea kutekelezwa na za hivi karibuni zikiwa za kupambana na wimbi la tatu la Gonjwa hili tandavu.
Athari za hatua hizi kwenye sekta muhimu za uchumi kama vile uchukuzi, utalii, utengenezaji bidhaa na kilimo ni kubwa mno. Hatua zilizochukuliwa katika mataiafa mengine pia zilitishia kudorora kwa uchumi wa ulimwengu na kuongeza mashaka ya mahitaji ya mauzo ya nje ya Kenya, mapato kutokana utalii na usafirishaji.

Sekta ya Benki iliathiriwa na kuongezeka kwa mikopo isiyolipwa hata wakati ambapo mdhibiti alikuwa anachukua hatua anuwai za dharura kupunguza athari mbaya za kiuchumi kutokana na wakopaji wa benki. Miongoni mwa hatua hizi ni upangaji upya wa mfumo wa mikopo na benki zote, kwa kipindi cha hadi mwaka mmoja wa mikopo ambayo ilikuwa ikitekelezwa sawa ilipofikia Machi 2, 2020 na utoaji wa mabadiliko ya udhibiti kwa benki zote na Benki kuu ya Kenya. Hatua hizo zilimalizika Machi 2, 2021. Kuanzia Machi 2020, kiasi cha mikopo inayofikia hadi Ksh. Trilioni 1.7 ilirekebishwa mwishoni mwa Februari 2021 ikiwa ni asilimia 57 ya jumla ya mikopo yote ya sekta ya benki. Marekebisho ya mifumo yaliyosalia mnamo Februari 2021 ilifikia kiasi cha Ksh. Bilioni 569.3, au asilimia 19 ya jumla ya mikopo inayoonyesha kuwa zaidi ya asilimia 95 ya mikopo iliyosalia kurekebishwa na bado ingali inafanya kulingana na masharti yaliyowekwa upya.

Mbali na janga hilo la Covid-19, nchi hii pia ilikuwa inakabiliwa na shambulio la nzige lililoanza mapema katika mwaka wa 2020 likiathiri maeneo mengi ya Kenya haswa Kaskazini Mashariki. Hii ilikuwa na athari mbaya kwa usalama wa chakula na ukuaji wa sekta ya kilimo nchini.
Sudan Kusini inaendelea kukabiliwa na changamoto za uchumi kwa ujumla na kusababisha hasara ya mapato ya fedha kutokana na mfumuko wa bei.
Kutokana na matokeo hayo yote hapo juu, ukuaji wa Pato la Taifa la Kenya ulipungua kwa asilimia 5.7 katika robo ya pili ya mwaka 2020 kutoka ukuaji wa asilimia 4.9 katika robo ya kwanza ya 2020. Uchumi wetu unakadiriwa kuzidi kufifia kwa 0.6% katika mwaka 2020. Kupungua kwa uchumi wa ulimwengu katika 2020 kunakadiriwa kuwa kwa asilimia 3.5.

Usaidizi wa Mshikadau katika kipindi cha janga
Kundi hili linaendelea kujitolea kuunga mkono washikadau wote katika kipindi chote cha Janga hili. Hii ikipelekea kuazimia kupanga upya kiasi cha Kshs. Bilioni 49 za mikopo ili kusaidia wateja waliokabiliwa na changamoto za janga hili. Uwekezaji mkuba wa benki hii katika mdumo wa Dijitali umezaa matunda kukiwa utekelezaji mzuri usiokatizwa wa huduma za kifedha na mtindo wa sasa wa watu kufanya kazi wakiwa nyumbani unaoauni umbali salama ya kijamii ambo ni muhimu katika kuzuiya kusambaa kwa janga hili. Tulifanya kazi kwa ushirikiano wa karibu na wathibiti kanuni wetu pamoja na Serikali katika juhudi za kuunga mkono hatua na maagizo yote ikiwa ni pamoja utoaji wa Kshs. (Milioni?)100 kwa kikosi cha kazi cha sekta binafsi hususan kwa ajili ya Covid_19. Tulilipa Mgao wa Kshs. Bilioni 5.8B ambao ni muhimu katika kuunga mkono/kuletea mapato harakati za Vyama vya Ushirika vyenye wanachama milioni 15, ambao ndio hasa wanaomiliki Benki hii. Tumeweza pia kupata Dola milioni 385 kutoka kwa washirika wetu wa ufadhili wa muda mrefu ili kusaidia kukuza wateja wetu katika sehemu ya Biashara ndogo na za kati (MSME), sekta ya afya na biashara za Miradi jumuishi ya mabadiliko ya Hewa.

Mikakati ya Shirika ya Mwaka 2020-2024
Tunazidi kufuatilia malengo yetu ya kimkakati ya kutupeleka kwenye maono yetu ya kuwa benki kubwa hapa nchini Kenya na katika kanda hii. Hivi sasa Benki hii inashikilia haadhi ya Benki ya tatu kubwa hapa nchini Kenya ikiwa ni ukubwa wa rasilimali ya kiasi cha Kshs. Bilioni 537.

Tunaimarisha utawala wetu nchini Kenya kupitia kutoa suluhisho zanazolenga wateja kama vile E-Credit (mkopo wa kimtandao) ambapo tunatoa Kshs. Bilioni 4.9 kwa mwezi na kufikia sasa tayari tumeshatoa Kshs. Bilioni 122 tangu kuzinduliwa.

Benki hii inaendelea kutumia mifumo ya kiditali, kutumia mtindo wa utendaji biashara bora wa dunia na kusaidia wafanyikazi kuzalisha tija. Hii inathibitishwa na uhamaji wa asilimia 92 ya miamala yetu kwenda kwa njia mbadala za benki na toleo endelevu kwa wafanyibaisahara wadogo na wa kati (MSME) ambalo tayari limefanya wafanyibiashara 116000 kujiunga. Tuna mradi unaoendelea wa Kuboresha shughuli za undani za Benki ambao utatuwezesha kusimamia gharama kwa uzuri zaidi, kuboresha uzoefu wa wateja kwa huduma zetu na kuwatolea suluhisho zilizo bunifu zaidi. Tunatarajia kukamilisha mradi huu katika mwaka wa 2021. Wafanyikazi wetu wanaendelea kuwa na tija ya 93% wakiwa tayari wamefikia matarajio yao ya utendakazi bora hii ikiashiria kujitolea kwao kwa malengo ya Benki.
Tunazidi kufuata na kutii sheria na kanuni na kuhakikisha kujitolea kwetu kwa usimamizi wa dhima ya biashara na kudumisha uendelevu.

Benki ina mradi unaoendelea wa Kukabiliana na Dhima ya Mkopo ambao umekusudiwa Mwisho hadi mwisho wa tathmini ya mazoea ya usimamizi wa hatari za mkopo, kuimarisha tathmini ya kwingineko na mifumo ya dhima na uboreshaji wa njia za Ukusanyaji zinazolingana na mazingira mapya ya utekelezaji wa biashara.
Ili kusaidia ufadhili endelevu wa fedha, tunafuatilia kwa umakini mazingira yetu na sera za kijamii katika aina ya mikopo yote tunayotoa.
Mabadiliko, mradi muhimu ambao tulianza katika mwaka wa 2014 ungali unaendelea kuchochea ufanisi na ukuaji.

Umiliki katika Mashirika mengine
Kuanzia tarehe 22 Agosti 2020, Co-op Bank ilikamilisha ununuzi wa 90% ya mtaji wa hisa wa benki ya Jamii Bora. Co-op Bank inamiliki 90% ya haki za kupiga kura katika Kampuni hiyo, 90% ya faida inayoweza kugawanywa ya Kampuni na haki ya kuteua wanachama wote wa Bodi ya Wakurugenzi. Katika Mkutano wetu Mkuu mnamo tarehe 22 Oktoba 2020 mpango huu uliidhinishwa. Benki imeteua Bodi mpya kusimamia utekelezaji wa ajenda inayohitajika ya Mabadiliko. Benki iliyokuwa zamani Jamii Bora pia imebadilishwa jina lake na sasa itaanza kuendesha shuguli zake kama 'Kingdom Bank Limited'. Kundi hili limeendelea na mkakati wa kuzidi kukuza na kuongoza katika fungu letu la ya soko na kwenye kitengo chetu kwa kutumia fursa za kupanua huduma zingine kama vile biashara ya Bima kutolewa na benki na Ukodishaji hizi zikifanywa kupitia kampuni zingine zetu tanzu. Kingdom Bank Limited ni Benki kamili ya Biashara, iliopewa leseni na kusimamiwa na Benki Kuu ya Kenya, ikiwa na zaidi ya wateja 444,000 katika matawi 17.

Mtazamo wa Utendaji
Mizanmi yetu ya hesabu ilipanda kwa 17.5% hadi Kes.Bilioni 537 kufikia mwisho wa 2022 kutoka Kes.Bilioni 457 katika mwaka wa 2019. Faida baada ya kulipa ushuru ilipungua kwa 24.4% hadi Kes.Bilioni 10.8 ikilinganishwa na Kes.1Bilioni 4.3 katika mwaka uliopita.
Hii ni baada ya uwekaji wa dharura wa Ksh.Bilioni 8.1 dhidi ya upotezaji wa mkopo unaotarajiwa kutokana kuvurugwa kulioletwa na janga la Covid-19 kwa biashara na kwa jamii na kuwekewa kando fedha za kuhumili hasara ya shughui zetu katika Sudan Kusini iliyosababishwa na mfumuko mkubwa wa bei.
Utendaji huu maridhawa unaashiria uthabiti wetu kama shirika na unaonyesha mafanikio ya mipango yetu ya mabadiliko ambayo imetupatia tena zana za kuiwezesha biashara yetu kuwa na ustadi wa kimkakati unaohitajika wa mazingira magumu tunayoendeshea shughuli zetu. Shirika hili litaendelea kuzingatia kuboresha ufanisi wa utendaji na kutumia kama nyenzo mbinu mpya za utoaji huduma kwa wateja wetu wa kimsingi wanaendelea kuongezeka, hivi sasa wakiwa wamefikia milioni 8.8.

Muundo wa Kusimamia Shirika
Bodi inawajibika kutekeleza desturi za usimamizi wa Shirika na inayachukua majukumu yake kwa wanahisa na wadau wengine kupitia udumishaji viwango vya juu vya maadili na kuhakikisha kuwa Benki inafanya biashara yake kwa kufuata kanuni bora za ulimwengu.

Benki hii inatambua na kukubali manufaa yatokanayo na Bodi anuwai na inakubali kuwa utofauti katika kiwango cha Bodi ni jambo muhimu katika kuimarisha mchakato wa kufanya maamuzi na kupatikana kwa mwelekeo wa sera na mkakati. Hii pia inahakikisha kuwepo mchanganyiko uliyo sawa wa uwezo na umahiri ndani ya Bodi ili kuendelea kufaa katika soko linalobadilika kwa kasi na lenye ushindani mkubwa. Bodi yetu ina wakurugenzi kumi na tatu ikiwa ni pamoja na Mkurugenzi Mkuu wa Kundi na Afisa Mkuu i ambaye ni mtendaji. Wakurugenzi wako na ustadi, uzoefu na umahiri anuwai katika nyanja zao husika za utaalamu na wako katika hali nzuri ya kuipeleka mbele biashara ya benki hii. Kuwa na mifumo inayofaa ya Usimamizi wa Shirika na nguzo zinazothibiti utekelezaji kwa maadili ni nukta muhimu tunayoipatia kipaumbele katika biashara yetu.
Wakurugenzi wa Benki / na wa mashirika tanzu wamejitolea katika kudumisha ubora wa usimamizi wa Shirika na wanaunga mkono kanuni za Usimamizi Bora wa Shirika kama msingi wa kuongeza uaminifu na uwazi katika tasnia hii ya huduma za kifedha.

Bodi inazidi kufuatilia kwa makini shughuli za Benki kupitia mawasiliano ya mara kwa mara na Mkurugenzi Mkuu wa Kundi na Afisa Mkuu Mtendaji. Isitoshe, Bodi imefanya mikutano kadhaa ya bodi kwa njia ya mtandao ili kutekeleza jukumu lake kama inavyohitajika kisheria na pia kuhakikisha kuendelea kwa biashara. Bodi imekuwa ikiarifiwa mara kwa mara kuhusu maendeleo ya utendaji wa Benki msimu huu wa janga la Covid-.19.
Pia tumebuni Timu ya Usimamizi wa Kuendeleza Biashara (BCMT) inayojumuisha Bodi ya Usimamizi. Timu hii imekuwa ikifanya vikao vya mara kwa mara kujadili na kuhakikisha kuwa Benki hii iko sawa katika kutii miongozo ya Serikali na Benki Kuu ya Kenya kuhusu jinsi ya kudhibiti gonjwa tandavu la COVID-19 miongpno mwa wafanyikazi wake na biashara. Maamuzi ambayo yamefikiwa katika kiwango hiki husambazwa kwa wafanyikazi wengine wa Benki ili wafuate na watekeleze.

Mabadiliko katika Bodi
Mwakani Bi. Rose Simani alistaafu kutoka kwa Bodi na nafasi yake kuchukuliwa na Bi. Weda Welton. Bi. Simami alijiunga na Bodi ya benki hii mnamo mwaka wa 2009 na ametumikia benki kwa kujitolea kwa miaka 11 iliyopita. Tunamshukuru kwa kujitolea kwake na huduma isiyo na kifani na tunamtakia mafanikio katika shughuli zake za baadaye. Ungana nami tumkaribishe Bi Weda Welton kwenye bodi. Anatujiunga nasi akiwa na uzoefu mkubwa wa Usimamizi wa Wafanyikazi katika Sekta ya Benki na Fedha na hapo awali aliwahi kushika nyadhifa mbali mbali za kiwango cha juu katika Co-operative Bank of Kenya ikiwa ni pamoja na kuwa Mkurugenzi wa Wafanyikazi. Tunamtakia mafanikio na mwongozo wa Mungu katika kutekeleza jukumu hili lake jipya.

Dhima na Utiifu wa Kanuni
Tunaendesha biashara yetu katika mazingira yaliyodhibitiwa mno na tunahitajika kufuata maagizo, sheria na kanuni anuwai.

Shirika hili la Co-operative Bank liinatambua hitaji muhimu la kuhakikisha kwamba tunazingatia kanuni bora za humu nchini na za kimataifa. Shirika hili linashikilia kwa ukakamavu mwelekeo wa kutokubali kamwe tabia zisizo na maadili ya aina yoyote au ukubwa wowote. Bodi ya wakurugenzi na bila shaka wafanyikazi wetu wote hupata mafunzo mara kwa mara ya maswala ya sheria zinazoibuka na utiifu, mashaka na vitisho na utakatishaji wa pesa haramu na kukabiliana na ufadhili wa ugaidi (AML / CFT) ili kuwa makini zaidi na kuendele kujijuza juu ya maswala yanayoibuka katika sekta hii. Shirika hili linaendelea kuweka na kutekeleza mifumo na udhibiti mzuri wa kusaidia kugundua, kuzuia na kusitisha uhalifu wa kifedha, ufisadi na rushwa. Hatua kama hizo, tunaamini zitakuza utamaduni wa kimaadili na uwajibikaji wa shughuli za kibenki kwenye msingi hasa wa taasisi yetu.

Tunaamini zaidi katika kufuata na kutii kanuni za maadili. Thamani ya maadili na uwajibikaji haipingiki kwani wadau sasa wanazidi kuhitaji kujenga ushirikiano endelevu na wafanyabiashara na masoko ambayo yanadumisha maadili kama hayo.

Mgao na Mkutano Mkuu wa Mwaka

Utendaji wetu thabiti licha ya kukabiliana na changamoto ziliokithiri katika mwaka wa 2020 ni ishara tosha ya kujitolea kwetu kuongeza thamani kwa wanahisa na faida. Pamoja na kuwa na kinga ya mtaji ndani ya mazingira magumu ya utendaji, Bodi hii ya Wakurugenzi, kulingana na mwongozo wa Mamlaka ya Masoko ya Mtaji kupitia tangazo la tarehe 16 Aprili 2020 kuhusu mamlaka ya Bodi ya Wakurugenzi chini ya COVID-19, imeidhinisha malipo ya Kshs. 1.00 kwa kila hisa ya kawaida (2019 - Kshs. 1.00) kulipwa mnamo au ikaribiapo tarehe 14 Aprili 2021 kwa wanahisa waliosajiliwa kwenye rejista ya Benki mwishoni mwa biashara Machi 31, 2021. Rejista hiyo itafungwa kwa siku moja mnamo tarehe 13 Aprili 2021 ili kuandaa vibali vya mgao.
Mgao huo wa Kshs. Bilioni 5.8 ni afueni inayohitajika sana katika mwaka kama huu wa janga kwa wanachama wa ushirika zaidi ya milioni 15 ambao ndio wamiliki wakubwa wa Benki hii.
Mkutano huu Mkuu wa Kumi na Mbili wa Mwaka wa Co-operative Bank of Kenya utafanyika baadaye tarehe itakapothibitishwa.

Shukrani

Kwanza, napenda kutoa shukrani za dhati kwa wateja na wamilikihisa wetu, uaminifu na matumainai yao kwetu yametuwezesha kufikia mafanikio haya.

Kwa niaba ya Bodi ya Wakurugenzi, ningependa vile vile kutambua msaada imara na kujitolea kwao waliodhihirisha kwa Bodi ya Usimamizi inayoongozwa na Mkurugenzi Mkuu Mtendaji wa Kikundi na Afisa Mkuu Mtendaji Dk.Gideon Muriuki, CBS, MBS na kikosi kizima cha shirika hili la Co-operative Bank.

Kutamatisha, ninegependa kuwashukuru Wanachama wenzangu wa Bodi kwa huduma, uaminifu na kujitolea kwao kwa kuwajibikia pamoja nami katika kufanikisha shughuli za benki hii.

Mungu ibariki Co-operative Bank; Mungu awabariki nyote.

JOHN MURUGU, OGW
CHAIRMAN

The Board of Directors

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

John Murugu, OGW - **Chairman (70)**

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

Macloud Malonza, MBS, HSC **Vice Chairman (52)**

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

Dr. Gideon Muriuki, CBS, MBS

Group Managing Director & CEO (56)

Appointed Managing Director in 2001 and has presided over the Bank's turnaround from a massive loss position of KShs. 2.3 billion in the year 2000, to a profit before tax of KShs. 14.3 Billion In 2020. He joined the Bank in 1996 as a Senior Corporate Manager then became Director, Corporate and Institutional Banking in 1999 before his appointment as Managing Director in 2001 with a clear mandate to return the Bank into profitable trading. Holds a Bachelor of Science degree in Mathematics, is a Fellow of the Kenya Institute of Bankers and was awarded an Honorary Doctorate in Business Management in 2011. He has over 32 years' experience in banking and finance and he was voted CEO of the year Africa 2014 by the International Banker. He is Vice-President Africa – International Co-operative Banking Alliance (ICBA), former Chairman, Governing Council of the Africa International University and former Chairman, African Rural and Agricultural Credit Association (AFRACA). He was decorated in 2005 with the award of Order of the Grand Warrior (OGW), in 2011, award of the Moran of the Order of the Burning Spear (MBS), in 2017 with Chief of the Order of the Burning Spear first class (CBS) in recognition of his successful turnaround of the Bank and exemplary service to the nation. He is a recipient of a decoration of Chevalier de L'ordre National du Burkina Faso by the President of Burkina Faso in recognition of his outstanding contribution to development of rural finance in Africa, 2016 Lion of Judah Award by Evangelical Alliance of Kenya and Mtumishi Bora Grand Award - 2016 by the Kenya Christian Professionals Forum for his great servant leadership as a committed Christian leader in the market place. In 2018, he was awarded Best Banking CEO Kenya by International Finance.

Patrick K. Githendu - **Director (67)**

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

Weda Welton (Mrs.) - **Director, Independent (62)**

She is currently an independent Human resources consultant / Private business. She is a former Director-Human resources with the bank and retired in the year 2014 after an exceptionally decorated career with the bank spanning over 20 years. she has 35 years' experience in Human Resource Management in banking and financial sectors.

Mrs. Welton holds a Bachelor's degree in Arts from the University of Delhi, a diploma in International Law and Diplomacy and a Masters degree in Human resources management and development from Manchester University, UK. She has been a member of the Human resources committee of the Kenya Bankers Association, IPM(K) and Kenya Institute of Management.She diligently served the bank with dedication and commitment. She has also been a director of Menno Plaza Ltd. and a trustee of the bank pension scheme. Mrs. Welton notably implemented the current bank structure in liaison with Mckinsey in the year 2014 just before she left. This restructuring through the 'Soaring Eagle' Transformation Agenda has seen to the great growth in the bank performance. She is the chairperson of the board audit committee.

Lawrence Karissa - **Director, Independent (65)**

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

Julius Sitienei - **Director (66)**

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

Benedict W. Simiyu - **Director (59)**

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

Richard L. Kimanthi - Director (64)

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

Wanyambura Mwambia - Principal Secretary,National Treasury appointee (65)

He was appointed a Director on 7th August 2013, as the alternate to the Principal Secretary - National Treasury. He is the Deputy Director Economic Affairs in charge of Tax and Administration and private Sector issues and holds a BA (Hons) in Economics and Sociology from the University of Nairobi and an MA in Development Economics from Dalhousie University Canada. He has had a successful career in the Civil service for a period of over 33 years in the Ministry of Foreign Affairs and Ministry of Finance & Planning. He has brought a wealth of experience in finance and management in the public sector Government departments under the Office of the President. He is the Chairman of the Board Risk Committee.

Wilfred Ongoro, HSC - Director (65)

Joined the Board of Directors in 2006. He is an educationist with over 20 years experience and has served the co-operative movement in various positions. He is a Director of Coop holdings Co-operative Society Limited.

Margaret Karangatha (Mrs.) - Director (60)

She was appointed as a director of the Bank on 24th September, 2019. She is the Executive Director of The Lead Consortium Ltd and has over the last 25 years been consulting in Kenya and many African countries. She is an Executive Coach and mentor, and a Facilitator/ Organizational Development Consultant in disciplines such as Health Care Industry, Publishing, Engineering, Real Estate, Educational Institutions, and Floriculture among others. She has served in several boards with the current being the outgoing Board Chairman of the Navigators Economic Transformation Facility and Regional Treasurer of Scripture Union Africa. She specializes in Organizational Planning, Leadership and Human Resources Management and Finance for Finance and Non-Finance Managers. She has worked as a Management Coordinator for United Bible Societies overseeing work in over 34 Countries in Africa for 15 years and is an Associate Consultant with AMREF, CORAT and Kenya Institute of Management (KIM). Mrs. Karangatha holds a Bachelor's degree in Commerce (Accounting Option) from the University of Nairobi, a Master's degree in Business Administration (MBA, Strategic Management) from United States International University and is a Certified Public Accountant – Kenya (ICPAK). She is the Chairperson of the Board Credit Committee and Kingdom Bank Limited.

Samuel M. Kibugi - **Company Secretary (44)**

Has over 17 years experience as a lawyer and prior to joining Co-op Bank in 2008, he worked for a leading bank as a Legal Counsel. He is an Advocate of the High Court of Kenya, a member of the Institute of Certified Public Secretaries ICPS (K) and an Associate Member of the Chartered Institute of Arbitrators. As the Company Secretary of the Co-op Bank Group, he has responsibility for overall provision of legal counsel and company secretarial services, fraud prevention and investigations. He is also the Trust Secretary for the Co-operative Bank Foundation, a corporate social responsibility vehicle of the Bank.

Godfrey K. Mburia - **Director (64)**

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

Francis Ngone - **Director (66)**

Appointed Director on 27th April 2018. He has extensive knowledge and experience in the Cooperative movement and is currently the Chairman of Muranga Farmers' Co-operative Union, one of the largest co-operative unions in Kenya and the Chairman of Gatunyu Kigio Farmers Co-operative Society Limited. He is the current Chairman of Catholic Men Association in the Catholic Diocese of Muranga and the General Secretary of Catholic Men Association in Kenya. He holds a Diploma in Business Management and CPA II. He has previously worked for Cotton Board of Kenya as a Branch Manager and Kenya Post & Telecommunication as an accountant for a period spanning over 20 years cumulatively.

David Muthigani Muriuki - **Director (52)**

Joined the boards of the subsidiaries in May 2014. He is a businessman and a coffee farmer, with vast experience in farm management and coffee production. He is the Chairman of Kibirigwi Farmers

Co-op Society. He is a Director of Co-opholdings Co-operative Society Limited.

James N. Njiru - **Director (53)**

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

Scholastica Odhiambo (Mrs.) - **Director (61)**

Joined the boards of Co-optrust Investment Services Ltd in 2005 and Co-op Consultancy & Insurance Agency Ltd in 2008. She has served at the Ministry of Finance and continues to work with the Kenya Revenue Authority as a Revenue Officer, where she has served for over 32 years. She holds a Bachelor of Business Administration and a Diploma in Corporate Governance from the KCA University. She is a Director of Co-opholdings Co-operative Society Limited.

Geoffrey N. Njang'ombe - **Director (61)**

He was appointed as a Director on 2nd August 2019. He is a seasoned career civil servant and has served in various positions in public service for over 35 years notably as a District Auditor, Deputy Director of Audit, and Senior Deputy Commissioner for Co-operatives and is currently serving as Acting Commissioner for Co-operative Development.

He is also a serving Board member of Institute of Certified Public Secretaries and a Commissioner of Ethics Commission for Co-operative Societies (ECCOS). He has conducted several special audits, investigations, inquiries, compliance audits and liquidations of co-operative societies. He has participated in formulation of Key Policy Documents and Legislation Review Teams. Mr. Njang'ombe holds a Bachelors of Commerce from the University of Jalbul (India) and a Master in Business Administration (Strategic Management) from Kenyatta University.

Geoffrey M'Nairobi - **Director (65)**

Appointed Director on 27th April 2018. He has extensive knowledge and experience in the Co-operative movement and is currently the General Manager of Meru South Farmers' Co-operative Union Limited, one of the largest co-operative unions in Kenya, with over 31 years' experience. He is also a member of the Board of Management of Muthambi Girls High School and Chief Mbogori Girls High School. He has attended various local and international courses on Co-operatives with emphasis on dairy and coffee management sectors. He has a Diploma in Senior Co-operative Management.

Michael M. Muthigani - **Director (51)**

Mr. Michael Muriithi was appointed a Director on 26th April 2019. He has extensive knowledge and experience in finance and accounting matters and has held various senior positions with Kenya Accountants and Secretaries National Examination Board (KASNEB) since 1994; notably Revenue Officer, Account Assistant, Accountant and is currently the Senior Accountant. He has also diligently served in the KASNEB Sacco in various capacities including as a Treasurer for 8 years.

Mr. Muriithi is currently pursuing a bachelor's degree at Moi University School of Business and is a Certified Public Accountant. Mr. Muriithi is the current Vice Secretary of Saints Peter and Paul Catholic Church, Kiambu Town and a member of the Parish Pastoral Committee.

William Mayar Wol - **Chairman (58)**

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

Elijah Wamalwa - **Managing Director (47)**

He has 20 years banking experience and is one of the pioneers of Co-operative Bank of South Sudan where he worked from 2013 as Head of Credit & Risk Management, in 2015 as Head of Retail and Operations before being appointed Managing Director in 2017. He has served in various other capacities at the Co-operative Bank of Kenya as a Portfolio Manager, Head of Credit Administration and later as Head of Credit-Core Banking Implementation Team. He holds a Master Of Science Degree in Governance attained at International Leadership University (Kenya) and a Bachelor of Arts Degree from Egerton University (Kenya). He has additional qualifications in accounting and project management.

Prof. Mathew Gordon Udo - **Director (62)**

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

Hon. Ocum Genes Karlos - **Director (63)**

He was appointed director of Co-op Bank of South Sudan on 8th November, 2018. He is a South Sudan citizen and is currently Under Secretary for Planning in the Ministry of Finance & Economic Planning. He is a seasoned finance and planning technocrat with a decorated service on financial matters in South Sudan. He also has a vast international exposure having worked for over 12 years with various United Nations Agencies such as United Nations World Food Programme, United Nations Development Programme and Care International in Sudan. He is a holder of Bachelor of Science (B.Sc.) in Management from the University of Juba and a Master of Science, Qualifying Certificate in Business Administration from the University of Khartoum.

Rosemary M. Githaiga, (Mrs.) - **Director (57)**

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

Group Managing Director & CEO Statement

Shareholders,
I am pleased to present to you the Bank's performance for the year 2020 and I thank God for keeping you safe. I thank all our stakeholders for being extremely supportive during the difficult environment brought about by the ongoing Covid_19 pandemic. This has enabled us to continue registering growth and resilience in various sectors. The Bank has also supported customers and worked closely with staff and other stakeholders to ensure uninterrupted financial services in all our channels.
We continue to attract recognition both locally and globally for our impact in fostering growth, reducing poverty and improving financial inclusion and shared prosperity in Kenya. The bank was honoured as the Best Bank in Kenya during the 2020 Banker Awards by the Financial Times of London and The Best Bank in Kenya by the EMEA African Banking Awards 2020. Our Energy manager was awarded Energy Manager of the Year Sub-Saharan Africa Region for outstanding accomplishment in promoting the practices, principles of energy management and for superior service to the Association of Energy Engineers.

Operating Environment
The operating environment was a difficult one due to the ongoing Covid_19 pandemic and the resultant socio-economic disruptions. The period has been marked by rising non-performing loans as businesses and households struggle to repay the facilities advanced to them.
It was an environment that called for Banks to create value by growing in the sectors that were least impacted, to protect value by being resilient in terms of risk management including supporting customers in struggling sectors and to be fast and adaptable in the new environment. The Bank continues to adapt to the new normal, lending to growing sectors, supporting struggling customers and offering uninterrupted everyday transactions especially through alternative channels.
Cyber risk continues to be a key concern especially as transactions and engagements go online hence as a Bank, we have proactive strategies to safeguard our stakeholders.

The industry continues to be highly competitive and we have responded to this by ensuring customer centricity in all the solutions that we offer.
The operating environment in South Sudan was marked by hyperinflation which led to the Bank absorbing monetary losses occasioned by currency devaluation of the South Sudanese pound.

Performance Overview
For the financial year ended 31 December 2020 we saw growth in our balance sheet to Kshs. 537 Billion making us the third largest Bank in Kenya. Loans and advances grew by 7.5% to Kes.286.6 from 266.7 Billion in 2019. Customer deposits grew by Kes.45.8 Billion (14% growth) to Kes.378.6 Billion enabling us to fund the increased uptake of advances especially in E-credit while maintaining sufficient liquidity levels throughout.

The Group's operating income grew by 11.1% to Kes.53.8 Billion from Kes.48.5 Billion the previous year. This was mainly due to a 16.1% growth in Net interest income from Kes.31.3 Billion in 2019 to Kes.36.3 Billion in the year 2020. Non-interest income, however, grew marginally by 2% as a result of fee waivers we implemented to offer relief to our customers during the height of the pandemic. Operating expenses grew by 41.7% mainly driven by a 220% increase in loan loss provision to Kshs. 8.1 Billion from Kshs. 2.5 Billion in 2019 in appreciation of the loan servicing challenges that businesses and households are grappling with from the disruption occasioned by the ongoing pandemic. The other key driver was the Kshs. 1.66 Billion monetary loss emanating from our operations in South Sudan.

Profit Before Tax was Kshs.14.3 Billion for the financial year 2020 compared to Kshs.20.7 Billion recorded in 2019, and a Profit after tax of Kshs 10.8 Billion compared to Kshs 14.3 Billion in 2019, a 24 per cent reduction on account of increased Covid19-related loan loss provisions and the absorption of currency translation losses in our South Sudan operation.

Strategic Focus:
We have a vibrant Corporate Strategic Plan 2020-2024 that continues to guide us as we pursue the achievement of our Vision and Purpose. We continue the implementation of this plan which I must say the focus therein was quite timely in light of the ongoing Covid_19 pandemic. Our strategic focus has continued to be anchored on us being a growing, agile, resilient transformational Bank. The focus also continues to guide our response to the competitive environment within which we operate and secures the value we have created over time from the existing and emerging risks. The banking industry's financial performance continues to be underlined by a delicate balance between asset growth amidst risk-return trade-offs, cost management and efficiency.

Enterprise Risk Management and Compliance continued to be a strategic focus area as the Bank sought to pro actively respond to the various risks that existed and those that were emerging. In 2020 most regulatory initiatives were geared towards providing relief to borrowers affected by the pandemic and transmission of stimulus measures to support the economy. The bank was proactive in adopting and implementing the emergency measures recommended by the Central Bank. These measures were aimed at mitigating the adverse impact of COVID-19 pandemic on businesses and households struggling to service their debts and also to minimize the cost of transacting on our digital channels to support ministry of health guidelines to reduce travel and in-person visits to our branches and also minimize cash handling.

We carried out a risk assessment which was approved by the Board Risk Committee and submitted to the Central Bank. We also did a sensitivity analysis of Covid-19 impact on our operations and reviewed our ICAAP strategy and requirements to ensure we continued to operate on a strong foundation. These reviews were all shared with our regulators.

We work closely with our regulators to ensure compliance on key issues such as the AML/KYC. We continued with our efforts to sensitize our staff on AML/CFT issues which continues to be a global concern and compliance minefield for financial institutions. All bank staff were sensitized through several core briefs and team talks on AML/CFT during the year. Over 2,480 staff from high risk areas were given in-depth training through teleconference on AML/KYC to keep them on high alert. Our e-learning content was reviewed and updated with common and emerging AML/CTF issues.

To pro actively manage credit risk, which was heightened by the effects of the Pandemic, the Bank restructured loans worth Kshs. 49 Billion. We also support our customers in the MSME segment through sourcing for funds from our long-term funding partners that would ease their financing. We are pursuing several initiatives to ensure that we pro actively manage our credit risk. The first one is The Credit Adaptation Project, dubbed 'Project Kilele'. The objectives of the project are:

i. End-to-end assessment of credit risk management practices.
ii. Strengthen portfolio assessment and risk frameworks, and
iii. Enhance collections.

The project is now at the implementation phase with the quick wins being realized in the underwriting process with improved turnaround time in our lending operations, monitoring based on our new Early Warning System and Collections with Client Level Action plans.
The second initiative is the Decentralization of Loan Portfolio Management, enabling Project 3C. In August, the Bank approved the decentralization of the loan portfolio management to the Branches, Lending Units and Relationship Management / Officers with the aim of enhancing collection activities. The project 3C (Connect, Collect, Cure) entails proactive management of the Credit book re-assigned from Remedial Credit to Branches & Business Segments.

The Bank successfully implemented the Business Continuity Plan as laid out in our risk management framework that saw us enable our staff to work from home. The heavy investment we have made in digital enabled us to continue offering our customers uninterrupted services. 92% of transactions were done in our alternative banking channels, which saw our mobile banking transactions grow by 94%.

We continued deepening our dominance in the Kenyan Market through growth in the various sectors of the economy that are growing. The Market share for key business segments, product houses and Channels maintained a positive outlook.
The Bank continues to be a Dominant provider of financial services to the Co-operative Movement in Kenya and the region. The Implementation of the Digital strategy for Cooperatives is on track to ensure that we provide innovative solutions to the Co-operatives which are a key economic growth contributor.

We continue to offer Customer experience that is seamless across all our touch points, being cognizant that it is a key differentiator in an industry where products and services are similar across various players. We continue to implement key customer journey digitization to meet customer expectations. Over 2900 Staff members underwent training virtually and at our Leadership and management Centre on Distinctive Customer Experience. We sustained our focus on customer centricity in our business model.
Operating efficiency driven by digitization, innovative products & processes, efficient business models, and staff productivity was another strategic focus area. Digitization is progressing as per the roadmap with key digitization projects being the omni channel and the Core Banking Upgrade Project that will see us offer more innovative, efficient and customer centric solutions. Our systems and channels maintained an average service availability and Uptime of 98.72%. We successfully supported 92% of our transactions to be performed on digital channels. E- Credit, a key digital lending product, continued to shine with disbursement of Kshs. 58.5B in 2020. Staff productivity in the work-from-home model was sustained with 93% of staff meeting the expectations. Corporate Wellness plan for 2020 key focus was on Covid-19 initiatives to inform our staff and to enable them to cope with the effects of the Pandemic.

Our focus on sustainability is anchored on balancing social, economic and environmental risks and opportunities through the deliberate use of our products and services, collaboration and partnership, and by managing our own impact. The Bank has been recognized as the most sustainable financial institution by Kenya Bankers Association for practicing sustainable finance which has a direct positive impact on the financial sector, the economy, the environment and the society at large.

To spur economic growth, we have secured long term funds from our long-term funding partners;

- USD 10 Million in partnership with Eco. Business Fund to finance sustainable agriculture.
- USD 75 Million in partnership with IFC to support customers to better cope with the disruptions brought about by the pandemic, especially those operating in the Micro small and medium enterprises (MSMEs), Businesses undertaking Climate-Smart Projects, including agricultural inputs and sustainable agricultural practices, renewable energy, energy efficiency and related areas.
- We have partnered with IFC and Philips (a leading health technology company) to help smaller businesses in Africa's health sector purchase essential medical equipment and strengthen their response to COVID-19 and other pressing healthcare challenges. The partnership is the first under the IFC -Led Africa Medical Equipment facility designed to provide risk sharing facilities to help small businesses upto 300 million Dollars in loans and leases

Our Transformation Journey:
We embarked on our transformation journey in 2014. Critical areas of focus were and still remain: Enhanced Operational Efficiency through digitization and analytics, Frontline Productivity and Sales-Force Effectiveness, Improved Cost management (CIR), NPL and credit processes improvement and Enhanced Performance Management. Now, with the benefit of hindsight, covid-19 realities have strengthened our commitment and belief that we are on the right track.

We will continue to invest in innovation to drive growth. We seek to actively drive innovation, especially around alternative channels, data analytics and business intelligence, to accelerate growth and retain our market leadership.

In 2018, we launched our Micro Small and Medium Enterprises (MSME) Proposition which has led us to become a leading MSME Bank with major improvements notably in customer experience, business growth, efficient and faster lending process. Through our E-Credit Platform, we disbursed Kshs.58.5 Billion in the year 2020. Through our Non-financial training services, we have equipped over 10,750 customers with financials and management skills. Over 116,000 MSMEs have on boarded on our packages (Gold, Silver, Bronze). These are bands designed based on business turnover for customized products and services. Our supply chain financing has gained traction with 91 Anchors and 512 counter parties on boarded.

This is why we are still on the transformation agenda; to maintain our agility in realigning our model to quickly respond to market needs and also, entrenching the gains we've so far realized.

Stakeholder Support in a Pandemic Period

We support our key stakeholders and therefore support socio-economic sustainability through this tough period as we are cognizant of the significant impact we generate being one of the largest financial institutions in the region. Key stakeholder support includes;

- Actively engaging our customers to support them through this period by re-aligning the servicing of facilities, funding and transactional needs as the situation unfolds. A total of Kshs. 49 Billion in loans have been restructured to support customers impacted by the pandemic. Our loan loss provisions went up by 220% from Kshs. 2.54Billion in 2019 to Kshs. 8.1 Billion, in appreciation of the challenges that businesses and households are grappling with.

- Fortification of our digital channels to support uninterrupted contactless access to banking services by customers; over 92% of our services are now on alternative banking channels, our mobile transactions have grown by 94% in one year and Kshs. 4.9Billion is disbursed per month through our innovative e-credit solution.

- Increased digitization of internal bank processes and engagement platforms, to build contactless capabilities for both customers and staff.

- Adoption of a work-from-home model for the safety and wellness of bank teams and ensuring safe spaces for staff who continue to serve in physical touchpoints.

- Robust engagement with regulators to ensure full compliance and support. This includes compliance to Ministry of Health guidelines, Government of Kenya directives, Occupational Safety & Health Policy in line with the OSH Act. (OSHA), Central Bank of Kenya guidelines, The Kenya Centre for Disease Control and Prevention (the "CDC") guidelines and World Health Organization guidelines. The Bank was the first to respond to the Private sector led Covid_19 task force donating Ksh. 100 Million towards critical medical supplies and equipment such as ventilators.

- We have proposed a Kshs. 5.8B Dividend which is a critical support/income to the 15-million-member Co-operative Movement that predominantly owns the Bank

Kingdom Bank Limited

We finalized the acquisition of Jamii Bora Bank in August 2020. The Bank was subsequently renamed Kingdom Bank Ltd and is a fully-fledged Commercial Bank, licensed and regulated by the Central Bank of Kenya, with over 444,000 customers in 17 branches.
The acquisition offers us the opportunity to cross-sell and deepen product offering to the enhanced customer base and create a niche bank to offer specialized credit offerings that include MSME Banking, Microfinance, Youth & Women Banking, Asset Finance and Leasing.
The subsidiary reported a loss of Kshs.124 Million for the year 2020 and is expected to turn around its performance in 2021. This was commendable performance given that the Subsidiary had returned a loss of Kshs. 1.24 Billion in 2019.

Outlook

The Co-operative Bank Group has put in place a proactive mitigation strategy anchored on a strong enterprise risk management framework, to enable uninterrupted access to banking services. We shall, riding on the unique synergies in the over 15 million-member co-operative movement that is the largest in Africa and a customer base of 8.8 Million, continue to pursue strategic initiatives that focus on resilience and growth in the 'New Normal' as the Nation focuses on nationwide Covid-19 containment programs and as vibrancy returns to the Economy.

Acknowledgement

On behalf of the entire Co-operative Bank Group, I extend my sincere appreciation to all our shareholders and customers for their unwavering loyalty and confidence in us. I also would like to most sincerely thank the Board of directors for their commitment and guidance in running the affairs of the bank. Special thanks to the entire Co-op Bank Team for their steadfast commitment to duty and dedication to serve that continues to make the bank a leading financial services provider in the region. Last but not least, I thank all our other stakeholders for making 2020 another year of inspiration and progress, and I look forward to continuing our partnership and joint success in 2021 and beyond.

Thank you and May God richly bless you.

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

Taarifa ya Mkurugenzi Mkuu na Afisa Mkuu Mtendaji wa Kundi

Wapendwa Wamilikihisa,
Nina furaha kuwasilisha kwenu matokeo ya Benki hii katika kipindi cha mwaka wa 2020 na nashukuru Mungu kwa kuwaweka katika hali salama. Nawashukuru wadau wetu wote kwa kutusaidia pakubwa wakati huu wa mazingira magumu yaliyoletwa na janga linaloendelea la Covid_19. Hii imetuwezesha kuendelea kushuhudia ukuaji na uthabiti katika sekta mbali mbali. Benki hii pia imesaidia wateja na kushirikiana kwa karibu na wafanyikazi na wadau wengine ili kuhakikisha huduma za kifedha zinapatikana bila kukatizwa katika njia zetu zote za utoaji huduma hizo.
Tunaendelea kuvutia kutambulika humu nchini na hata kimataifa kwa mchango wetu katika kukuza ukuaji, kupunguza umaskini na kuboresha ujumuishaji wa kifedha na ustawi wa pamoja nchini Kenya. Benki hii ilipata heshima ya kutajwa kuwa Benki Bora Zaidi nchini Kenya wakati wa Tuzo za Benki za 2020 na Financial Times ya London na Benki Bora zaidi nchini Kenya katika tuzoza za EMEA African Banking Awards 2020. Meneja wetu wa Nishati alipewa tuzo ya Meneja wa Nishati wa Mwaka Kanda ya Kusini mwa Jangwa la Sahara kwa mafanikio bora katika kukuza mazoea, kanuni za usimamizi wa nishati na huduma bora kwa Chama cha Ushirikiano wa Wahandisi wa Nishati. Mnamo Mei 2020, benki hii pia iliongezwa katika Kielelezo cha MSCI chini ya Frontiers Small Index, hii ikiongeza kutambulika kwa Benki hii katika Soko la Kimataifa.

Mazingira ya Utendaji Shughuli
Mazingira ya utendaji shuguli zetu yalikuwa magumu kutokana na janga linaloendelea la Covid_19 na kusababisha kwake usumbufu wa kijamii na kiuchumi. Kipindi hiki kimekuwa na changamoto kubwa ya madeni yasiolipwa wakati ambapo biashara na pia watu binafsi wakipambana kulipa mikopo waliochukua.
Yalikuwa mazingira yaliyohitaji Benki zote kubuni thamani kwa kujitahidi kukuwa katika sekta zilizoathirika kidogo, ili kulinda thamani kwa kuwa wakakamavu katika usimamizi wa dhima ikiwa ni pamoja na kuwasaidia wateja walio katika sekta zilizoathirika na kuwa na uwezowa kuchukuana kwa haraka na mazingira haya mapya. Benki inaendelea kuzoea hali mpya ya kawaida iliyoko,

kutoa mikopo kwa sekta zinazokua, kusaidia wateja wanaojitahidi na kutoa huduma za kila siku bila kukatizwa haswa kupitia njia mbadala.
Tishio la ulaghai mtandaoni linaendelea kuwa tatizo kubwa haswa kwa vile shughuli za kibenki na mawasiliano mengi yameenda mtandaoni, hivyo basi kama Benki, tumejitolea kipaumbele na kuweka mikakati thabiti ya kulinda wadau wetu.
Tasnia hii inaendelea kuwa na ushindani mkubwa na tunashughulikia hilikuhakikisha umakini wetu unaangazia wateja katika huduma zote tunazotoa.
Mazingira ya utendakazi nchini Sudan Kusini yalipatwa na chanagamoto ya mfumko wa bei uliosababisha Benki kuridhia kuhimili hasara ya pesa iliyoletwa na kushuka kwa thamani ya sarafu ya pauniya Sudan Kusini.

Muhtasari wa Utendaji
Katika mwaka wa kifedha unaomalizikia tarehe 31 Disemba 2020 tulishuhudia ukuaji katika mizania yetu ya hesabu hadi Kshs. Bilioni 537 na hii kutufanya kuwa Benki ya tatu kubwa zaidi hapa Kenya. Mikopo ilikuwa kwa kima cha 7.5% hadi Kes. Bilioni 286.6 from Bilioni 266.7 katika 2019. Pesa zilizopokewa kutoka wateja ziliongezekakwa Kes.Bilioni 45.8 (Ukuaji wa 14%) hadi Kes. Bilioni 378.6 hii ikituwezwsha sisi kufadhili uchukuaji wa mikopo hasa kupitia kitengo cha mkopo wa kimtandao (E-credit) huku tukidumisha viwango maridhawa vya ukwasi muda wote.

Mapato ya uendeshaji wa shughuli za Kundi yaliimarika kwa 11.1% hadi Kes. Bilioni 53.8 kutoka Kes.Bilioni 48.5 za mwaka uliopita. Hii ilitokana zaidi na ukuaji wa 16.1% wa mapato ya riba kutoka Kes. Bilioni 31.3 katika 2019 hadi Kes.Bilioni 36.3 katika mwaka wa 2020. Mapato yasiyo ya riba, hata hivyo, yalikua kwa kiasi kidogo cha 2% kutokana na utekelezaji wa msamaha wa kutolipa ada kwa wateja wetu ili kuwapata afueni wanapopitia makali ya janga hili. Gharama za uendeshaji biashara zilikua kwa 41.7% haswa zikiongozwa na ongezeko kwa kiasi cha 220% za kufidia kupotea kwa malipo ya mkopo kufikia Kshs. Bilioni 8.1 kutoka Kshs. Bilioni 2.5 mnamo 2019 kuthamini changamoto za huduma za mkopo ambazo wafanyabiashara na watu binfasi wanakabiliwa nazo kutokana na usumbufu wa janga linaloendelea. Kichocheo kingine kikubwa ikiwa ni hasara ya fedha Kshs. bilioni 1.66 iliyotokana na shughuli zetu nchini Sudan Kusini.

Faida kabla ya kulipa Ushuru ilikuwa Kshs.Bilioni 14.3 Billion katika mwaka wa kifedha wa 2020 ikilinganishwa na Kshs. Bilioni 20.7 Billion zilizirekodiwa katika 2019, na faida baada ya kulipa ushuru ya Kshs Bilioni 10.8 ikilinganishwa na Kshs Bilioni 14.3 katika 2019, kupungua kwa asilimia 24 kutokana na kuongezeka kwa hasara za mikopo zinazohusishwa na gonjwa tandavu la Covid-19 na hasara tuliyopata katika biashara yetu kule Sudan Kusini iliyosababishwa na kushuka thamani ya sarafu.

Kuzingatia Mkakati
Shirika hili liko na Mkakati maahiri wa 2020-2024 ambao unaendelea kutuongoza tunapofuatilia kufanikiwa kufikia Dira na Kusudi letu. Tunaendelea na utekelezaji wa mpango huu ambao ni lazima nitaje kuwa dhamira yake ilijiri katika wakati muafaka tunapozingatia kuwepo kwa janga linaloendelea la Covid_19. Mtazamo wetu wa kimkakati umeendelea kutilia mkazo katika kuwa Benki inayozidi kukua, yenye wepesi, na yenye unyumbufu wa kubadilika inapohitajika. Mtazamo wetu pia unaendelea kuongoza itikio letu kwa azingira ya ushindani ambamo tunaendesha kazi na kuhifadhi dhamana tuliyounda kwa sasa licha ya kuwepo mashaka na hatari zinazojitokeza. Utendaji wa kifedha wa tasnia ya benki unaendelea kutiliwa mkazo kukiwa na udhaifu baina ya ukuaji wa rasilimali na mashaka ya kutorudisha faida, udhibiti wa gharama na ufanisi. Usimamizi na Utekelezaji wa Dhima ya Biashara uliendelea kuwa eneo la kuzingatia kimkakati wakati Benki ilitaka kushugulikia kwa bidii mashaka kadhaa yaliokuwepo na yale ambayo yalioibuka.

Katika 2020 harakati nyingi za udhibiti zilidhamiriwa kutoa afueni kwa wakopaji walioathiriwa na janga na vigezo vilivyopitishwa kama kichocheo cha kusaidia uchumi kuinuka. Benki hii ilikuwa mstari wa mbele katika kukubali na kutekeleza hatua za dharura zilizopendekezwa na benki kuu. Hatua hizi zililenga kupunguza athari mbaya za janga la COVID-19 kwa wafanyabiashara na jamii zinazojitahidi

kulipa deni zao na pia kupunguza gharama ya kufanya miamala kwenye njia zetu za kidijitali, hili kusaidia muongozo wa wizara ya afya wa kupunguza wateja wanaokuja katika matawi yetu na pia kupunguza utumiaji wa pesa taslimu.

Tulifanya tathmni ya dhima ambayo iliidhinishwa na Kamati ya Bodi ya Dhima na kutumwa kwa Benki Kuu ya Kenya. Tulifanya pia uchambuzi wa kina juu ya athari za Covid-19 kwenye shughuli zetu na kukagua mkakati na mahitaji yetu ya ICAAP ili kuhakikisha tunaendelea kufanya kazi kwa msingi thabiti. Tathmini hizi zote ziliwasilishwa kwa wadhibiti kanuni wetu.

Tunafanya kazi kwa ushirikiano wa karibu na wadhibiti kanuni wetu ili kuhakikisha tunafuata maswala muhimu kama vile AML / KYC. Tuliendelea na juhudi zetu za kuhamasisha wafanyikazi wetu juu ya maswala ya AML / CFT ambayo yanaendelea kuwa muhimu ulimwenguni kote na shina kubwa la ufuataji vigezo kwa taasisi za kifedha. Wafanyikazi wote wa benki walihamasishwa kupitia maelezo ya kimsingi na mazungumzo ya timu juu ya AML / CFT katika kipindi cha mwaka tunaoangazia. Zaidi ya wafanyikazi 2,480 kutoka maeneo yenye hatari kubwa walipewa mafunzo ya kina kupitia mikutano ya simu juu ya AML / KYC ili kuwaweka katika hali ya tahadhari. Maudhui yaliyomo kwenye mafunzo yetu ya kupitia kimtandao (e-learning) yalitathminiwa na kusasishwa ili kuchukuana na maswala ya kawaida na yanayoibuka ya AML / CTF.

Ili kudhibiti dhima ya mkopo, ambayo iliongezeka kutokana na athari za Janga, Benki ilirekebisha malipo ya mikopo yenye thamani ya Kshs. Bilioni 49. Vile vile tunawasaidia wateja wetu wa kitengo cha MSME kupitia kutafuta fedha kutoka kwa wafadhili wetu wa muda mrefu, ambayo inapunguza mzigo wa ufadhili. Tunafuatilia mipango kadhaa ili kuhakikisha kuwa sisi husimamia hatari yetu ya mkopo. Ya kwanza ni Mradi wa Kubadilisha Mikopo, uliopewa jina la 'Mradi Kilele'. Malengo ya mradi huu ni:

i)Tathmini ya mwisho hadi mwisho ya mazoea ya kudhibiti dhima.
ii)Kuimarisha tathmini ya mikopo na mifumo ya dhima, na
iii) Kuongeza makusanyo.

Mradi huu sasa uko katika kipindi cha utekelezaji na mafanikio ya haraka yameanza kushamiri katika mchakato wa kupeana mikopona huku urudishaji natija ukiboreshwa katika shughuli zetu za kukopesha, ufuatiliaji kulingana na Mfumo wetu mpya wa Onyo la Mapema na Makusanyo na mipango ya Hatua ya Wateja. Mpango wa pili ni Ugawanyaji wa Usimamizi wa Itifaki ya Mikopo, unaowezesha Mradi 3C. Mnamo Agosti, Benki iliidhinisha ugawanyaji wa usimamizi wa itifaki ya mkopo kwa Matawi, Vitengo vya Kukopesha na Usimamizi wa Uhusiano / Maafisa, inayodhamiria kuimarisha shughuli za ukusanyaji. Mradi wa 3C (Unganisha, Kusanya, Suluhisha) unajumuisha usimamizi thabiti wa daftari la Mikopo kuwekewa upya kutoka kwa Mkopo wa Marekebisho kwa Matawi na Vitengo vya Biashara.

Benki ilifanikiwa kutekeleza Mpango wa Kuendelea na Biashara kama ilivyoainishwa katika mfumo wetu wa kudhibiti dhima ambao ulitupa fursa ya kuwawezesha wafanyikazi wetu kufanya kazi wakiwa nyumbani. Uwekezaji mkubwa ambao tumefanya katika dijitali umetuwezesha kuendelea kutoa huduma kwa wateja wetu bila kukatizwa. Miamala asilimia 92 ilifanywa katika njia zetu mbadala za benki, ambayo ilifanya shughuli zetu za benki kupitia rununu kuongezeka kwa asilimia 94.

Tuliendelea kuzidisha uwepo wetu katika Soko la Kenya kupitia ukuaji katika sekta mbali mbali za uchumi ambazo zinakua. Fungu letu kwenye Soko katika vitengo muhimu vya biashara, Vituo na njia mbadala, linahifadhi mtazamo mzuri.

Benki inaendelea kuwa mtoaji Mkuu wa huduma za kifedha kwa Mfumo wa Ushirika nchini Kenya na katika eneo hili. Utekelezaji wa mkakati wa Dijitali kwa Vyama vya Ushirika unaendelea vyema ili kuhakikisha kwamba tunatoa suluhisho bunifu kwa Vyama vya Ushirika ambavyo huchangia pakubwa katika ukuaji wa uchumi.

Tunazidi kutoa huduma kabambe kwa Wateja wetu bila shida katika sehemu zetu zote tunakojumuika nao, tukifahamu vyema kuwa utofautishaji ni kigezo muhimu katika tasnia hii ambayo bidhaa na huduma zake zinafanana kwa wahusika anuwai. Tunaendelea kutekeleza nyenzo muhimu za kidijitali ili kukidhi haja na matarijio ya wateja wetu. Zaidi ya wafanyikazi 2900 wamepitia mafunzo kupitia mtandao na pia katika Kituo chetu cha Uongozi na usimamizi juu ya njia za kutoa Huduma stahilifu kwa Wateja. Tulidumisha umakini wetu wa kuzingatia wateja katika mtindo wetu wa biashara.

Ufanisi wa uendeshaji unaosababishwa na mfumo wa dijitali, mchakato wa ubunifu wa bidhaa, mifano bora ya biashara, na tija ya wafanyikazi lilikuwa eneo lingine muhimu la mkakati. Matumizi ya njia za kidijitali yanaendelea kulingana na mipango iliyowekwa na miradi muhimu ni kama vile 'omni channel' na Mradi wa kimsingi tunaotekeleza ili kuboresha Benki ambao utatuwezesha kutoa suluhisho za ubunifu zaidi, bora, na za kuzingatia matakwa ya wateja. Mifumo na njia zetu zilidumisha upatikanaji wa wastani wa huduma na muda wa kilele wa 98.72%. Tumefanikisha 92% ya miamala yetu kutekelezwa kwenye njia za kidijitali. Mkopo wa kupitia mtandao (E-Credit), huduma muhimu ya kukopesha kidijitali, iliendelea kufanikiwa mno kukiwa na mikopo ya Kshs. Bilioni 58.5 katika 2020. Uzalishaji wa wafanyikazi katika mfumo wa kutekeleza kazi-kutoka nyumbani ulidumishwa kukiwa na 93% ya wafanyikazi wakikidhi matarajio. Mpango wa Ustawi wa Kampuni kwa lengo kuu la 2020 ulizingatia mipango ya Covid- 19 ya kuwaarifu wafanyikazi wetu na kuwawezesha kukabiliana na athari za Janga hili.

Mtazamo wetu juu ya uendelevu umejikita kwenye kusawazisha fursa na mashaka ya kijamii, kiuchumi na mazingira, na kufuatilia kupitia matumizi ya bidhaa na huduma zetu, makubaliano na ushirikiano, na kwa kudhibiti athari zetu wenyewe. Benki hii imetambuliwa kama taasisi endelevu zaidi ya kifedha na Chama cha Benki za Kenya (KBA) kwa kutekeleza shughuli za kifedha endelevu ambazo zina athari ya moja kwa moja kwa sekta ya fedha, uchumi, mazingira na jamii kwa ujumla.

Ili kuchochea ukuaji wa uchumi, tumepata ufadhili wa fedha wa muda mrefu kutoka kwa wafadhili washirika wetu wa muda mrefu;

- USD Milioni 10 kwa ushirikiano na Eco Business Fund kufadhili uendelevu katika sekta ya kilimo.
- USD Milioni 75 ukiwa ni ushirikiano na IFC kusaidia wateja kukabiliana vyema na hali tata iliyosababishwa na janga la Covid-19, hasa kwa wale wanaoendesha shughuli zao kama wafanyibiashara wadogo na wa kati (MSMEs), Biasahara za miradi inayozingatia mabadiliko ya hali ya hewa, pamoja na pembejeo za kilimo na mazoea endelevu ya kilimo, nishati mbadala, ufanisi wa nishati na maeneo yanayohusiana.
- Tumeshirikiana na IFC na Philips (kampuni inayoongoza ya teknolojia ya afya) kusaidia wafanyabiashara wadogo katika sekta ya afya ya Afrika kununua vifaa muhimu vya matibabu na kuimarisha shughuli zao dhidi ya COVID-19 pamoja na

changamoto zingine za huduma za afya. Ushirikiano huo ni wa kwanza chini ya mfumo unaoongozwa na IFC , Vifaa vya matibabu Afrika, uliyoundwa kutoa ugavi wa hatari ili kusaidia biashara ndogo ndogo hadi Dola milioni 300 katika mikopo na ukodishaji.

Safari yetu ya Mabadailiko

Tulianza safari yetu ya mabadiliko katika mwaka wa 2014. Maeneo muhimu ya kuzingatiwa yalikuwa na bado yanabaki kuwa: Ufanisi wa Uendeshaji ulioboreshwa kupitia matumizi wa dijitali na uchambuzi, Uzalishaji wa wafanyikazi na Ufanisi wa Kikosi cha Mauzo, Usimamizi bora wa Gharama (CIR), mikopo isiyolipwa na uboreshaji wa michakato ya mkopo na Usimamizi bora wa Utendaji. Sasa, kukiwa na faida ya mtazamo wa nyuma, hali halisi ya covid-19 imeimarisha kujitolea kwetu na ithibati yetu kuwa tuko katika njia iliyo sahihi. Tutaendelea kuwekeza katika uvumbuzi kwa madhumuni ya kukuza ukuaji. Tunadhamiria kusisitiza ubunifu, haswa katika njia mbadala, uchambuzi wa data na umaahiri wa biashara, ili kuharakisha ukuaji na kuhifadhi uongozi wetu katika soko.

Mnamo mwaka wa 2018, tulizindua Pendekezo letu la Biashara ndogo Ndogo na za Kati (MSME) ambayo imetuwezesha kuwa Benki inayoongoza ya MSME kukiwa na maboresho makubwa haswa katika huduma nzuri kwa wateja, ukuaji wa biashara, mchakato mzuri na haraka wa utoaji mikopo. Kupitia Jukwaa letu la Mikopo ya Kimtandao (E-Credit), tulikopesha Kshs.Bilioni 58.5 katika mwaka wa 2020. Kupitia huduma zetu za mafunzo yasiyo ya kifedha, tumewahami wateja zaidi ya 10,750 na ujuzi waridhawa wa kifedha na usimamizi. Zaidi ya MSME 116,000 zimeingia kwenye vifurushi vyetu vya huduma (Dhahabu, Fedha, Shaba). Hizi ni nyenzo zilizoundwa kulingana na mauzo ya biashara kwa bidhaa na huduma zilizoboreshwa. Ufadhili wetu wa ugavi zumepata nguvu kupitia kuingia kwa wananganga 91 na wenza 512 katika mfumo huu. Hii ndio maana bado tuko kwenye ajenda ya mabadiliko; kudumisha unyumbufu wetu katika kurekebisha muundo wetu ili kukithi kwa haraka mahitaji ya soko na pia, kukazia faida ambazo tayari tumegundua hadi sasa.

Msaada wa wadau katika kipindi cha janga

Tunaunga mkono washikadau wetu muhimu na kwa hivyo tunaunga mkono kuimarika kwa hali ya kijamii na kiuchumi tunapopitia kipindi hiki kigumu, kwani tunatambua athari yetu ni kubwa kutokana na kuwa moja ya taasisi kubwa za kifedha katika kanda hii. Msaada muhimu wa wadau ni pamoja na;

- Kuhimiza ushirika wa wateja wetu ili kuwasaidia katika kipindi hiki kwa kurekebisha huduma, vifaa na mahitaji ya shughuli wakati hali hii inavyoendelea. Jumla ya Kshs. Bilioni 49 ya mikopo ilirekebiswa upya kusaidia wateja walioathiriwa na janga hili. Kiwango chetu kilichowekwa kufidia upotezaji wa mkopo kiliongezeka kwa 220% kutoka Kshs. Bilioni 2.54 mwaka wa 2019 hadi Kshs. Bilioni 8.1, kutilia maanani changamoto ambazo wafanyabiashara na jamii wanapambana nazo.
- Uimarishaji wa njia zetu za dijitali kusaidia ufikiaji wa huduma za kibenki bila kukatizwa, na wateja; zaidi ya 92% ya huduma zetu sasa ziko kwenye njia mbadala, miamala ya rununu imeimarika kwa 94% katika kipindi cha mwaka mmoja na Kshs. Bilioni 4.9 hukopeshwa kila mwezi kupitia suluhisho hili letu bunifu la mkopo.
- Kuongeza utumaiji mchakato wa dijitali ya ndani ya benki na programu husika, ili kujenga uwezo wa mawasiliano kwa wateja na wafanyikazi.
- Kupitishwa kwa mtindo wa kufanya kazi kutoka nyumbani kwa kujali usalama na ustawi wa wafanyikazi wa benki na kuhakikisha kuna nafasi salama kwa wafanyikazi ambao wanaendelea kutumikia katika vituo vya kukutana ana kwa ana.
- Ushirikiano thabiti na wadhibiti kanuni wetu ili kuhakikisha ufuataji kamili na usaidizi. Hii inajumuisha kufuata miongozo ya Wizara ya Afya, maagizo ya Serikali ya Kenya, Sera ya Mahali pa Kazi na Sera ya Afya kwa mujibu wa Sheria ya OSH. (OSHA), miongozo ya Benki Kuu ya Kenya, Kituo cha Kudhibiti na Kuzuia Magonjwa cha Kenya (miongozo ya "CDC") na miongozo ya Shirika la Afya Ulimwenguni. Benki ilikuwa ya kwanza kuitika mwito wa jopokazi la Sekta ya Biashara Binafsi lililoongozwa na kikosi maalum cha Covid_19 wakitoa Ksh. Milioni 100 za kufadhilia vifaa muhimu vya matibabu na kama vile vifaa vya kusaidia upumuaji.
- Tumependekeza mgao wa Kshs. Bilioni 5.8 ambao ni msaada / mapato muhimu kwa mfumo wa Ushirika uliyo na wanachama milioni 15 ambao kwa zaidi ndio wamiliki wa Benki hii.

Kingdom Bank Limited

Tulikamilisha ununzi wetu wa Jamii Bora Bank mnamo Agosti ya 2020. Benki hiyo hatimaye ilipewa jina mpya na kuitwa Kingdom Bank Ltd na ni Benki kamili ya Biashara, iliyoidhinishwa na kusimamiwa na Benki Kuu ya Kenya, ikiwa na wateja zaidi ya 444,000 katika matawi 17. Umuliki wetu wa benki hii unatupa fursa ya uuzaji wa humo kwa humo na kuimarisha kufadhili ununuzi wa bidhaa kwa wigo wa wateja ulioboreshwa na kuunda huduma za benki maalum kwa kutoa mikopo ya kufaa wateja teule ambayo ni pamoja na shughuli za Benki kwa MSME, biashara katika uchumi mdogo, Ufadhili wa mali na ukodishaji kwa Vijana na Wanawake. Kampuni hii tanzu iliripoti hasara ya Kshs. Milioni 124 katika mwaka wa 2020 na inatarajiwa kugeuza na kuboresha mapato yake katika 2021. Huu ulikuwa utendaji mzuri kwa vile shirika hili tanzu lilikuwa limepata hasara ya Kshs. Bilioni 1.24 katika mwaka wa 2019.

Mtazamo

Shirika hili la Co-operative Bank limeweka mkakati wa utekelezaji uliotegemezwa kwenye mfumo thabiti wa usimamizi wa mashaka ya biashara, ili kuwezesha ufikiaji wa huduma za benki bila kukatizwa. Tutakuwa tukiendesha nyenzo hizi za kipekee katika mfumo wa ushirika wenye zaidi ya washirika milioni 15 ambao ndio mkubwa zaidi barani Afrika, na wateja wetu wa kimsingi wanaofikia Milioni 8.8. Tutaendelea kutekeleza mipango ya kimkakati inayozingatia uthabiti na ukuaji katika 'Kawaida Mpya' pale taifa linapozingatia ufuataji wa mipango ya kuzuiya kuenea kwa Covid-19 na wakati ishara za uchangamfu zinaanza kudhihirika kwenye Uchumi.

Shukrani

Kwa niaba ya Shirika lote la Co-operative Bank, natoa shukrani zangu za dhati kwa wanahisa na wateja wetu wote kwa uaminifu wao usiotingishika, na kwa kuwa na imani nasi. Napenda pia kuwashukuru kwa dhati wanachama wa Bodi ya wakurugenzi kwa kujitolea na kwa mwongozo wao katika kuendesha shughuli za benki hii. Shukrani maalum nazitoa kwa timu nzima ya Co-op Bank kwa kujitolea hiari kutumikia ambako kunazidi kuifanya benki hii kuongoza kwenye utoaji wa huduma za kifedha katika eneo hili. Mwisho kabisa, nawashukuru wadau wetu wengine wote kwa kufanya 2020 kuwa mwaka mwingine uliyojaa matumaini na ufanisi, na ninatarajia kuendelea na ushirikiano huu wetu na mafanikio ya pamoja katika 2021 na zaidi.

Asanteni na Mungu awabariki zaidi.

Dkt. Gideon Muriuki, Cbs, Mbs
Mkurugenzi Mkuu Na Afisa Mkuu Mtendaji

Top Management Team

Dr. Gideon Muriuki, CBS, MBS - Group Managing Director & CEO (56)

He was appointed Managing Director in 2001. Joined the bank in 1996 as a Senior Corporate Manager then Director, Corporate and Institutional Banking in 1999. He holds a Bachelor of Science degree in Mathematics, is a Fellow of the Kenya Institute of Bankers and was awarded an Honorary Doctorate in Business Management. He has over 32 years experience in banking and finance. He is Vice-President Africa – International Cooperative Banking Alliance (ICBA), former Chairman, Governing Council of the Africa International University and former Chairman, African Rural and Agricultural Credit Association (AFRACA). He was decorated in 2005 with the award of Order of the Grand Warrior (OGW), in 2011 with the award of the Moran of the Order of the Burning Spear (MBS) and in 2017 with Chief of the Order of the Burning Spear first class (CBS) in recognition of his successful turnaround of the Bank and exemplary service to the nation. He was voted the CEO of the year Africa 2014 by the International Banker, 2016 Lion of Judah Award by Evangelical Alliance of Kenya and Mtumishi Bora Award - 2016 by the Kenya Christian Professionals Forum. In 2018, awarded Best Banking CEO Kenya by International Finance.

Samuel Birech - Director Human Resource & Administration (57)

He joined the bank in 2002. He is a career banker with over 25 years experience in local and international banks. He has previously held various senior positions including Chief Operating Officer and Director, Retail Banking for 8 years where he presided over the transformation of the Retail and SME business at the Bank. He holds a Bachelor of Commerce degree from the University of Nairobi and has attended various local and international courses. He is a Board Member at Pan Africa Christian University.

Caroline Karimi - Director, Finance and Strategy (43)

She joined the bank in 2012 and has overall group responsibility of Finance and strategy. Previously she oversaw financial reporting and information management of the business. She has a career spanning 20 years as Finance professional and has worked in key corporates including Unilever, Safaricom and Toyota East Africa. She holds an MBA in strategic management, Bachelor of Commerce degree from the University of Nairobi, Certified Public Accountant and certified public secretary. She is also a Certified productivity coach CEPC (ICF) and is graduate of Harvard Kennedy School leadership program. She is a member of the institute of Certified Public accountants of Kenya (ICPAK).

Charles Washika - Director, ICT & Innovations Division (44)

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

Lydia Rono - Director Operations Division (55)

She has held many senior positions in the Bank and has over 33 years banking experience. She has played a critical role in driving business growth in the Corporate and Institutional Banking Division over the years and is currently responsible for driving key operations and efficiency functions of the Group.

She holds a bachelor's degree in Commerce and an MBA from University of Nairobi and has attended various courses.

William Ndumia - Director Retail & Business Banking Division (47)

He joined the bank in 2006. He is responsible for the Retail and Business Banking Division, focusing specifically on growing consumer banking, MSME business as well as optimal delivery of the expansive branch network and other bank channels. He has been in the bank for over 15 years previously as Director Transformation, Director IT & Innovation, Director Operations and Head Business Change management. He is an experienced banking operations expert having previously worked for international banks in various technical, controls and compliance roles. He holds a Bachelor of Science Degree in Mechanical Engineering and has attended various courses on project management and risk management both locally and internationally. He has overseen execution of the growth and efficiency Transformation project, various technical projects including the implementation of the core banking system, card management system and a global review of all bank processes among others.

Jacquelyne Waithaka - Director Corporate & Institutional Banking Division (44)

A career Corporate Banker with over 19 years experience having worked with various commercial Banks. She joined the Bank in 2005 and was appointed Head Corporate Banking in 2015 to oversee the growth of the Bank's Corporate portfolio. She was appointed Director, Corporate & Institutional Banking Division in Feb 2020 to drive business growth in this key segment of the Group.

She holds a Bachelor of Laws degree and a Bachelor of Business Administration degree. She also holds a diploma in Banking; advanced diploma Credit Management by Omega of UK and Culhane of South Africa. She is a Certified Engagement and Productivity Coach CEPC (ICF) and has attended various courses including executive leadership at Strathmore Business School and Harvard Kennedy School Executive Education on adaptive leadership for Africa.

Vincent Marangu - Director Co-operatives Banking Division (41)

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

Samuel M. Kibugi - Company Secretary (44)

He has over 18 years experience as a lawyer and prior to joining Co-op Bank in 2008, worked for a leading bank as a Legal Counsel. He is an Advocate of the High Court of Kenya, a member of the Institute of Certified Public Secretaries ICPS (K) and an Associate Member of the Chartered Institute of Arbitrators. As the Company Secretary of the Co-op Bank Group, he has responsibility for overall provision of legal counsel and company secretarial services, fraud prevention and investigations. He is also the Trust Secretary for the Co-operative Bank Foundation, a corporate social responsibility vehicle of the Bank.

Andrew Wanjau - Head Transformation (39)

He joined the bank in 2011. He has extensive experience in Change Management, Business Analysis, Project Management and Enterprise-wide Transformation programs management. He is responsible for the Co-operative Bank's "Soaring Eagle" transformation in the Transformation Office, which provides leadership in delivery of the Bank's Transformation initiatives. He has extensive experience in Organizational change having worked with Big 4 Consultancy firms to deliver ICT Projects and Process reengineering. He holds a B.Sc. in Computer Science and Engineering, Project Management and Business Analysis Certifications among them CISA, ITIL, CBAP and Prince2. He is also a graduate of Harvard Kennedy School Leadership programme, The Aga Khan University and is a Certified Engagement and Productivity Coach.

Robert Morris Aloo, Treasurer (42)

He joined the bank in 2013. He has over 15 years experience in Treasury management. He is responsible for the banks Treasury management and growth objectives. Prior to joining Co-operative Bank of Kenya, he worked as Head of Treasury in KCB Bank Uganda Ltd. He holds an MBA in Finance from USIU Africa and a Bachelor of Arts Degree in Land Economics from the University of Nairobi. He is a Certified Public Accountant (K) and a member of ICPAK. He is also a member of the Financial Markets Association of Kenya (ACI Kenya).

Arthur Muchangi - Director, Credit Management Division (51)

He joined the Bank in 2003. He is in charge of Credit Management driving proactive Credit Management including supporting asset book growth, proactive NPL management and implementation of enhanced credit management frameworks under the Covid-19 Pandemic crisis. He has previously held the Role of Director Retail & Business Banking, Director Compliance and Chief Risk Officer whereby he was in charge of Retail & Business Banking growth and supporting the Group's Compliance and Risk functions. He has over 25 years banking experience, spanning extensively across corporate, retail banking, Risk and Compliance. He holds a Bachelor of Arts Degree in Economics and has attended a number of courses both locally and internationally. He is also a director of Kingdom Securities Ltd.

James Kaburu - Chief Risk Officer (51)

He has a wealth of experience spanning over 20 years in Financial Management and Strategy in Financial Services sector, having worked with a number of International and local banking institutions in the Country. James is a full member of the Institute of Certified Public Accountants of Kenya (ICPAK). He Holds a Master's in Business Administration (Strategic Management), a bachelor's degree in business administration (Accounting), both from the United States International University (USIU), and a Global Diploma in Engagement and Productivity Coaching from CDI-Africa Coaching Group Limited.

Joseph Gatuni, Chief Internal Auditor (49)

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

Henry Karanja, Head of Compliance (44)

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

Anthony Mburu, Managing Director & CEO, Kingdom Bank Ltd (55)

He is a leading credit specialist in the banking industry with over 27 years of banking experience both in Kenya and the region. Most of these years were spent in the line of Credit and Risk Management as the Director Credit Management division of Co-operative Bank of Kenya and previously with Standard Chartered Bank. He holds a Bachelor's degree in Commerce and has attended various proprietary and international Credit courses.

The Co-op Bank model
How we create value using the model

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

KEY OUTPUTS

Our Stocks of Capital at the beginning of 2020

Financial Capital
- Total Assets KShs. 457.1 Billion
- Total Regulatory Capital- KShs.69.3 Billion : Dynamic, up to date ICAAP
- Liquidity- 46.2%
- KShs. 62.4 Billion in retained earnings
- External Rating- B2 (stable outlook) by Moody's

Human Capital
- 4,422 empowered staff members
- High Performance Management and Reward culture
- High-impact leadership culture
- Strong Employer Value Proposition

Manufactured Capital
- Branches 159
- Digital Channels- Mcoop Cash, CoopNet, Coop kwa Jirani (Agency)
- Shared Services -support departments (KShs.11.4 Billion in Property and equipment)
- Efficient ICT infrastructure (Core Banking, OPICS, ERP, CRM etc.)

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

Social & Relationship Capital
- Optimal engagement with all our stakeholders
- Strategic partnerships. Kshs. 26.4 Billion in long term funding from our partners.
- Socio – economic - Environmental Sustainability Initiatives supported by our Environmental Sustainability Initiatives supported by our Framework policies.

Natural Capital
- Electricity
- Water
- Paper / stationery
- Eco-social and eco-environmental lending. KShs 2.5 Billion in special environmental credit lines

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

To carry out our activities optimally we carry out;
1. Comprehensive Corporate Governance
2. Integrated Enterprise Risk management
3. Integrated Corporate Strategic Planning

In order to create value for our stakeholders;

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

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

We provide channels and infrastructure. We have invested heavily in 177 Branches, Mcoop Cash, CoopNet, Coop kwa Jirani Agency to ensure our customers are able to access banking services anytime and from any device. We provide adequate ICT infrastructure for our stakeholders to access our services.

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

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

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

- Lending products
- Deposit taking products
- Optimal Customer experience
- Transactional services
- Payment solutions
- Foreign Exchange
- Banc assurance
- Trade finance
- Investment services
- Custodial services
- Advisory services
- Staff Performance and reward Management
- Staff Training
- Regulatory engagement
- Compliance and risk management, including BCP & Covid-19 response strategy
- Stakeholder engagement
- Investor relations
- Corporate strategy processes
- Shared and other support services

Our Capital Stocks

"Soaring Eagle" Transformation initiatives as enablers

THE OUTCOMES OF OUR VALUE ADDING ACTIVITIES

Our Stocks of Capital at the end of 2020

Financial Capital
- Total Assets KShs.537.1 Billion
- Total Capital - KShs. 79.4 Billion : Dynamic, up to date ICAAP
- Liquidity - 52.2%
- KShs. 74.6 Billion in retained earnings
- External Rating- B2 (stable outlook)

Human Capital
- 4628 empowered staff members
- High Performance Management and Reward culture
- High-impact leadership culture
- Strong Employer Value Proposition

Manufactured Capital
- Branches 177
- Digital Channels- Mcoop Cash, CoopNet, Coop kwa Jirani (Agency)
- Shared Services -support departments (KShs. 12.3 Billion in Property and equipment)
- Efficient ICT infrastructure (Core Banking, OPICS, ERP, CRM etc.)

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

Social & Relationship Capital
- Our engagement with all our stakeholders has been active and optimal
- Strategic partnerships has seen us grow our Long term funding to KShs. 46 Billion
- Socio – economic - Environmental Sustainability Initiatives as described in the Sustainable Value section of this report

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

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

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

Shareholders
Dividend of KShs. 1 per share held, Strong balance sheet KShs. 537.1 Quarterly investor briefing on performance and strategy

Customers
Deposit taken – Over KShs. 378.9 Billion, Loans extended- Over KShs. 286.6 Billion, Increased Channel transactions- 92% on alternative channels i.e., over 164.7 Million transactions, Digitalized and ethical processes and products Kshs. 49 billion restructured facilities to support Covid-19 impacted customers

Employees
Salary and Bonus paid – Over KShs. 13.4 Billion, Jobs created – Total Staff 4628, Training spend- KShs. 24.3 Million.

Co-operative Movement
Dedicated co-operative banking division, Specialized Co-operatives products, 20 dedicated consultants, Over 2893 consultancies since inception. Kes. 3.8B dividend paid to co-opholdings

Strategic Partners
Over KShs. 46 Billion in Long term funding from our Partners: IFAD, EIB, AFD, IFC, D.E.G -(K.F.W). This funding has gone into MSME, Food Security, Renewable energy, Mortgages, Agribusiness, Corporate Banking.

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

Suppliers
Overs KShs. 13.1 Billion paid to suppliers. 80% to local suppliers. ERP system implemented for faster payments processing Vendor Propositions improved through Vendor relations office and Sourcing Department

Community
Over 2893 Co-op consultancies done 7713 Students supported by co-op foundation, Over Kshs.3.5 Billion , in taxes to improve community, promoting economic social and environmental sustainability.
Ksh. 100 Billion donated to the National Covid-19 task force

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

Our Capitals

Financial Capital

This Capital enables us to deliver sustainable funding of our business activities and our loan book. The bank has mobilized a sufficient and diverse mix of financial resources to run its core activities. Our balance sheet has recorded a steady growth over the years to KShs. 537 Billion as at end of year 2020. The group has pursued a balanced funding strategy with an attractive dividend payout ratio (Averaging 42.7% over the last 5 years) that enables us to reward shareholders while at the same time reserving sufficient funds to fuel our growth strategy. This has seen shareholders' funds grow steadily to KShs. 90.7 Billion. Apart from the retained earnings most of the banks funding comes from customer deposits which make up approximately 89% of our funding liabilities. Borrowed funds comprise 11% of our funding liabilities mainly from our development partners.

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

On our transformation initiatives, the bank has pursued various strategies aimed at cost optimization. We closed the year at a cost to income ratio of 58% (2019 52%) mainly as a result of absorbing currency translation loss from our South Sudan Operation.

Human Capital

The selection, management and development of our teams. We have made tremendous progress in ensuring that our human capital is able to cater for our present and future needs. In the Material Matters Management section of this report we show how we are supporting our staff in the Covid_19 Pandemic environment.

The Creating sustainable value section of this report covers the following Human Capital focus in detail.

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

Manufactured Capital

This comprises of our tangible and intangible infrastructure that is used in the activities that lead to value creation. The group has up to Kshs. 12.3 Billion in property, plant and equipment to ensure all our customers and other stakeholders are adequately catered for. Our delivery channels are key - 92% of our transactions are carried out in the alternative channels;

Our Channels:

The Bank has invested heavily in innovative delivery channels which has played a critical role in enhancing financial inclusion.

Mco-opcash:

Mco-opcash is our all-Telco, all products, mobile banking service that enables customers to enjoy access to a variety of banking services, money transfer and payment services. It is a virtual account with a simple menu where the customer's cell phone number acts as the account number and can be opened and operated end to end from the phone without having to visit the branch.

Mco-opcash has continued to reach many customers who would have remained unbanked. Mco-opcash has over 5 Million customers who transacted over 98 Million transactions in 2020. Through this channel, the Bank is able to advance e-credit of Kshs. 4.9 Billion per month to salaried and business customers.

Agency Banking & Point of Sale (POS) Terminus

The Bank has been at the forefront in implementation of agency banking model, currently working with over 23,389 POS terminuses countrywide. Our agents who include co-operative societies, supermarkets, ordinary shops, petrol stations among other outlets enable customers to access banking services including making deposits, withdrawals and bill payments beyond official banking hours. Due to the greater geographical area covered by agents, customers also enjoy better convenience as services come closer to their most accessible location. Over 37.3 Million transactions were carried out through our agents in 2020.

Sacco-Link & FOSA Partnerships

The bank in partnership with various Saccos offers retail banking and related products through front-office service points (FOSAs) located at Sacco's premises and to date 175 licensed Saccos have over 479 FOSA branches in operation. The bank has also invested in the Sacco Link Switch which has integrated the bank's and Saccos' systems, thereby enabling Sacco members access to ATMs, mobile banking, point of sale (POS) channels and internet banking. In this partnership, we offer wholesale banking services to cooperative societies who then provide to their members retail services complete with full technological capabilities. To date, over 164 SACCOs are enlisted in this partnership and over 1.3 million debit cards have been issued to co-operative members.

Internet Banking: Coop Online

This is the bank's internet-banking solution. In 2019, we rolled out a new Internet Banking (Co-op Online) on our new digital platform (omnichannel). It is feature-rich, easy-to-use and is a great improvement.

With its high internet speeds and enhanced security features, it has contributed to growth in our customer base especially for Kenyans in the Diaspora and already serves over 115,911 clients. CoopNet enables customers to do full end to-end banking through a web-based channel.

Branch Network and ATMs:

This is our footprint across the region consisting 177 branches. From our branches our customers can access much more than banking services to include those offered by our subsidiaries. In Kenya, we have 173 branches (17 in Kingdom Bank Ltd) spread in 44 counties while 4 are in South Sudan. We also have 581 ATMS supporting our channels and distributed all over the country. Services accessed by customers in our ATMs include cash withdraws and deposits, Balance inquiry, utility bill payment, Mpesa withdrawal and Mco-opcash registration & withdrawal.

ICT infrastructure:

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

1. Omnichannel: A robust digital platform that enables us to offer enhanced digital experiences to our customers. It guarantees a unified digital experience for both mobile and internet across the key customer segments (Corporate, Co-operatives, MSME, Consumer, Diaspora, and High Net Worth).
2. Core banking Systems (BFUB, BankMaster – South Sudan, Loan Track and Credit Desk). The Bank is in the process of changing the core banking system to enhance efficiency, innovation and customer satisfaction.
3. Customer Relationship Management (CRM)
4. Treasury systems.
5. Channels:
   a) Mco-op cash
   b) Point of Sale
   c) Internet banking
   d) Queue Management System
   e) Teller Portal
   f) Avaya Call center
   g) Branchpower
6. Enterprise Resource Planning (ERP)
7. Debt management system
8. Business Process Management & Workflows
9. Data integration, quality and visualization
10. Risk Management system
11. Shared Services Service Desk Request System
12. Enterprise Service Bus- Service Oriented Architecture
13. Wealth Management System

Key ICT Infrastructure enhancements in 2020

- IBM P9 upgrade
- Web Application Firewall- External applications
- Till Solution
- MasterCard Acquiring
- M8 Supercluster Capacity Upgrade
- Business Process Management System (BPMS)
- Microsoft Office 365
- Visa Contactless Project
- MPESA withdrawal on POS
- Online portal for MSME
- Co-op Foundation Impact Assessment
- Provide E-Credit for joint accounts via Mobile & Internet banking platforms
- Enterprise Backup and Archiving Solution
- Kenswitch Message Authentication Coding Mandate
- MSME Business Process Digitization
- Project Portfolio Management Solution
- Swift GPI Platform
- Development of API integration and E-credit Loan system enhancement for External Debt Collectors
- E-Collect Enhancements delivery
- Online Portal For Bank Repossessed Vehicles on Corporate Website
- Money Transfer Organization Onboarding Phase 2
- Sacco Instant Card issuance project
- Biometric Payment Solution
- MTO Transaction Monitoring & OTC FX Sanction screening for non-customers
- Agent to Agent Float Purchase
- Zain Intergration for South Sudan
- Diaspora Programme - Thunes Integration
- Card Management System Upgrade Project
- Internet Connectivity Capacity Upgrades
- Queue Management System Implementation
- Sacco API Sacco Link - Mco-op Cash API integration

Intellectual Capital

The knowledge of our staff, our brand positioning, our reputation, our enterprise risk management policy and intellectual property. We have dynamic IT capabilities that are able to support us in this period of transformation and to support value creation into the long term.
The Co-op Bank brand has become a household name hence it has become easier for us to market our products to existing and potential customers hence create more value. The brand is supported by marketing effort, investor relations, and our well-trained teams and most importantly by our customers' word of mouth. We are geared to ensuring that we create positive customer experiences at every touch point. To this end, we have invested in a 24hour contact Centre which handled approximately 2.2 Million customer engagements in 2020. Over 2800 staff members underwent training on distinctive customer experience delivery, customer communications and engagements and other customer centric systems such as the Customer Relationship Management (CRM).

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

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

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

The Bank's overall investment management guidelines are provided by the Board of Directors under the Banks Investment Policy. The broad guidelines within the policy allow the management to optimize the investments the bank chooses, with an aim of always maintaining sufficient liquidity, maintaining a balanced mix of optimum earning assets and ease of marketability in case of changes in market dynamics.

We have clear Sourcing and ICT policies as detailed below;

Sourcing Policy

The objective of the Sourcing & Facilities Management department is to enhance the group's sourcing strategy and ensure cost efficiency, value creation and a transparent environment in the sourcing process. The Bank's Sourcing and Facilities Management department will own and drive the sourcing and acquisition of all non-human resources for the Bank. In execution of its key mandate, Sourcing & Facilities management department encompassing management of space and contracts, facilities management, projects, all forms of non-human resource procurement, inventory management, transport and insurance; shall employ the following objectives to form the basis for implementation of the aforementioned Sourcing strategies.

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

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

ICT Policy

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

The ICT strategy has been shaped in reference to the Cooperative Bank Business Strategic plan and is envisioned to model the ICT department into the vehicle on which the business shall drive its initiatives towards actualizing the bank's mission and vision. ICT governance principles and practices have been identified that have guided the formulation of ICT strategic objectives and subsequent action items that are to be implemented, managed and monitored to deliver the ICT vision. The Bank has identified dimensions of management of ICT through which it applies best practices and develops strategic activities, namely:

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

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

Social & Relationship Capital

Social & Relationship Capital

The relationship we have with all our stakeholders to ensure long-term sustainability of the value we add. **Our Stakeholders' Engagement** and **Creating Sustainable Value** sections of this integrated report shows in detail how we engage various stakeholder to ensure that this capital stock is able to sustain us into the future. The areas covered include;

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

Stakeholder support in the Covid_19 pandemic period is also covered in detail in the Material matters management section of this integrated report.

Natural Capital

Natural Capital

The natural resources that we employ in our value creation to our stakeholders. This is done in a way that minimizes negative impact on the resources. Creating Sustainable Value section of this integrated report shows in detail how we ensure that we contribute positively towards preserving natural resources. Areas covered in that section include;

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

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

- Solar system at our Leadership and Training Centre in Karen (heats up to 3000litres of water daily, we have disconnected all instant showers.
- A 600kW solar power project at Strathmore University.
- Two rivers Mall generating their own solar power.
- Hydro Power project - A 6MW project that will supply power to 5 KTDA tea factories and to the national grid.
- Regen Terem Hydro Project - A 5.2Mw project that has provided livelihoods to the rural community, which provided human labour to the project and expected to supply the power to the national grid.
- A greenfield project in solar power production to be sold to the National Grid.
- A project to purchase more energy efficient boilers and conversion for a factory.
- All ongoing projects have solar power as an alternative source of power.

Capital Trade off's

To achieve our strategic objectives, we make decisions on how to allocate our six (6) capitals optimally. To do this we consider the key strategic enablers and our six (6) strategy focus areas. Capital trade-off decisions are made depending on;

- The impact of the capital stock on strategic achievements;
- How available the capital is;
- The stability of our long term and short-term goals as is evidenced by the impact of the ongoing Covid_19 Pandemic.

The decision to employ/decrease one capital in order to increase another is a tough one because Capital is a limited resource and hence we carefully prioritize. The group holds an annual senior leader's strategy forum whereby the strategic focus and hence optimal capital allocation is discussed and agreed upon. During the year careful considerations are made as the environment is dynamic. The illustration below shows how key capital trade offs were made and the impact (increase/decrease) these trade-offs had on our capital stocks.
In supporting our stakeholders through the ongoing Covid_19 pandemic the Bank had to commit all its capitals and the result has been an increase in our stakeholder relationships that will see us continue to create value into the long term. Material matters management section of this report details this support.

Strategic Focus	Capitals Trade-off (Increase/Decrease)
Aggressive deepening of our dominance in the Kenya Market. Most impacted stakeholder	To grow our market share in Kenya and give a competitive return to our shareholders. **Capital Increase achieved** **Financial Capital:** • Funded and non-funded revenue. • Growth in Customer Deposits by Kshs. 46 Billion • Growth in our loan book by Kshs. 20 Billion • Retained earnings as a result of growth in earnings. **Intellectual Capital** • Corporate Governance, Planning and Enterprise risk in terms of making the right strategic decisions for market dominance. **Manufactured Capital** • Increase in the quality and quantity of the infrastructure required to adequately meet the needs of our customers. **Social and Relationship Capital** • Enhanced returns for our shareholders. • Enhanced customer value propositions and product stewardship. **Human Capital** • An optimal, well trained, motivated number of staff to serve our customers. **Key Capital Decreases** **Financial Capital** • Capital ratios had to be maintained to cater for the growth in market share. • People, process and technology investment to support growth **Manufactured Capital** • Depreciation, Amortization of equipment • The maintenance costs for all our systems and channels **Natural Capital** • In order to grow our market-share natural resources were consumed as indicated in the Creating Sustainable Value section of this report.
Dominant provider of financial services to the Co-operative Movement in Kenya and the region Most impacted stakeholder	To be the leading provider of financial services to the Co-operative Movement in Kenya and the region through provision of value-added services and maintain over 95% of total assets and liabilities of the movement. **Capital Increase achieved** **Financial Capital** • Funded and non-funded revenue from the Co-operatives. **Intellectual Capital** • Increase in the tacit knowledge by our staff on Co-operatives banking. • Successful launch and shortlisting of Akili Kali fintech partnership geared towards reaping the benefits of fintech engagements and partnerships. **Manufactured Capital** • Digital Co-operatives initiative under our Transformation project leading to service satisfaction. Key gains include B2B Integration and data hosting, A fully functional Internet Banking, Coffee DSS, Open Banking (SaccoLink API, Sacco MCo-op Cash API, Pesalink API and Sacco Credit API) **Human Capital** • Enhancing the divisional structure with additional staff • Social & Relationship Capital • Enhanced strategic relationship with the key stakeholder through our value proposition and enhanced returns. Kshs. 5.8B Dividend -critical support/income to the 15-million-member Co-operative Movement **Key Capital Decreases** **Financial Capital** • Capital outlay to cater for the co-operative movement current and future needs. • Kshs. 5.87Billion Dividend payment to the movement that predominantly owns the Bank. • Additional staff expense **Manufactured Capital** • Depreciation, Amortization • Natural Capital • In order to serve the co-operative movement, natural resources were consumed as indicated in the Creating Sustainable Value section of this report

Customer Experience that is seamless across all our touch points.

Most impacted stakeholder

To enhance our overall customer experience by maintaining a high level of customer satisfaction and brand visibility, seamless and timely customer experience in all our delivery channels and communications to all stakeholders.

Capital Increase achieved

Financial Capital
- Income and deposit growth from satisfied growing customer numbers.

Human Capital
- An optimal, well trained and motivated number of staff to serve our customers

Intellectual Capital
- A proactive customer experience strategy
- Well trained and knowledgeable staff
- A stronger Brand
- Banking Sector Charter implementation
- PWDs (People living with Disability) digital accessibility roadmap implementation

Manufactured
- We strategically increased our branches and made several channel and platforms enhancements to reach our customers better.
- Enhanced customer products and services

Social & Relationship Capital
- The higher the customer satisfaction, the higher the customer loyalty.
- Enhanced relationship with our regulators: Our full commitment to implement the Kenya Banking Industry charter, AML/KYC strict adherence.

Natural Capital
- In efficiently serving our customers, we saw a reduction in stationery, electricity, water and diesel.

Key Capital Decreases

Financial Capital
- People, process and technology expense to ensure seamless services.
- Local and international training expense for our staff.
- Training expense for our customers. We have been holding regional forums whereby we guide our MSME customers on best practice business management. In 2020 this was done virtually through Webinars.

Manufactured Capital
- Depreciation, Amortization

Natural Capital
- In order to serve our customers natural resources were consumed as indicated in the Creating Sustainable Value section of this report

Operating efficiency driven by digitization, innovative products & Processes, efficient business models, and staff productivity.

Most impacted stakeholder: ALL

Digitization. Innovation. Efficiency. Staff productivity

Capital Increase achieved

Financial Capital

- Income, deposit book, loan book and customer growth as shown in the audited financials
- Optimal cost management (CIR- 58%, 2014 59%) in light of increased loan loss provisions and monetary loss from South Sudan.

Human Capital

- An optimal number of knowledgeable staff, a performance management system that encourages productivity. Staff whose welfare has been taken care of. Our staff value proposition led to high staff loyalty and conduct.

Intellectual Capital

- Well trained and knowledgeable staff
- A stronger Brand through innovative financial solutions.
- Optimal number of specialized talent in key digitization areas (ICT, Business Intelligence, ICT Risk)
- ICT Supplier relations through the specialized vendor relations office
- Policy frameworks guiding all operations of the group.

Manufactured

- Branch opening in strategic areas
- Channel and ICT platform enhancements
- Ongoing Core Banking Project
- Omnichannel rolled out in 2019

Social & Relationship Capital

- In our pursuit of growth, efficiency, digitization, innovation and staff productivity, we maintained good relationships with all our stakeholders in order to create value in the long term. In 2020, as detailed in the material matters section of this report support was given to all stakeholders in light of the ongoing Covid_19 pandemic impact.
- Regulatory compliance is key in all our decision making: AML/KYC, Kenya Banking Charter, PWD digital accessibility road map, CBK Prudential guidelines, , Data security, key guidelines geared towards customer support and Covid_19 containment measures. etc.
- We have consulted widely with our strategic partners. Key consultations with IFC (See Transformation section of this report).
- We maintain an optimal relationship with our ICT vendors and other suppliers who are key to the achievement of this objective

Natural Capital

- Reduction in stationery, electricity, water and diesel consumption. See Creating Sustainable Value section of this report.

Key Capital Decreases

Financial Capital

- People, process and technology expense to ensure efficiency, digitization, innovation and staff productivity.

Manufactured Capital

- Depreciation, Amortization

Human Capital

- Reduction in direct human interaction due to digitization.

Natural Capital

- In order to ensure operating efficiency natural resources were consumed as indicated in the Creating Sustainable Value section of this report.

Optimal Enterprise Risk and Compliance in the dynamic environment

Most impacted stakeholder:

Enterprise Risk Management and Compliance

Capital Increase achieved

Financial Capital

- Capital adequacy that is necessary for growth and risk management. Risk management has a direct link to the increase of this capital.
- Increased loan loss provisions and hence optimal coverage for our NPL – Kshs 8.1B (2019 2.5 Billion)

Human Capital

- Adequately resourced control departments

Intellectual Capital

- Enterprise risk management including Business continuity plan execution skills in light of a Pandemic.
- Internal capital adequacy process that was conducted by knowledgeable staff to ensure we have adequate capital for all our risks and opportunities.
- Optimal number of specialized talent in key control areas: Internal Audit, Compliance and risk management departments.

Manufactured

- Adequate infrastructure to ensure all our assets and staff are safe.

Social & Relationship Capital

- Ensured optimal risk management with our stakeholders.
- Cordial relationship with our regulators

Natural Capital

- Optimal selection of how and to whom we lend to preserve natural capital. We have a well-documented exclusion list.

Key Capital Decreases

Financial Capital

- People, process and technology expense to ensure proper risk management in the Group
- Expenses related to the management of our Non-performing loan book.
- Opportunity cost.

Manufactured Capital

- Depreciation, Amortization

Natural Capital

- In order to ensure optimal enterprise risk management natural resources were consumed as indicated in the Creating Sustainable Value section of this report

Operate as a good corporate citizen.

Most impacted stakeholder:

To ensure that the group operates as a responsible corporate citizen by investing in the communities, engaging in sustainable programs particularly on education, agriculture and environment, and financial deepening in the co-operative sector.

In order to operate as a good corporate citizen all our capitals were employed which in turn enabled us to increase all our other capital stocks. In the Creating Sustainable Value section of this report this strategic trade off is discussed in great detail.

Material Matters Management

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

IDENTIFICATION

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

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

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

PRIORITIZATION

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

INTEGRATION

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

The integration is embedded into our KPI performance management System.

MONITORING

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

COVID-19 ASSESSMENT, IMPACT AND RESPONSE

The first case of COVID-19 was confirmed in Kenya on March 12th, 2020. The effects of the pandemic and the resultant containment measures severely affected businesses and economic activities. As a result, the economy contracted by 5.7 percent in the second quarter of 2020 from a growth of 4.9 percent in the first quarter of 2020 largely due to significant contractions in the services and industry sub-sectors. Kenya's annual GDP growth for 2020 is estimated at only 0.6%.

At the onset of the pandemic, the group analyzed the internal and external environment to identify material issues that were or could impact our business positively or negatively in order to establish appropriate response. We were agile in our response; fast, resilient & adaptable in creating value and protecting that value in the new environment: We looked at;

- Our strategy to ensure that our priority was on the safety and support of our stakeholders whilst optimizing growth in key sectors.
- Enterprise Risk management to quickly identify and manage emerging Credit, Operational, Market and other risks.
- Optimization of our structure to drive productivity in a new environment. We quickly started two key projects geared toward credit risk management and credit growth i.e. Credit risk adaptation project and decentralization of Loan Portfolio Management, enabling Project 3C (Connect, Cure and Collect). The two are discussed in the Strategic Focus Review section of this report.
- The productivity and wellness of our staff in the new working environment.
- Customer engagement to optimize the offering of uninterrupted solutions and supporting customers who were struggling to repay their facilities.
- We looked at our products and services to ensure that they were still answering to the customer needs in an efficient and effective manner.
- The optimization of the huge digital investment we have made since we began our transformation. This was focused on customer journeys and our own internal processes.
- Ensuring cordial and supportive relationship with other key stakeholders (Co-operative movement, suppliers, regulators, Long term funding partners).
- Ensuring that even in the midst of the Pandemic we continued playing a key role in the economic, social and environmental sustainability. This active role is discussed in detail in the Creating Sustainable Value section of this report.

Key Impact

2% growth
in our Non- funded revenue year on year (2019 33% growth); Key impact was from fee waivers that we implemented to offer relief to our customers during the height of the pandemic and the general economic slowdown.

Cost Absorption
The Bank met all costs related to Covid-19 restructures. The Bank waived all internal fees and charges including restructure fees, appraisal fees, penalty fees, arrangement fees and negotiation fees. Insurance fee was not charged for 90 days extension in the repayment duration.

Ksh. 100M
Donated to Covid 19 task force

Ksh. 49B
Loans restructured to support our customers

USD 85M
We have also managed to secure USD 85 Million from our long-term funding partners towards supporting our customers in the MSME segment, the health sector and Businesses undertaking Climate-Smart Projects.

USD 300M
In partnership with IFC and Phillips toward Health area Sector

92%
Of our transaction through alternative channels to reduce human contact. Mobile Banking transactions increased by 94% Year on Year Additional investment: Personal Protective Equipment including Masks, Sanitizers, Thermal Guns, sanitizer dispensers. ICT additional licenses. Additional laptops.

Ksh. 58.5B
The amount of credit advanced through our E-Credit solution in 2020.

24 MSME
Virtual Clinics Trained 5750 entrepreneurs.

32
virtual workshops trained 1207 individual from 183 Co-operatives.

We took several emergency measures on implementing Banking circulars provided by CBK specifically banking circular No.3 of 2020 on implementation of the emergency measures to mitigate the adverse impact of COVID-19 pandemic on loans and advances.

CBK Guidelines implemented in full	
1.	The relief granted under the emergency measures will only apply to borrowers whose loan repayments were up to date as at March 2,2020 and classified under the normal category in accordance with the CBK Prudential Guideline on Risk Classification of Assets, Provisioning and Limitation of Interest on Non-performing Loans(CBK/PG/04).
2.	Banks will engage individual borrowers who request for relief on their personal loans and based on their individual circumstances, directly attributable to the pandemic determine the best relief to offer. The relief granted should be based on the assessment of the borrower's capacity to pay under the proposed new terms.
3.	Where a determination is made to grant a request for relief on personal loans through extension of the payment period, the extension should not exceed one year from March 2, 2020.
4.	Micro, Small and Medium -sized Enterprises (MSMEs) and corporate borrowers may also make requests to banks for relief due to circumstances related to the Pandemic. Banks will make an assessment and restructure the loans based on the respective circumstances arising from the pandemic.
5.	Personal loans whose repayment has been extended for up to one (1) year and the other loans restructured due to the pandemic shall not be subject to Clauses 3.2(Classification of loans), 3.3 (Classification categories) and 3.5 (Classification of renegotiated loans and advances) of CBK/PG/04 for a period of up to one (1) year from March 2,2020.
6.	Banks will be required to document and keep records of all the extended and restructured facilities under the emergency measures. The records should contain details of the circumstances in relation to the pandemic, monitoring measures adopted and the set timelines for reverting to normal requirements.
7.	Banks will meet all costs related to the extension and restructuring of loans.
8.	All loans extended and restructured under emergency measures shall be reported to CBK on a monthly basis in the CBK format.
9.	The initial return for the month ending March 31, 2020 will be due on or before April 10, 2020.

BCP Plan activated by the bank to deal with the pandemic

A: BANKING CIRCULAR NO. 2

Banking circular on activation of precautionary measures to ensure business continuity and mitigate pandemic risk.

1. Putting in place alternate teams (Red and Blue) in all business areas
   - a Work From Home program ensuring that each business unit in the bank had its team split into two where each role was represented in each team.
   - Bring Your Own Device (BYOD) policy to enable use personal laptops
   - Work from Home ICT enablement paper that clearly guides on the procedure for accessing bank systems while working from home
   - A productivity matrix for measuring performance for staff working from home
2. Creation of alternate teams for all critical functions and ensuring that the teams are facilitated to undertake the requisite functions – as had already been stipulated in our Business Impact Analysis that we continually carry out.
3. Ensure that alternate /recovery sites are in ready mode with recovery facilities including all the necessary backup power generation and should the primary location be unavailable due to an infection. This is as per our quarterly Business Continuity Plan updates.

B: BANKING CIRCULAR NO. 5

- Updating of Business Continuity Plans, strategies and frameworks to include planning for pandemics such as Covid-19 – the bank reviewed its Business Continuity Management Policy and Bank BCP Plan to accommodate the changing operating environment caused by the pandemic. The two documents were tabled in the Board Risk Committee and approved. The bank strategy was also reviewed and updated to suit the current operating environment.
- Formulate pandemic response plans for close monitoring of the implementation of the Business Continuity Plans – the bank has documented a pandemic response plan that was tabled in the BCMT (Business Continuity Management Team) and BRC (Board Risk Committee).
- Conducting a risk assessment of the risks posed by a pandemic to the institution itself – a risk assessment was done covering the following areas: Strategic objectives, Business operations, Work plans, Loans and another asset performance; Asset prices and credit spreads and Demand for liquidity;
- In the assessment, the likelihood, the impact and the mitigation measures against the pandemic were captured.

Business Continuity Plan (BCP) activated by the Bank in order to deal with the pandemic

We activated our BCP once the pandemic was reported in Kenya. We undertook the following measures to ensure there is co-ordination on Covid-19 matters throughout the bank's subsidiaries, departments and branches:

- The Board is constantly monitoring the operations of the Bank through regular and constant communication with the Group Managing Director & CEO. In addition, the Board has held several virtual board meetings to discharge its mandate as required by law and also to ensure that there is business continuity. The Board has been regularly updated on the progress of performance of the Bank during this Covid 19 season.
- The Bank put in place a Business Continuity Management Team (BCMT), consisting of key executives and functional heads of critical operational and functional areas who are responsible for dealing with crisis management and business continuity during the pandemic and any other crisis.
- The Bank set up a multi department emergency response team, for critical functions, should the pandemic accelerate and result to total lockdown.
- The Bank kept communication and reviews on an ongoing basis, its pandemic preparedness strategy and procedures to employees and other relevant parties to ensure they understand the plan and their roles and responsibilities.
- Ongoing risk assessments are being conducted to monitor trends of the disease and impact on the Bank's strategic objectives, business operations and work plans, and has implemented robust monitoring and reporting tools capable of collecting, analyzing and reporting case-based information.
- Establishing Human Resource & Administration Division as the centralized communication channel for all covid-19 matters.
- The bank conducts regular communication through circulars as well as information bites/nuggets/E-shots on Covid-19.
- Display of information posters in all bank offices, bank entrances, bank social media platforms and shared facilities on how to protect oneself from Covid-19.
- Constant health talks aligned with Ministry of Health (MOH) guidelines on Covid-19 management
- Trained security guards manning all bank entrances on Covid-19
- The bank began and still has been holding virtual meetings internally to share information on the symptoms and infection prevention. Governance forums (BCMT and Crisis Management Team-CMT) have also been conducted virtually.
- Establishing a 24hour hotline number that has been availed to all staff by Human Resources to guide on covid-19 related concerns. This team offers counseling and emergency response guidelines.
- The bank updated all call trees and duty officers lists.
- Establishing a localized BCP invocation for all units in the bank.
- The bank has 2 qualified medics and 1 wellness officer based at Human Resources department who are ready to handle any covid-19 medical emergencies.
- Postponement of non-essential events and movements.
- Provision of masks and sanitizers in all bank offices
- Temperature monitoring at all the bank offices and entrances.

How we support our stakeholders on Covid_19 matters

Customers

- Availed thermometers and sanitizers and ensured their use by all persons accessing our offices/branches/ ATMs.
- Controlled the number of customers accessing bank offices to ensure social distancing.
- Re-aligned servicing of facilities, funding and transactional needs per customer needs; restructured loans worth Kshs.49 Billion due to Covid-19
- Bank met all costs related to the extension and restructuring loans
- Fortification of our digital channels to support uninterrupted access to banking services; over 92% of our transactions were on alternative channels.
- Loan approvals through Business Process Management System (BPMS).
- Partnerships with merchant aggregators to facilitate online purchases and payments.
- 24-hour contact center to support excellence in customer service
- Open banking solutions for instant payment notifications and bank transfers.
- Virtual communication, education, training and guidance.

Staff

- Remote working to support the density reduction of staff working in the offices.
- Formed teams to ensure no cross contamination. While one team is in the office, the other is working from home.
- Provision of PPEs (masks, sanitizers, gloves) to staff working physically in offices.
- Availed thermometers and sanitizers and ensured their use by all persons accessing our offices/branches/ATMs
- Constant communication on measures to undertake in order to protect oneself and others from covid-19.
- Introduced hotline and on boarded trained medical personnel to handle any Covid related queries.
- Implemented teleconferencing/virtual meeting platforms to avoid physical meetings.
- Introduced Telemarketing for sales staff to engage their customers
- Digitization of internal processes and engagement platforms to build contactless capabilities for both customers and staff

Co-operative Movement

- Kept actively engaging our Co-operatives to support them through this period
- Re-aligning the servicing of facilities, funding and transactional needs.
- CCIA adopted online co-operative trainings with 1207 individuals from 183 different societies reached through 32 virtual events.

Of the 5.8 billion dividends paid, Kes.3.8 billion was paid to Co-op Holdings for onward remittance to over 3300 member Co-operatives.

Shareholders

- Implemented teleconferencing/ virtual meeting platforms such WebEx and Microsoft Teams.
- We held a virtual AGM to update our shareholders during the year
- Paid Kes.5.8 Billion dividend
- Held a virtual AGM to update our shareholders during the year
- We continued creating value for our shareholders; We acquired Kingdom bank during the period.
- We Kept our shareholders informed by timely updates through newspapers, social media, press releases and our website.
- We continued our investor briefing virtually

Regulators

- We implemented relief measures granted under the emergency by CBK
- We documented and keep records of all the extended and restructured facilities under the emergency measures.
- Deployed monitoring tools to keep track of the covid-19 restructures.
- Reported all loans extended and restructured under emergency measures to CBK on a monthly basis as required
- We maintained constant engagement with the regulators to ensure full compliance and support for all stakeholders.

Community

- We availed thermometers and sanitizers at all bank entrances and ensured that they are used by all persons accessing our offices/branches/ ATMs.
- We were the first bank to donate Kes.100 million to the covid-19 task force.
- Continued our operations as a responsible corporate citizen to support the society and the economy recover
- We posted regular updates on our website to keep our community informed
- We deployed and enhanced our social media presence to keep the community engaged
- We continued our engagement with investors through virtual briefings and press releases

Suppliers

- Implemented teleconferencing/ virtual meeting platforms with suppliers
- We adopted virtual engagements with suppliers in our procurement processes to ensure everyone's safety.
- We continued our transparent procurement and tendering practices
- We maintained our supplier relationships even when we shifted our requirements towards those that enabled remote working and conferencing.
- We engaged our regular suppliers to supply PPEs that were required in our premises.
- We observed our contractual agreements with our contractors and suppliers during those challenging times.

Strategic Partners

- We adopted virtual meeting platforms to keep our partners engaged.
- We observed contractual agreements with our strategic partners throughout the pandemic
- We partnered with them to reach out and train our customers e.g. IFC in our MSME clinics.
- We enhanced our partnerships with our funding from our development partners increasing by 74%.

POST COVID-19 OUTLOOK

The Covid_19 pandemic environment has called for Banks to create value by growing in the sectors that are least impacted, to protect value by being resilient in terms of risk management including supporting customers in struggling sectors and to be fast and adaptable in the new environment. The Bank will continue to adapt to the new normal, lending to growing sectors, supporting struggling customers and offering uninterrupted everyday transactions especially through alternative channels.

Other Material Matters in our operating environment

Strategic Focus	Material Matters	Risks	Opportunities	Our Response (Key indicators are detailed in the Strategic Focus section of this report)
Aggressive deepening of our dominance in the Kenya Market	• Economic activity declined significantly in 2020 on account of covid-19 pandemic. Containment measures put in place significantly impacted businesses and households. Real (GDP) growth is estimated at 0.6 % in 2020. • Inflation was well anchored in 2020 • Kenya shilling depreciated by 4.4% • Market capitalization declined in 2020. • Corporate income tax for resident companies revised from 30% to 25% for 2020. • Central Bank of Kenya issued emergency measures to facilitate mobile money transactions that resulted in fee waivers. The regulator also issued emergency measures on restructuring of loans for • bank borrowers that resulted in waiver of some credit related fees. • Strong credit growth was witnessed in manufacturing, transport & communication, Agriculture, Real estate & consumer durables. • Favorable regulatory environment • Operationalization of credit guarantee scheme – (de-risk lending to MSMEs).	• Reduced earning margins from a tough operating environment and Fee waivers issued by the Regulator. • Increased Gross Non-Performing Loans in impacted sectors such as Transport, Tourism and Trade. • Increased competition from Bank and Non-Bank in the sectors/segments that are least impacted by the pandemic.	• Opportunity to leverage business models to grow in sectors that are still vibrant. • Opportunity to increase lending to the MSMEs space taking advantage of the credit guarantee scheme. • Opportunity to deepen the use of alternative delivery channels to increase lending and non-funded income. • Lower costs due to efficiency as consumers prefer contactless banking. • Opportunity to partner with long term funding partners and the Government in supporting economic growth through lending.	• Ensuring that we maintain strong capital buffers to support growth. We continue to operate in a profitable manner hence increasing our retained earnings. • Ongoing transformation initiatives which are key enablers in market dominance. We are constantly optimizing our business models and reviewing our products to ensure that we are growing our loan book, deposit book and NFI despite the tough operating environment. • Lending to MSMEs through the Credit Guarantee scheme is ongoing. • 92% of our transactions are through alternative channels responding to our customer preference for contactless banking. • Proactive provisioning and facilities restructures for credit risk management. • Ongoing Credit Review Implementation Project "Project Kilele" with McKinsey &Co. that aims at improving the end to end credit management in the Bank. • Ongoing Project 3C (Connect, Collect, Cure) that has decentralized NPL collections. • Optimal risk spread in the various interest earning assets, optimizing our Government Securities investment. • Long term funding partners to support sustainable financing to MSMEs, Agriculture, climate smart initiatives and the health sector. • Ongoing partnerships with non-bank financial institutions though open banking to enhance growth in the various sectors.
Dominant provider of financial services to the Co-operative Movement in Kenya and the Region.	• Covid_19 pandemic impact on the movement • Continued strategic partnership with the cooperative movement. • Continuous digitization and innovation of co-operative products, services and processes. • Optimal returns to the movement that predominantly owns the Bank	• Credit risk for Co-operatives in impacted sectors. • Other normal risks that come with serving the strategic shareholder and customer of the Bank.	• Increased value creation through being the primary banker for the co-operative movement. (Co-operative movement value chain optimization)	• Credit facilities restructures to support struggling Co-operatives. • We have a dedicated Co-operatives division. • In partnership with IFC we started a Cooperatives sector focus initiative in May 2018. • Implementation of data driven campaigns for growth. • Leveraging on the Relationship managers. • Relationship managers upskilling to enhance customer engagement • Implementation of the Digital strategy for • Cooperatives Co-op consultancy-consulting for the cooperative movement. So far 2885 consultancies have been carried out.

Customer experience that is seamless across all our touch points.	• Covid_19 Pandemic has shifted customer preferences further to the alternative channels away from the brick and mortar. • Customer Centricity in all financial solutions is paramount. • High expectations on quality service across all touch points (Distinctive Customer Experience). • Demand for innovative, convenient and affordable digital solutions. 90% of the population is financially included. • Confidentiality and data safety. • Cyber security. • Effective communication and complaints resolution mechanism.	• Customers may switch to competition due to poor service experience or lack of innovative products and services. • Increased digital penetration comes with information security challenges. • Poor handling of customer complaints could lead to customer loss to competition.	• Opportunity to grow our brand equity through the customer support during this difficult pandemic environment. • Opportunity to offer a wide array of innovative products across our delivery channels leading to increased customer numbers, satisfaction and loyalty. • Opportunity to deepen our brand visibility, attract and retain more customers.	• Throughout the pandemic period, we have provided safe banking channels and restructured facilities for customers who are unable to service their facilities. This response is detailed above in the Covid-19 assessment, impact and response section of this report. • Sustained Customer Centricity • Implementation of the Kenya Banking Sector Charter is on course. • Implementation of the recommendations of the Banking Industry PwDs (People living with disabilities) Pilot Project Report, by InABLE in collaboration with Kenya Bankers Association and Financial Sector Deepening (FSD Kenya). Co-operative bank Ltd was among the 7 banks that participated in the PWDs digital accessibility study. • Continued financial inclusion through all our channels; (177 branches spread in 44 counties, Mobile, Internet and Agent banking channels) to reach our customers in the most convenient and efficient manner. • Heavy investment in customer experience infrastructure such as CRM, 24-hour contact Centre, a customer centric business model and secure systems (SIEM application). • A dedicated ICT Risk Unit to ensure proactive management of cyber/data risks. • Proactive resolution of system exceptions. • Optimum systems availability (over 98%) • The bank trained over 2903 staff on offering supreme customer service to both internal and external customers. • Queue time of less than 15 minutes. • Dedicated social media resources to respond to customer feedback, queries and complaints.

Tea pickers at Kipsigis Highlands Multi-Purpose Co-operative Society adopt modern tea picking technology at one of the societies tea farms financed by the bank. Co-operative Bank is the leading financial partner to Co-operative Societies and Saccos in Kenya.

Operating efficiency driven by digitization, innovative products & Processes, efficient business models, and staff productivity.	• Digitization and innovation focus for growth and efficiency. • The ongoing pandemic has impacted business models requiring Banks to swiftly adapt to continue providing financial services. • Continuous Banking disruption. • Data analytics and strategic partnerships especially Fintechs. • Demand for specialized skills in some areas. • Staff productivity, training, retention and welfare. • Cost rationalization/ optimization."	• Continuous changes in ICT are costly. • Competition for specialized skills In ICT and data analytics. • Information security and cyber security challenges.	• Optimize the bank's huge investment in digitization and digital channels to deepen penetration in the market. • Growth in business sectors that are still vibrant • Increased non-funded income from increased business volumes and enhanced products and services. • Opportunity to enhance operating, process and overall cost efficiency as customer preferences shift. • Leveraging on data analytics to grow business in focus areas such as E-Credit, E-collect and data driven campaigns. • Competitive Employee value Proposition enabling retention of specialized skills.	• Transformation initiatives that continue to enhance growth and efficiency. • ICT infrastructure that supports growth and efficiency. We have an ICT strategy tha guides us on optimal ICT Investment. The Bank is currently in the process of changing the core banking system to enhance innovation, customer satisfaction and cost efficiency. • Adequate skills to meet current and future needs. • Business Process Management System for enhanced efficiency. • Rolled out Omnichannel: A robust digital platform that enables us to offer enhanced digital experiences to our customers. (Co-op online/internet banking for corporates and MSMEs with enhanced features) • Channels and system service availability and uptime of over 98%. • Over 90% of our transactions were done on alternative channels in 2020. • Continued leveraging on data analytics and Business Intelligence. • E- Credit uptake, over Kshs. 122.2B disbursed. • Successful Fintech engagement framework that guides all our fintech partnerships, current and potential. • The Bank has in place a cybersecurity strategy that drives its Cybersecurity program. The strategy along with the ICT Risk and Control policy framework governs the direction of its cybersecurity initiatives. The Bank has implemented a Security Operations Centre (SOC) to provide 24-hour security monitoring capability, event notification, and incident management • Optimization of the SAP Enterprise Resource Planning (ERP) solution • Performance rigor & rhythms (DILO activation) to enhance staff productivity.
Optimal Enterprise Risk and Compliance in the dynamic environment.	• Proactive enterprise risk management framework that is capable of managing the risks in our enterprise risk universe. • Credit risk- Non-Performing Loans. • Enhanced regulatory and compliance environment (AML/KYC, Guidelines to manage the effects of Covid_19) • Well trained and knowledgeable staff on risk and compliance issues. • Demand for specialized skills in Data protection and cyber security.	• In 2020, due to the ongoing Covid_19 pandemic, various risks were elevated. Of particular concern was Credit Risk increase. • Pillar I and Pillar II risks detailed in the integrated Risk Management Review section of this report.	• Value preservation in ensuring minimal financial and non-financial loss due to manageable risks. • Higher value created as opportunities that arise in risk management are taken up. E.g. training MSMEs on how to run sustainable businesses thereby gaining more customers and minimizing MSME credit risk. • Staff productivity through enhanced training. • Increased social and relationship capital in engaging and implementing regulations and guidelines.	• We have in place a proactive enterprise risk management framework as detailed in the Integrated Risk Management Review section of this report. • Enterprise risk management at the core of our business models. • Proactive NPL management is a key focus area in Transformation. Key projects are detailed in the strategic focus section of this report. • Strict enforcement of regulatory guidelines. • Continuous staff training and engagement on risk and compliance issues. • Well-resourced Internal Audit, Compliance, Risk management and ICT Risk departments in place. • Proactive Data protection • Departmental risk champions actively engaged in risk processes. • We have maintained good relations with our regulators and implemented guidelines and regulations. • Reviewed Bank Policies and Procedures to ensure compliance

Operate as a good corporate citizen.	Economic, Social and environmental issues discussed in detail in the Creating Sustainable Value section of this report under the following focus areas; • Sustained Economic growth, socio-economic empowerment and Economic Resource efficiency. • Sustainable Social Responsibility towards our staff, customers, community and all our other stakeholders. • Positive environmental Impact.	• Tough economic environment directly impacts returns/ margins and hence the economic resources available for economic, social and environmental investment. • Social and Environmental challenges (Climate Change) that require concerted effort by both private and public enterprises in terms of policy and financial investment.	• Partner with various stakeholders and adopt strategies geared towards addressing economic, social and environmental challenges and emerging areas for long term value creation. • Long term International Funding partners for specific credit lines • Kenya Bankers Sustainable Finance Initiatives adoption • United Nations Sustainable Development Goals achievement. • International finance institutions that seek to impart best practice for sustainable business models. E.g. IFC • Cost savings associated with resource-efficient business models, compliance with regulations, staff welfare and initiatives geared towards environmental resource efficiency.	• Sustained stakeholder support to ensure that we continue to support economic, social and environmental sustainability. • Kshs. 31.8 Billion Economic Value added and distributed in 2020. • Sustained financial performance (PBT Kshs. 14.3B-in a tough operating environment) and inclusive products and services through good governance, proactive strategies and optimal enterprise risk management. Over Kshs. 286.6B in lending and Kshs. 378.9B in deposits supporting key sectors. • Taxes paid- Kshs. 3.5 Billion in 2020. • Employment to 4628 well trained, motivated and diverse staff members. Staff welfare program is a key priority. • 116,000 (with 10,750 customers trained) MSMEs on boarded on our new offering that seeks to support MSMEs to have resilient businesses through financial and non-financial services. We are participating in the MSME Credit Guarantee Fund. • The bank conducted a total of 13 clinics/MSMEs networking forums in 2020 whereby the bank helps them identify available opportunities, the economic outlook and possible challenges and solutions in the operating environment. • Co-op foundation support to bright but needy students (7713 since inception). • Capacity building of the co-operative movement (2885 consultancies) • Recycle, reuse, reduce model for resource efficiency. Solar powered water heating introduced, we are also using less paper, electricity, water and diesel. • We follow the IFC exclusion list in all our lending to ensure sustainable responsible lending. • Engagement in social initiatives. Over Kes. 120Million towards charity, sponsorship and donations (Covid-19 emergency fund (Kshs. 100 Million) • Responsible Business practices and compliance to set rules and regulations • We publish a Sustainability and integrated report annually on our website."

OPERATING ENVIRONMENT

Economic Performance

The Kenyan economy is estimated to have cooled significantly in 2020 to register a growth of 0.6% from a growth of 5.4% in 2019. This is the lowest growth registered by the economy since the global financial crisis of 2008 when the economy grew by 0.2%. The decline was occasioned by the outbreak of covid-19 pandemic which led to massive disruption of global supply chains and cessation of international travel. At the domestic level, the government instituted measures to combat the spread of the virus that included restriction of movement in and out of some counties, closure of learning institutions and some businesses especially those in accommodation and food services which constrained performance in most sectors of the economy. In 2021, the economy is projected to recover and grow by 6.4%.

Overall inflation was well anchored in 2020 with the average inflation rate coming in at 5.3% compared to 5.2% in 2019. The marginal increase in inflation was on account of fuel and food inflation which averaged 7.8% and 9.3% in 2020 compared to 5.9% and 6.1% respectively in 2019. In 2021, inflation is projected to average between 5.5% to 6.0% on account of recovering global oil demand and the currently mature desert locust swarm infestations ongoing in central and northern Kenya. The invasion is expected to persist with the upcoming March to May long rains with hopper invasions in coastal areas.

The Kenyan shilling averaged 106.5 against the dollar in 2020 compared to 102 in 2019. The 4.4% depreciation was occasioned by high uncertainty in the market due to covid-19 pandemic, reduced receipts from tourism and transport sectors. The shilling was however, supported by strong remittance inflows which defied the covid-19 pandemic and a lower import bill in 2020.

The Central bank of Kenya maintained an accommodative monetary policy in 2020 to help the economy navigate through the covid-19 pandemic. The CBK reviewed the CBR downwards from 8.5% to 7.0% in April 2020 and CRR from 5.25% to 4.25% to add much needed liquidity in the economy. The CBK is expected to maintain an accommodative policy stance in 2021 to anchor the economy on a recovery path. The 91,182 & 364 government papers averaged 6.85%,7.51% & 8.56% in 2020 compared to 6.92%,7.87% & 9.29% in 2019.

Growth in private sector credit stood at 8.4% in the 12-months to December 2020 compared to 7.1% in December 2019. Strong growth was witnessed in manufacturing, transport and communication, agriculture, real estate and consumer durables. In order to provide relief to borrowers in the wake of covid-19 pandemic, the banking sector restructured a total of KES 1.63 Trillion (54.2% of the total banking sector loan book).

Kenya's public debt grew by 20.4% year on year to KSH 7,281.83Bn in December 2020, driven by 22.1% growth in external debt and 18.6% in domestic debt. The proportion of external to domestic debt stood at 52.1% to 47.9% in 2020 compared to 51.4% & 48.6% in 2019.

Our Response

The bank took cognizance of the tough operating environment in 2020 to implement a raft of measures to cushion our customers, staff and other stakeholders against the effects of covid-19. As of December 2020, the bank had restructured loans totaling KES 49 Billion to cushion our customers from the economic ramifications of covid-19, instituted a robust work from home programme to limit the spread of covid-19 pandemic in line with the ministry of health guidelines, has ensured availability of masks & sanitizers for all members of staff and donated KES 100 Million to the Private sector-led Covid-19 Emergency Response Fund to support critical medical supplies and equipment such as ventilators.

Legal/Regulatory Environment

The financial services sector came under enhanced supervision last year with the operating environment facing a myriad of challenges. The banking sector specifically, saw a number of regulations from the central bank of Kenya (CBK) as it sought to ensure stability in the wake of covid-19 pandemic. The main highlights in 2020 include; restructuring of loans affected by the pandemic and which were performing as of 2nd March 2020, removal of charges for mobile money transactions of up to Ksh.1,000 and on transfers between mobile money wallets and bank accounts and requirements to revise pricing structures for Payment Service Providers PSPs (took effect in January 2021).The CBK has since issued additional guidelines allowing resumption of charges for transactions through bank specific (in house) mobile money wallets.

In 2020, the Kenyan parliament enacted the 2020 tax amendment laws which introduced a raft of measures to cushion the public and the economy against the economic ramifications of the covid-19 pandemic. Some of the notable changes included; the reduction of corporate income tax rate for resident companies from 30% to 25% which will apply for the 2020 year of income (EY), VAT rate was reduced from 16% to 14% while the individual tax rates bands were expanded with the minimum monthly taxable income rising to amounts above KES24,000 and the highest tax rate chargeable at 25%.

Our Response

The regulations instituted ensured proper functioning of the banking industry as it brought stabilizing effect in the market amid the raging pandemic. The reduction of corporate tax rate was timely as businesses saw their operations disrupted. As a bank, we continued with our proactive and continuous training and sensitization of our staff on key and emerging trends approach. We have a dedicated compliance department whose responsibility is to track all emerging trends and ensuring compliance internally.

The bank has already sent its pricing structure on PSPs to the regulator for approval.

Political Environment

The year saw the political temperature rise in the country with the constitutional amendment drive under the Building Bridges initiative expected to culminate into a referendum in mid-2021. This is expected to persist in 2021 with campaigns for the constitutional changes expected to be highly competitive and emotive. This poses a risk to economic recovery prospects in 2021-2022 period given the country is slated for a general election in 2022.

Our Response

The bank continues to monitor the political environment and maintains its neutral stance.

Digital Banking for Enhanced Competitiveness

In 2020, the demand for digital services picked with the covid-19 pandemic accelerating the need to adopt safe practices to limit the spread of the virus through cash handling. Mobile and other non-cash payments modes were encouraged, and this trend is expected to outlast covid-19 as financial technology and digitization continue to transform the banking industry. Kenya's high mobile subscription and a younger population means the demand for digital services will continue to rise as customers seek convenience and flexibility in their transacting lifecycle. This has come with its own share of challenges; Cyber security risks & customers airing their grievances on social media platforms.

Our Response

The bank through its strong digital journey framework, continues to adapt to technological changes without compromising on security, usability and stability. In order to re-invent and catalyze its performance the bank has;

a. Maintained a strong social media presence to address queries raised by customers with a team to analyze social media trends on a daily basis.
b. Enhanced automation of processes to improve efficiency,
c. We have acquired systems, knowledge and skills to defend our systems, networks and data from cyber-attacks,
d. Enhanced system connectivity and interoperability to create unrivalled user experience,
e. Leveraging on data & analytics in decision making,
f. Continuous innovations to meet customer needs and changing expectations and
g. Exploring opportunities for collaboration with fintech and system developers with a view to deploring the best of breed in terms technology platforms.

Athletics legend and Co-op Bank customer Kipchoge Keino receives a gift from the bank's Director for Retail and Business William Ndumia and the manager of the new Co-op Bank branch on Kenyatta Street in Eldoret Phyllis Limo during the opening of the new branch, which is the third Co-op Bank branch in the town.

Strategic Focus Review

Our strategic focus is key to our short, medium- and long-term ability to create value for all our stakeholders. The 'soaring eagle' Transformation initiatives have been a key enabler helping us to stay on a growth and efficiency trajectory. In implementing our strategy, the capitals, we employ go through a trade off as shown in the Capitals and Trade off section of this report. Creating Sustainable Value and the co-op bank model sections of this report show in detail how we create sustainable value. In all our strategic decisions, enterprise risk management takes a central position to ensure that we are taking on optimum risk as we pursue all the opportunities available to us (see Integrated risk management review section). Matters that are material to us are identified, prioritized and managed within the enterprise risk management framework and incorporated into strategic decision making (see Material Matters Management section).

Covid-19 pandemic impacted our short-term plans, but the bank was agile in its response as shown in the material matters section of this report. We continue to proactively monitor the trends of the Pandemic and impact on the Bank's strategic objectives, business operations and work plans. We have adopted and implemented proactive enterprise risk management initiatives to ensure uninterrupted business operations.

2020-2024 Corporate Strategic Plan

Generally, the Banking environment has become very dynamic in regulation, business models and competitor landscape with Telecommunication Companies (Telcos) and Financial Technology companies (Fintechs) eroding the Traditional Banks market share. Technology continues to play a key role in the dynamic environment, presenting new opportunities to generate revenue and improve efficiency but also an increase in cyber risk. We continue to leverage on our digital transformation and innovation to ensure that we compete effectively. This Corporate Strategic Plan enables us to affirm our strategic direction, providing objectives and goals that will be pursued for growth and progress across the group. It enables us to be proactive, by better understanding opportunities and threats that are in the horizon, and efficient deployment of resources. It will increase our operational efficiency, help us to increase market share and profitability, and make the overall business more sustainable in the long term. Our focus will thus be on;

- World class Customer experience to ensure complete customer loyalty.
- New Frontiers in growing Liability and Non-Funded Income leveraging on Sales Force Effectiveness, our strong customer base of 8.8 Million and the ongoing MSME Transformation thus increasing sales.
- Enhanced leasing business supported by the joint venture with Super Group.
- Cost optimization- Critical focus on lowering our overall cost to income ratio through increased efficiencies.
- Operational excellence ensuring optimal systems uptime, optimized operational processes and data security.
- Digital Transformation to take the Bank into the new frontier of digitalization.
- Collaboration with Fintechs to synergize their innovative capabilities.
- Quality loan Book growth in the IFRS 9 environment leveraging on Sales Force Effectiveness and proactive credit management.
- Proactive Regulatory compliance
- Staff productivity and a culture of high performance
- Sustained Enterprise risk management
- Synergized subsidiary business that will generate new revenue streams.

DONE DEAL: Chief Commercial Officer Co-op Bank Fleet Africa Leasing Anthony Mbau, Co-op Bank's Director Corporate & Institutional Banking Jacquelyn Waithaka and the Finance Director DT Dobie Srinivas Cherevu exchange deal documents after the signing of the Co-op Bank-DT Dobie Mercedes bus deal offering upto 95% financing for purchase of Mercedes buses with an extended repayment period of upto 60 months.

The implementation of the 5-year strategic plan is guided by the Key Strategic Objectives approved by the board of directors as shown by the strategic themes hereunder;

Strategic Themes	**Key Strategic Performance Indicator**	**Key achievement**

Aggressive deepening of our dominance in the Kenya Market	• Return on Average Assets (ROAA)
	• Return on Average Equity (ROAE)
	• Dividend per share
	• Market share by asset size
	• Market share by Deposit Book.
	• Market share by Loan Book.
	• Market Capitalization (Kshs. B)
	• Market share for all business segments, product houses and Channels.
	• Transformation Project Initiatives Implementation.
		• ROAA 2.2% (2019 3.3%)
		• ROAE 12.7% (2019 19.2%)
		• Dividend per share Kshs.1.00
		• Market share top nine Banks:
		  • Asset Size 2020 11%
		  • Customer Deposit 2020 11%
		  • Net Loans 2020 12%
		• Market Capitalization Kshs. 73.3B (2019 95.5B)
		• Our Market share for all business segments, product houses and Channels maintained a positive outlook.
		• Most sustainable Bank (Kenya Bankers Catalyst Awards 2019)
		• We continued with Transformation, an efficiency and growth project that we began in 2014 and it continues to be a key strategic enabler in every area of our Business. See the section below for details.
		• Undertook a Credit Risk Adaptation Project aimed at End-to-end assessment of credit risk, strengthen portfolio assessment and risk frameworks, enhance Collections (detailed later in this section of the report)

Dominant provider of financial services to the Co-operative Movement in Kenya and the region	• Successful implementation of the Digital Co-operatives project. • Co-operatives deposit growth • Co-operatives Loan book growth • Co-operative Bank of South Sudan performance.	• Implementation of the Digital strategy for Cooperatives is on track. We had specific focus on Co-operatives as detailed in the section below on our Transformation Project. • The Cooperatives deposits and loan book grew by Kes.5.02Bn in 2020. • Cooperative Bank of South Sudan PBT Kshs. (-1.65Bn loss) (2019 loss Kshs. 344.7M)
Customer experience that is seamless across all our touch points.	• Digitization of customer journeys. • Staff training on DCE (Distinctive Customer Experience) • Customer Centric Model	• We continued implementing key customer journey digitization journeys to meet customer expectations (92% of transactions were on digital channels). Key customer project rolled out was the Omnichannel (Discussed in the Capitals Section of this report) • 2903 Staff members underwent training virtually and at our Leadership and management Centre on Distinctive Customer Experience. • We sustained our focus on customer centricity in our business model.
Operating efficiency driven by digitization, innovative products & Processes, efficient business models, and staff productivity.	• Competitive Cost to Income ratio • System and Channels service availability and Uptime of 100% • % of transactions in digital channels • Product innovation/development • Digitization as per the road maps • Cost to be within the budget • At least 90% of staff meeting and exceeding targets • Increased uptake of corporate wellness and staff welfare interventions	Digitization, operational efficiency, Proactive Risk management has led to cost management, revenue generation and optimal risk uptake. • Our cost to income ratio has increased to 58% from 52% in 2019 primarily driven by the absorption of currency translation loss from our South Sudan operation. • System and Channels service availability and Uptime- Averaged 98.72% • 92% (2019 89%) of our transactions were performed on digital channels • E- Credit deployed to support Business growth. Disbursement of Kshs. 58.5B in 2020. • Digitization progressing as per the roadmap. Key digitization projects are; Omnichannel and Core banking. • 93% of staff met and exceeded targets • Corporate Wellness plan for 2020 key focus was on Covid-19 initiatives. (Detailed in the Creating Sustainable Value section of this Integrated Report.)

Optimal Enterprise Risk and Compliance in the dynamic environment.	• Optimal NPL management
	• Audit rating of at least Satisfactory
	• Compliance rating of at least Satisfactory
	• KPI of key control functions: Compliance, Internal Audit & Risk Management Departments.
	• Timely and accurate reporting to all regulatory bodies including;
	  ▪ Central Bank of Kenya
	  ▪ Capital Markets Authority
	  ▪ Nairobi Securities Exchange
	  ▪ Insurance Regulatory Authority
	  ▪ External Funding Partners
	  ▪ Bank of South Sudan
	• Compliance to regulatory requirements
	• Review of Bank Policies and Procedures to ensure compliance
		• NPL of 18.1% (2019 9.9%). We continue to carry out optimal NPL management. See the Transformation Section below for details on the key initiatives around credit management including the following key projects;
		  • Credit Risk Adaptation Project "Project Kilele"
		  • Decentralization of Loan Portfolio Management Enabling Project 3C
		• Audit rating - Satisfactory
		• Compliance rating - Satisfactory
		• KPI of key control functions: Compliance, Internal Audit & Risk Management Departments. All departments achieved their objectives.
		• Timely and accurate reporting to all regulatory bodies
		• Compliance to regulatory requirements continues to be a key focus.
		• Bank Policies and Procedures reviewed to ensure compliance

Operate as a good corporate citizen.	• As detailed in the Bank's Sustainability document • SOCIAL • Co-op Foundation- supporting education of needy, bright students • Co-op Consultancy and Insurance Agency- Capacity building of the Co-operative Movement • Employer of choice- Reward, Gender Parity, skilling, resourcing. Effective performance and consequence management platform • Corporate Social responsibility initiatives • Social responsibility initiatives by individual staff teams • ECONOMIC • Sustained good Financial Performance • Economic benefit through lending to MSMEs and Commercial Clientele leading to employment and development in line with Vision 2030 and the Big Four Agenda. • Responsible Business practices and compliance to set rules and regulations • ENVIRONMENTAL • Green lending • Recycle, Reuse and Reduce • Direct involvement in environmental management	We continue to operate as a responsible corporate citizen as detailed in the Creating Sustainable Value section of this Integrated Report. Key achievements for 2020 are also highlighted therein. Our focus is Economic, Social and Environmental Sustainability In collaboration with our long-term funding partners; • USD 300 Million in partnership with IFC and Philips (a leading health technology company) to help smaller businesses in Africa's health sector purchase essential medical equipment and strengthen their response to COVID-19 and other pressing healthcare challenges. • USD 10 Million in partnership with Eco. Business Fund to finance sustainable agriculture. • USD 75 Million in partnership with IFC to support customers to better cope with the disruptions brought about by the pandemic, especially those operating in the Micro small and medium enterprises (MSMEs), Businesses undertaking Climate-Smart Projects, including agricultural inputs and sustainable agricultural practices, renewable energy, energy efficiency and related areas. We publish an annual sustainability report on our website

Transformation

In 2014, to sustain the growth momentum and put the group on a new growth trajectory, the Board of Directors appointed McKinsey & Co. for a growth and efficiency review. In the intervening period, the Group has continued to reap many benefits from an institutionalized transformation including;

- Set up of a Transformation office that has been key in follow up and seamless implementation of all the transformation initiatives.
- Re-organized branch set up for better customer experience, and drastically reduced branch customer wait-time to 8 min.
- End to end Migration of transactions to alternative banking channels with 92% of our transaction being in Alternative Banking Channels and only 8% in branches.
- Market launch of a unique competitive MSME proposition designed to shape the future of world-class African entrepreneurs. Milestones under the program include:

    - 10,750 customers trained on business management and financial skills
    - 116,000 clients on boarded on the new packages (Gold, Silver, Bronze)
    - Average Product holding within MSME packages stand at 3.4
    - Supply chain financing: 91 Anchors and 512 counter parties on boarded to date.
    - Non-Financial Services (NFS): 152 NFS clinics, 13 Networking forums,3 international business trips.
    - Development of the new E-credit score card.

- E-credit growth focus – Kshs 58.5 Billion disbursed by FY2020.
- Implemented a customer centric relationship model: One RM, One Customer, Many products;
    - Re-organized our relationship management model for Corporate Banking
    - Re-tooled our Co-operatives banking teams
    - Our tellers are now Sales and Service advisors.
- Centralized operations support and Digitization through shared services.
    - Omni-channel/seamless digital offering Implementation
    - CRM 365 implementation as single source of sales information. Fully adopted across the bank.
    - Business Process Management System (BPMS) system implementation.
    - E-commerce business growth through secure online payments through Verified By Visa enablement
    - Money Transfer Organizations partnerships to drive international remittances
    - Innovations and partnerships framework of engagement with fintechs developed
    - Business to Business (B2B) integration developed.
- Proactive management of our cost to income ratio - 58% FY2020
- Data analytics. Improved access to information throughout the organization.
- An effective performance and consequence management platform.

We are confident that the 'soaring eagle' transformation initiatives will continue to offer key strategic support in the achievement of the Group's goals under the following programs and enablers:

1. Branch Transformation (MSME & Retail Sales Force Effectiveness)

- Micro, Small and Medium Enterprises (MSME) Transformation. To leverage and unlock the huge and lucrative potential of the MSME segment.
- Retail SFE. To leverage and unlock the 177-branch network potential for Asset, deposit and NFI growth by segments and product houses.
- Leverage on Channels for Sales and non-funded income (Alternative Banking Transformation).

2. Sales Force Effectiveness for Corporate and Wholesale Banking

3. Sales Force Effectiveness for Co-operatives Banking including implementation of the Digital strategy for Cooperative

4. Operational Efficiency

- Distinctive Customer Experience initiatives
- Process automation – focusing on top 20 customer journeys for automation through Business Process Management System (BPMS) and continuous process improvement
- Ensure implementation of Compliance, Risk and Anti money Laundering (AML) initiatives to meet all regulatory guidelines
- Data governance
- Continuous review of the 8 types of Waste across structure, processes and policy i.e. Intellectual, motion, rework, overproduction, unnecessary processing, transportation, inventory and waiting to free up time for sales at branch and head office units

5. Digitization and innovation

Drive implementation and full benefit realization of the ongoing 8 Digital initiatives in partnership with IFC;

i. Omni-channel
ii. Digital Hub and Innovation Framework
iii. Digital Technology Capability Review
iv. Core Banking System
v. Product Rationalization
vi. Open Banking
vii. CRM & BPM (Automation) Support
viii. Digital Co-operatives

6. NPL Management- to reduce bank's provisions and manage NPL ratio to below 5%

- Sustained customer engagement at both pre and post delinquency using various channels: SMS, calls, e-mails, letters and visits.
- Continued analysis of early warning signs -Revamped analysis of portfolio trends (sector/Industry) and assessment of individual clients.
- Offering a range of solutions/cures (Analysis of root causes and identification of possible treatment based on nature of the anoma ly) to customers already in distress.
- Revamped realization process and aggressive marketing of realized collaterals.
- Continuous involvement of all stakeholders in remedial initiatives with clear action plans.
- Continuous improvement of debt recovery through innovative solutions and campaigns

Credit Risk Adaptation Project "Project Kilele"

In October 2020, the Bank engaged McKinsey & Co to conduct a Credit Risk Adaptation project dubbed 'Project Kilele'. The purpose of the project was to undertake an end to end assessment of credit risk management practices through a diagnostic of the risk governance, credit risk appetite, origination and underwriting processes, credit approval process, credit scoring & rating models, as well as pricing. The team was tasked to enhance portfolio management which includes reporting and non-performing loan management to strengthen the risk framework. On the backdrop of the on-going pandemic, in-depth portfolio analysis was undertaken to test against different scenarios on a granular level (client and sector analysis) to bolster proactive decision making to alleviate our customers in distress. The collection platforms were also enhanced to ascertain sustainability of debt management and encompassed client support in the new operating environment.

'Project Kilele' in conjunction with the Transformation Office, has resulted in unparalleled reinvention in credit risk management in the following ways:

a) Stress Testing and Monitoring
b) Project 3C's and Strategic Collections to address the current NPL in Retail and MSME Segments.
c) Growth of MSME & Retail Segments
d) Growth and heightened support in Corporate & Co-operatives.

Decentralization of Loan Portfolio Management Enabling Project 3C

In August, the Bank approved the decentralization of the loan portfolio management to the Branches, Lending Units and Relationship Management / Officers with the aim of enhancing collection activities. The project 3C (Connect, Collect, Cure) entails proactive management of the Credit book re-assigned from Remedial Credit to Branches & Business Segments.

The main objective of the decision was for Business units to:

- Closely pursue the little and or irregular loan payments from the customer. This is further enabled through the wide resource base comprising of Personal Bankers, Business Bankers, Relationship Managers/Officers and Direct Sales Teams.
- Restructure the facility in liaison with Credit Management Division where necessary.

7. Key enablers of our transformation;

These cut across segments, product houses, support functions and our subsidiaries

- Data Analytics and BI -Enhance data driven sales (hit lists and e-credit scoring), frontline accountability, proactive credit manage ment, AML and Compliance.
- Key ICT capability and reliability & Shared Services strategy
- Transformation Office providing Accountability, Tracking and Communication
- Staff productivity. Performance Management, Dialogues and Rhythms
- Agile culture and practice.

Co-opBank Foundation is managing programs in schools across the country aimed at enhancing agriculture productivity and food security. Isiolo Boys High School is a beneficiary of this program

Stakeholder Engagement

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

2020 was a year that called for enhanced stakeholder support as a result of the ongoing Covid_19 Pandemic's economic and social disruption. In the Material matters management section we detail how we supported all our stakeholders.

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

Customers

How we engage our customers

Co-op Bank has 8.8 million customers ranging from Individuals to Micro, Small and medium enterprises, Co-operative Societies, Corporates, Institutions and Government.

Our customer engagement is underpinned by our customer centric model that is also deeply entrenched in our strategic focus and the ongoing 'Soaring Eagle' transformation project. Our universal banking model has allowed us to ensure financial inclusion in Kenya and South Sudan hence widening our customer engagement.

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

Key Expectations

The key expectations of our customers are as follows

- Exceptional customer experience. Our customers want to have a positive experience across all our channels/ touch points, across all our products and with all our staff at all times.
- Fortified our channels to handle transactions and limit branch visits due to Covid-19 safety precautions
- Convenient and safe access to banking services around the clock.
- We provided sanitization points and temperature measurement at all our premises to ensure our customers safety
- Value added banking that is competitive and transparent in pricing.
- End-to-end banking solutions and innovative digital banking solutions.

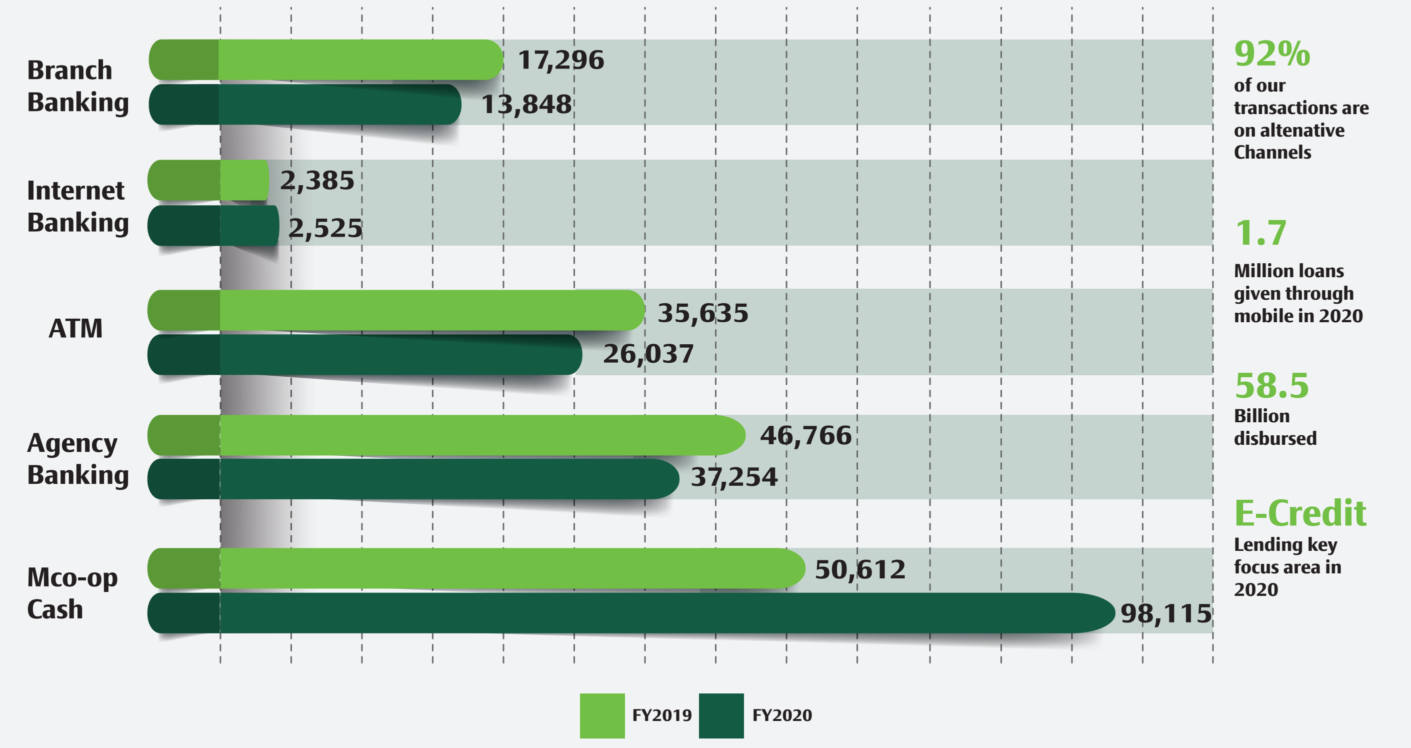
How we respond to the key expectations

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

Innovative Customer Delivery Platforms

Our channels	Our customers
177 Branches	Over 8.8 Million growing direct account holders
Mcoop cash mobile banking (All telco, all products)	Over 5 Million Mcoop Cash Customers
Co-op Kwa Jirani-Over 23,800 agents	Over 115,000 Internet banking Customers
Over 581 ATMs, leading debit card issuer	Over 1.3 Million Saccolink Customers
CoopNet- Internet Banking (Corporate & Retail)	Over 16,000 Diaspora Banking Customers
24 Hour Contact Centre	Over 1.7 million Facebook followers
Self service Kiosks in all our branches	Over 471,000 Twitter followers
Dedicated Diaspora Banking Department	Instagram followers, You Tube subscribers
479 FOSA Branch network	Telegram self service customers
Subsidiaries offering advisory and investment services	
Social Media Banking	

Growing Digital Channels



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

	Retail and Business Banking	Corporate and Institutional Banking	Co-operatives Banking	Co-op Consultancy and Insurance Agency Ltd	Co-op Trust Investment Services Ltd	Kingdom Securities Ltd	Co-op Bank Fleet Africa Leasing Ltd
Deposit/ Instant Access accounts	✓						
Savings Accounts	✓		✓				
Current accounts	✓	✓	✓				
Fixed/Call deposit accounts	✓	✓	✓				
Foreign Exchange	✓	✓	✓				
Payment solutions	✓	✓	✓				
Mobile Banking Loans (E-Credit)	✓						
Trade Finance	✓	✓	✓				
MSME Loans	✓	✓	✓				
Personal/Consumer Loans	✓						
Working Capital Loans	✓	✓	✓				
Asset Finance	✓	✓	✓				
Insurance Premium Financing	✓	✓	✓				
Mortgage Finance	✓	✓	✓				
Banc Assurance	✓	✓	✓	✓			
Consultancy and Capacity Building			✓	✓			
Investment services	✓	✓	✓	✓	✓		
Stock Brokerage	✓	✓	✓	✓		✓	
Leasing	✓	✓	✓				✓

2. We are currently implementing branch transformation that will see our customers access more value-added products through innovative products and bundling and multiple channels.
3. Over 600 Sales and Service Advisors who engage in branch service and operations support, business growth and development.
4. Processes improvement for increased efficiency and hence enhanced customer experience.
5. Proactive and fair dispute resolution.
6. Proactive cyber security management to ensure customer information security. To this end, we have the SIEM (Security information and event management) system. We also have a dedicated ICT information security department with specialized skills to ensure optimal safeguard of our customers.
7. Kenya Banking Sector Charter We are committed to the implementation of the charter which seeks to entrench a responsible and

disciplined banking sector conscious of, and responsive to, the unique socioeconomic realities of the Kenyan people. To this end we have an inter divisional team responsible in ensuring the implementation as envisioned by the Charter;

- Internal Rating Models: Consumer Scorecard and Business Scorecard
- CRB Scores in Digital lending to consumers and MSMEs
- Risk based pricing
- Key Facts Statement (KFS)
- Complaints Handling
- Charges Uploaded on Websites
- Banking Services Pricing Index
- Cost of Credit Disclosures
- Technical Assistance for MSMEs
- Financial Literacy to MSMEs
- Business models and Channels
- Customer Inclusion in Product Development
- Credit Enhancement to MSMEs
- Approval of Implementation Plan
- Reporting

Shareholders

How we engage our shareholders:-
We seek to provide relevant and up to date information about our strategy and performance to existing and potential shareholders.

Key Expectations

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

How we respond to the key expectations

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

1. We held a virtual Annual general meeting in accordance with Covid-19 containment measures.
2. Despite the uncertainty, we maintained our dividend payment at Kshs.1 per share
3. International virtual conferences where we met various existing and potential shareholders.
4. Quarterly investor briefings.
5. One on one meetings on Mteams with the investment professionals.
6. Timely information updates on our website in regard to our performance and strategy.
7. Investor briefings released every quarter.
8. Regular press releases though mainstream and social media and on our website.
9. Analyst Research notes published on our website.

Our Staff

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

We engage our staff in the following ways;

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

Key Expectations

Our staff have the following expectations;

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

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

- Facilitate remote working / Work from home model.
- Drive enhanced staff productivity across the whole bank for sustained profitability of the bank.
- Embed high performance culture.
- Build high impact leadership and organizational culture to impact business.
- Achieve optimal resourcing and mobility to ensure seamless execution of strategy.
- Implement customer centric organizational structures that support strategy execution hence increased staff productivity.
- Implement corporate wellness plan; in 2020 the key focus was on Covid-19 health promotion (Within the year we facilitated 165 health webinars)
- Achieve coaching and learning excellence to build strategic capabilities.
- Deploy talent management strategies and implement appropriate career development interventions.
- Strengthen the Coop Bank Employer Brand by ensuring we drive a compelling employer value proposition internally and ex ternally.
- Inspire employee experience journeys and employee engagement.
- Reward differentiated performance and recognition.
- Incorporate Diversity, inclusivity and corporate wellness.
- Have an innovative, positive and inspiring work environment.
- Proactively comply with regulatory requirements on staff matters.
- Maintain cordial relations with the staff union.
- We continue to foster partnership to ensure that staff interests are addressed timeously.
- Have a proactive policy framework on HR issues as detailed in the sustainability section of this report.

Co-operative Movement

How we engage the Co-operative movement;
Our key engagement with the Co-operative movement is with the Co-operatives themselves (Saccos, Agri cooperatives, Transport, Housing, and Investment Co-operatives), State Department of Co-operatives, County Co-operatives offices, Sacco Societies Regulatory Authority (SASRA), AFA-Coffee Directorate and Ministry of Industrialization and Enterprise development.
We have a dedicated Co-operatives Banking Division to engage our Co-operatives who are the backbone of our organization and have become a key financial inclusion vehicle.

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

1. Virtual and in-person discussions with our dedicated Co-operatives relationship managers.
2. Our branch's relationship officers and managers.
3. Regular visits to their offices.
4. Discussions and engagement through our consultants in the Co-op Consultancy & Insurance Agency subsidiary.
5. Telephone discussions.
6. Participation in their meetings and events.
7. E-mail correspondence.
8. Our 24-hour contact center.
9. Service feedback questionnaire.

Key Expectations

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

How we respond to the key expectations;
We have shifted our approach from product centricey to be customer centricity in order to effectively and wholesomely serve our Cooperatives. This involves gauging their needs appropriately in order to tailor appropriate products and solutions. We continue to be the preferred and trusted partner of the co-operative movement in all the markets that we operate in.

We also ensure that we;

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

Strategic Partners

The Bank has collaborated with our strategic partners in provision of long-term funding aimed at specific projects or sectors;

How we engage our Strategic Partners;

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

Key Expectations:

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

How we respond to the key expectations;

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

Regulators and Policy makers

How we engage our regulators and policy makers

We develop and maintain strong relationships with governments, regulators, industry bodies and other public policy agencies. We engage our regulators through meetings and consultations financial stability. Our regulators include but are not limited to; The Central Bank of Kenya, Capital markets Authority, Nairobi Securities Exchange, Kenya Revenue Authority, Retirements Benefits Authority, Insurance Regulatory Authority, Competition Authority, Bank of South Sudan, Unclaimed Financial Assets Authority, National Environmental Management Authority, Betting Control and Licensing Board Authority and The Government of Kenya.

Key Expectations

Our regulators and policy makers expect the following from us;

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

How we respond to the key expectations

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

Suppliers

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

In 2020 we engaged 1336 local suppliers and 99 foreign suppliers. We paid over Kshs 13.1 Billion to our suppliers. Of this amount, 80% was paid to local suppliers.

Sourcing and Facilities management is anchored on the following;

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

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

How we engage our suppliers;

We engage our suppliers through Newspapers, Meetings, telephone calls, teleconferencing, emails and SRM (Supplier Relationship Management portal on our website) Supplier relationship engagement takes the following two forms;

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

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

Key Expectations

Our suppliers expect

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

How we respond to the key expectations

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

The Community

How we engage the community

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

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

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

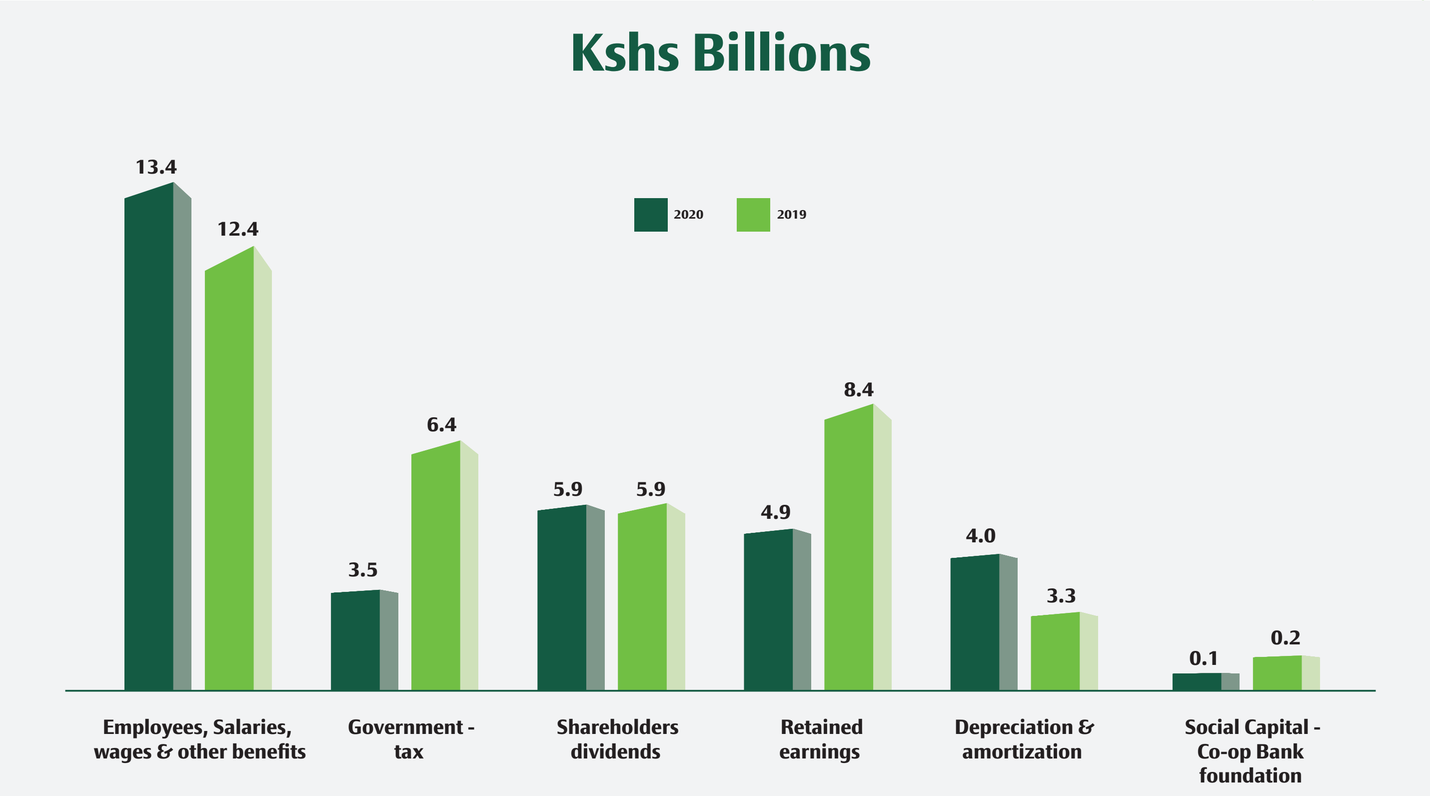
Key Expectations

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

How we respond to the key expectations

1. Accessible and affordable product offering through numerous channels and the co-operative movement.
2. 2885 consultancies done at concessionary rates.
3. 7713 bright and needy students supported through our fully funded Co-opBank Foundation.
4. Financing green initiatives. Renewable energy lending Kshs. 3.4B.
5. Efficiently Managing company resources both financial and non-financial.
6. Protecting Kenya's forest cover through tree planting initiatives.
7. Supporting employee CSR activities that positively impact the environment.
8. Credit is the fuel of economic engine; Our net loans and advances book stands at Kshs.286.6 Billion (2019 266.7 Billion).
9. We contribute to the creation of prosperity and to the stability of our country through paying taxes. In 2020, the Group paid Ksh.3.5 Billion in corporate taxes.
10. As part of the wider community in which we operate, the bank collaborates with various stakeholders involved in poverty eradication, advancement of education, inadequate access to health services and financial services and various other activities addressing local challenges.
11. In an effort to improve the use of modern agricultural technology in the Coconut Sector, we collaborated with Amiran Kenya to finance provision of greenhouse technology to small scale farmers in the country.
12. To extend the quality of health services, the bank collaborated with the Kenya Diabetes Management and Information Centre as well as the Kenya Psychological Association.
13. The bank takes part in activities of national importance and we supported the Kenya National Assembly Prayer Day. We partnered with First Lady's Half Marathon (Kshs.20 Million) and contributed Ksh.100 Million to the national covid-19 response fund.

Value Distribution



Kawaha Barracks team celebrates after emerging overall winners of this year's KDF Annual Cross-country Championship held at Moi Airbase in Eastleigh Nairobi on Friday 29 January 2021.

Creating Sustainable Value

Sustainable Banking Model

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

We enable people, businesses and society to grow in a way that is sustainable in the long-term. Our stakeholders expect the bank to demonstrate its social and ecological impact. We do this by continually engaging our stakeholders and ensuring that our operations mutually benefit the bank and the community without infringing on the social or ecological integrity. Sustainability strategy is integrated in our business model and consists of a three-pronged approach;

- Economic sustainability,
- Social sustainability
- Environmental stewardship.

Our sustainability approach aims to balance social, economic and environmental risks and opportunities through the deliberate use of our products and services, collaboration and partnership, and by managing our own impact. In the Material Matters Management section of this report we analyze broad issues that guide our Economic, Social and Environmental sustainability priorities. Detailed therein is our support to to all stakeholders as a result of the ongoing Covid-19 Pandemic.

Our environmental and social management (ESM) policy approved by the board of directors, fully integrates the Kenya Bankers' Association Sustainable Finance Guiding Principles. The ESM policy governs and guides the bank on Social, Economic and Environmental issues. The Policy is applied in conjunction with all Bank Policies and Risk Management Framework.

Sustainability through Policy and Governance in Co-opBank is deep rooted. Our commitment is to contribute sustainably to the achievement of the following goals;

1. Kenya Bankers' Association Sustainable Finance Initiatives guidelines
2. UN Sustainable Development Goals
3. Kenya's Vision 2030 and the Big Four Agenda (accelerates Vision 2030)
4. Our Corporate Strategic Plan (2020-2024).

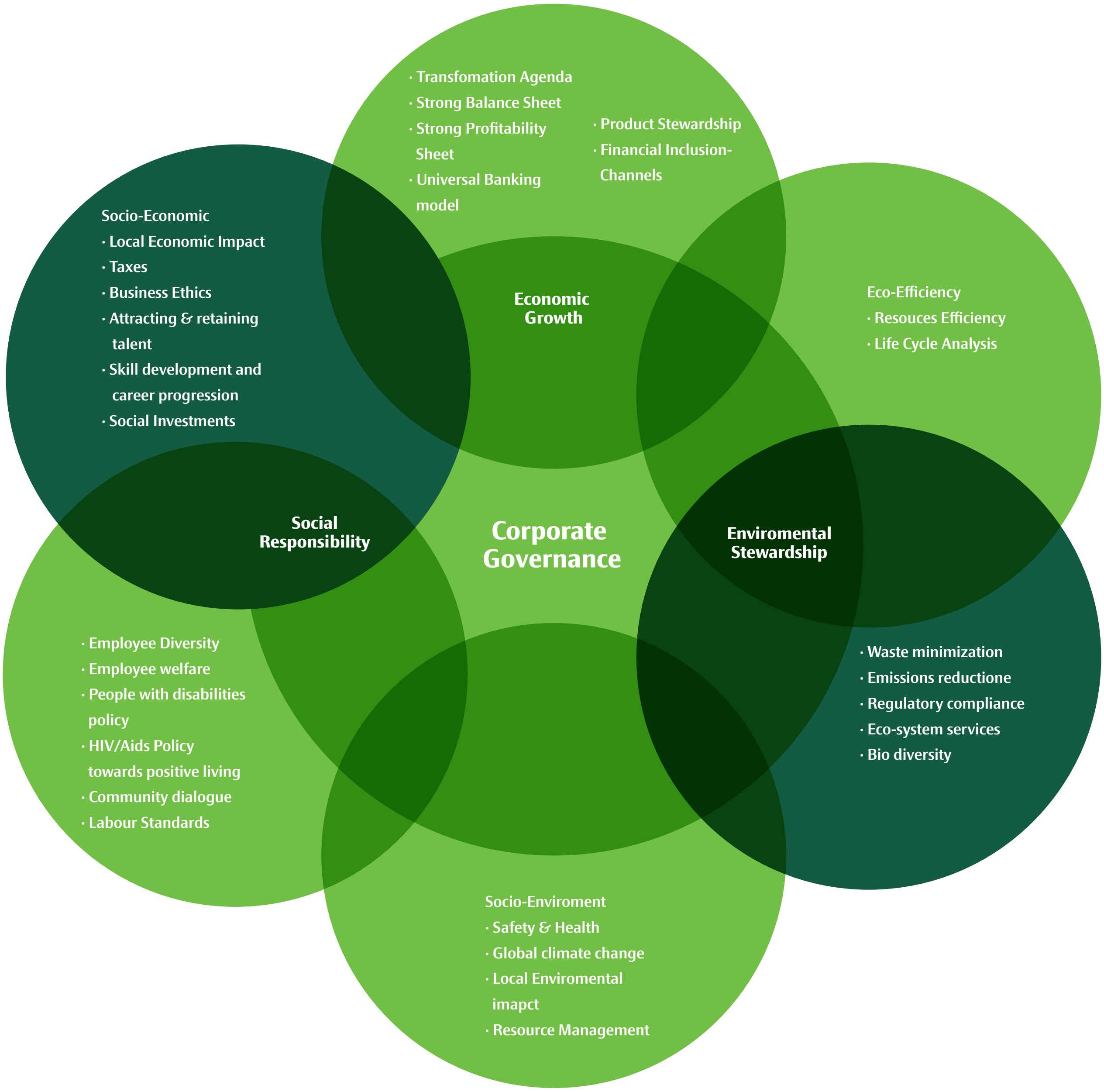
(At the end of this sustainability section, we illustrate how these four are integrated in our sustainability strategy).

The policy incorporates best practice by ensuring:

1. We have an Environment and Social Management System (ESMS) that is integrated in our day to day activities.
2. We have a formal Environmental & Social (E&S) Policy that guides us in our day to day functions.
3. We apply the E&S policy in conjunction with other policies within our enterprise risk management framework hence assuring of a holistic approach to risk.
4. The Environmental and Social (E&S) Policy and Environmental and Social Management System (ESMS) are governed and owned right from the Board of Directors level and are in line with our strategic objectives, mission and vision.
5. We have referred to the guidelines provided by the International Finance Corporation (IFC) in developing our policy, which we have customized based on our view of our portfolio, structure and responsibilities.
6. Our ESMS includes application of the IFC exclusion list for all our lending.
7. We have adopted the Kenya Bankers Association Sustainable Finance guiding principles and minimum standards in totality.
8. We invest directly on E&S by partnering with development financial institutions (up to Kshs. 46B in December 2020) to provide special credit lines that promote E&S sustainability.
9. We ensure continuous training for all our staff to ensure best practice.
10. We have leveraged on technology to ensure that all the covenants reached in the projects we lend are tracked electronically hence making sure they are all achieved.
11. We conduct our own activities with regard to the environment and the communities within which we operate.

The following are our sustainability priority areas:

Our Approach To Sustainability



Sustainability in summary:

The following summary highlights our sustainability priority areas;

1. **ECONOMIC**
   - a) SOCIO-ECONOMIC
   - ▪ Local Economic Impact
   - ▪ Taxes
   - ▪ Business Ethics
   - ▪ Economic contribution through employment
   - ▪ Social Investments:
   - ▪ Co-op Bank foundation
   - ▪ Co-op Consultancy & Insurance Agency Ltd
   - ▪ CoopBank staff welfare teams
   - b) ECO-EFFICIENCY
   - ▪ Resource Efficiency, Less Paper, Less Electricity, Less Fuel
   - ▪ Product Life -cycle analysis

2. **SOCIAL SUSTAINABILITY INITIATIVES**
   - Employee diversity
   - Employee welfare
   - HR policy framework
   - Whistle-blowing policy
   - People with disabilities policy
   - Attracting and retaining talent
   - Skills development and career progression
   - Community dialogue
   - Labour standards
   - Responsible competition
   - Responsible supply chain and supplier relations
   - Responsible marketing and advertisement
   - Product stewardship

3. **SOCIO-ENVIRONMENTAL**
   - Staff Health, Safety & Wellness Programme
   - Global climate change
   - Local environment impact

4. **ENVIRONMENTAL**
   - Waste minimization/ resource management
   - Emissions reduction
   - Regulatory compliance
   - Ecosystem services
   - Biodiversity

Sustainability in detail:

This section discusses our sustainability priority areas in detail.

1. **ECONOMIC**

As significant players in a wide economic ecosystem, we know our actions impact the wider economy. We provide specialized financial services, which reduce the cost of obtaining information about savings, borrowing and other investment opportunities. These financial services help to make the overall economy more efficient. We run our business in a way that ensures that our growth is sustainable in the long run and leaves minimal adverse impact on natural resources and the environment for the future generations. We have distributed over Kshs.31.8 Billion in economic value as detailed in the Value distribution section of this integrated report.

a) SOCIO-ECONOMIC

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

Local Economic Impact

- We are an agent of economic growth. We recognize that for there to be economic growth we have to offer sustainable financial intermediation in the economy by connecting the surplus (Deposits) and the deficit (Loans). Despite the challenges we faced in 2020 our total mobilized deposits grew by 13.8%.
- Credit is the fuel of economic engine; over the last 5 years our net loans and advances to customers have grown at a compound annual rate of 6.6%. As at December 2020, Kes.286.6 Billion was outstanding as loans and advances to public and private enterprises.
- As one of Kenya's top corporations we contribute to the country's economic growth through provision of responsible, innovative banking products and services and a variety of channels to make banking convenient and more accessible to the masses.
- In May 2018 in our Corporate & Co-operatives Banking divisions – supported by IFC, we started a sector focus initiative in order to offer more targeted solutions to all sectors of the economy.
- Our overall book is approximately distributed as follows;

a) Agriculture 1.9%
b) Manufacturing 2.3%
c) Trade 12.3%
d) Financial Services 10.4%
e) Energy & water 3.9%
f) Building & Construction 2%
g) Transport & Communication 9.9%
h) Real estate 9.4%
i) Tourism 1%
j) Households 47%

➢ In Kenya, most MSMEs fall under the informal sector and by extension refers to people in self-employment or small-scale industries. The informal sector is estimated to constitute 98 percent of business in Kenya, contributing 30 percent of jobs and 3 percent of Kenya's GDP. In 2018, supported by IFC, we launched an MSME transformation aimed at creating world-class African entrepreneurs and is designed to address the challenges that the bank and MSME customers face. To date, we have trained 10,750 customers on business management and financial skills, on boarded 116,000 clients on boarded on the new packages

(Gold, Silver, Bronze) improved Average Product holding within MSME packages stand to 3.4 products on boarded 91 Anchors and 512 counter parties on our supply chain financing program and conducted 152 NFS clinics, 13 Networking forums and 3 international business trips.

- Through government borrowing from the open market, we have advanced Kes.161.9 Billion through government securities in order to support realization of the countries development projects.
- We have spurred economic growth through our strong balance sheet growth over the years as detailed in the financial performance section of this report.
- We have been feted for our sustainability efforts;

a) The Kenya Bankers association, in its 2019 Catalyst Awards recognizing catalytic finance that impacts industry, economy and society declared us the most sustainable Bank and awarded us;
   a. Overall Winner
   b. Winner - Client case study, Financing SMEs
   c. 1st runner up - Best in sustainable finance
   d. 1st runner up - Bank case study, Bank operations
   e. 1st runner up - Financing the informal sector
   f. 2nd runner up - client case study, commercial
   g. 2nd runner up - Most innovative bank

b) Best Bank in Sustainable Finance in Kenya – 2019 by Kenya association of manufacturers
c) Winner: Environmental Sustainability Reporting by ICPAK financial reporting awards 2019
d) Product innovation of the year by global SME finance awards 2019
e) Best Bank in Kenya by EMEA Finance African banking Awards 2020.
f) Bank of the year Kenya 2020 by the Financial Times Banker Awards.

- We have 1336 Local suppliers and 99 foreign suppliers. In 2020, we paid over Kshs.13.1 Billion to our suppliers. Of this amount, 80% was paid to local suppliers. Sourcing and Facilities management is anchored on the following; Sourcing and Facilities management Manual, Sourcing and Facilities Management Policy and ICT Sourcing Policy.
- Co-operative Bank today represents the number one point of financial intermediation contact for Kenya's over 15-million-member strong Co-operative movement with mobilized members' savings and deposits in excess of Kshs.732 billion, an asset base of approx. Kshs.1 trillion and hold a loan portfolio of KShs.700 billion. Directly and indirectly, Co-operatives account for 45% of Kenya's Gross Domestic Product and 30% of national savings and deposits.

Through Partnerships:

- Development finance is required for long-term investment and economic growth. We had long term development funding of Kshs 46 Billion.

Taxes

- We contribute to the creation of prosperity and to the stability of our country through paying taxes. Taxes provide essential public revenues for governments to meet economic and social objectives. We view taxation as an essential part of our corporate social responsibility.
- In 2020 the bank paid Kshs.3.5 Billion in Corporate taxes and Kshs.2.4 Billion in employee Payroll taxes to the Kenyan tax authorities.
- The bank is also a Kenya Revenue Authority (KRA) appointed agent to assist the taxman in collection of various taxes across the country.
- The bank also directly invests in government securities as well as lending to various public entities.

Business Ethics

- At Co-op Bank we strongly believe that ethics are the heart of any strong organization. In being ethical we have managed to foster employee morale, boost brand reputation, encourage loyalty in all our stakeholders, and improve our bottom line.
- We're determined to do the right thing for our stakeholders and the planet: that's how we have become one of the leading financial institution in Kenya and the Region.

Through employment

- Co-operative Bank has employed 4,628 staff members, a young and energetic team with over 79% being under 40 years. This has provided a livelihood to thousands of families and positive contribution to our economy.

Social Investments

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

Co-op Bank foundation

- In 2007, in recognition of the need to enhance the existing Corporate Social Investment (CSI) initiatives by the bank, the Co-operative bank foundation was established to complement public efforts to increase access to education for the young people both at secondary school and university level. The bank also offers mentorship and internship programmes to the beneficiaries to provide them with the necessary exposure to work environment. The secondary scholarship program has grown from an initial sponsorship of 30 students per region, to 60 students per region and another 5 students per county. Since inception the foundation has spent Ksh.1.27 Billion to support a total of 7713 learners in high school, universities, colleges and vocational institutions. In 2019, the foundation spent Kes.151.2 Million to support 2,834 students in various stages of their education; 2,680 in Secondary school education, 150 in university and 4 in Cooperative University College. The bank pays the learner's full school fees plus a monthly stipend for out of pocket expenses. In 2020 due to covid-19 pandemic there was no intake or progression into universities but the foundation spent Ksh. 89.5 million on continuing students.

Co-op Consultancy & Insurance Agency Ltd

- CCIA was formed in 2002 as a specialist subsidiary of the Bank to provide capacity building (Consultancy and financial advisory) services mostly to the Co-operative movement and other selected sectors of the economy on very concessionary terms. Its key objective is to enhance efficiency and profitability of the Co-operative movement through the provision of affordable solutions.
- Since inception CCIA has successfully conducted over 2885 business advisory mandates and trained thousands of people drawn from the co-operative movement and microfinance institutions. Despite the pandemic, in 2020, CCIA conducted 38 physical pre-pandemic workshops, 32 virtual workshops and trained a total of 1,924 individuals from 183 Co-operatives
- Over 70% of CCIA staff costs are absorbed by the bank. The consultancy has 20 consultants and a small compliment of support staff.
- We worked with three donor projects (KCEP-CRAL Project, We-Effect and Bankable Frontiers Association (BFA).
- The work of CCIA focuses on key areas of impact between business and society and develops creative solutions that draw on the complementary capabilities of both, to address major challenges that affect each partner.

Co-op Bank Staff Welfare Teams

- 18 Staff welfare teams from various branches and departments carried out corporate Social Responsibility visiting children's homes, offering relief food and other necessities during lock down etc.

b) ECO- EFFICIENCY

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

Resource Efficiency

We have a four-way approach towards resource efficiency:

- Prudently managing resources (both financial and non-financial).
- Financing green initiatives
- Protecting Kenya's forest cover through tree planting initiatives
- Supporting employee CSR activities that positively impact the environment.
- We directly and indirectly fund projects engaged in:
    I. Construction or physical improvements related to energy and water performance
    II. Improvements of at-risk public lands, forests and waterways and the general cleanup
    III. Creating awareness of the benefits of energy and water conservation/efficiency and solid waste recycling amongst our staff.

We conducted our first energy audit in 2016. We completed the second in 2020 aimed to gauge our resource efficiency, identify gaps and areas of improvement. The system enables manageable and accounting for energy usage. The bank has also established and staffed the Energy Manager office to steer the process.

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

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

Our energy management roadmap

The bank has also drawn an Energy Management Policy Statement as a demonstration of its commitment to fulfilling the requirements of the Energy Management regulations and ultimately a cleaner, greener environment.

Energy management is critical in ensuring that Cooperative Bank manages its energy costs in a sustainable way. It also ensures that the bank complies with the energy management regulations of 2012 as outlined in the Energy ACT of 2006 that has since been revised to Energy ACT of 2019. The regulations outline various aspects that the bank has to comply with as a minimum requirement.

The bank is also keen on reducing its carbon footprint by adopting clean and sustainable energy sources to power its operations. Strategic objectives of Energy Management are as follows;

- Cleaner, greener environment
- Cost Management
- Regulatory Compliance: Energy Management Regulations of 2012

What we are doing:

- **Lighting upgrade installations** - This has been going on and we intend complete all the LED lighting replacements by Quarter 1 of 2022. All new branches have LED lighting installed including lighting controls.
- **Training of service managers/branches** - We are in the process of training the branches to monitor their electricity costs on a regu lar basis and check their meter readings before making any electricity payments. We are also in the process of training Service

Managers on a continuous basis on this to ensure that they fully understand the subject properly.

- **Energy management policy development** - The policy guides the whole organization in terms of its overall energy management goals and objectives.
    I. Maximize energy performance, reduce operating expenses and increase shareholder value by actively and responsibly managing energy consumption.
    II. Measure and understand our energy consumption in all its forms, to understand the drivers of that consumption, to inform and educate all our people about it and set ourselves achievable goals for reducing it.
    III. Demonstrate commitment to our community and leadership in our industry, by reducing environmental impacts associated with energy use.
- **Water management** – Ensure all facilities connected to piped water have water fixtures that are efficient.
- **Energy audits** - Investment grade and general energy audits for banks facilities. The energy audit is not only a regulatory require ment but also a measure to identify opportunities for energy conservation and efficiency.
- **Measurement and verification** - We carry out computations with measured data and analysis of electricity bills to establish energy and cost savings. This enable us to determine whether we are making positive impact after implementation of the initiative or not.
- **Regulatory compliance** - The energy Management Regulations of 2012 came into effect in 2012 and mandates the bank to do the following;
    i. Conduct energy audits once every three years
    ii. Develop an energy policy
    iii. File implementation reports - derived from the Energy Audit Report
    iv. Designate an Energy Manager
    v. Develop an Energy Investment Plan
    vi. Implement Energy Audit recommendations to achieve at least 50% of the recommended savings
    vii. Carry out monitoring of the energy efficiency projects
    viii. Keep a record of production and consumption data

- **Major facilities** – Our identified major facilities consume approx. 31% of the total energy demand of the bank. Some of the ongoing energy management initiatives targeting these facilities include:
    i. Lifts Modernization
    ii. Data Centre Inrow Containment
    iii. Data Centre Infrastructure Management System
    iv. Installation of Chillers
    v. Power Factor Correction
    vi. Solar Water Heating where necessary. We implemented a solar system at our Leadership and Management Centre in Karen (heats up to 3000 liters of water daily, we have disconnected all instant showers).
    vii.

ENERGY AWARD

- Our Energy Manager, was awarded Energy Manager of Year Sub-Saharan Africa Region

ABOUT AEE (Association of Energy Engineers).

- The association of Energy Engineers (AEE) is a nonprofit professional society with over 18000 members in more than 100 countries. AEE offers a variety of information outreach programs including trainings, conferences, chapters, journals and certification programs. The mission of AEE is to promote the scientific and educational interests for those engaged in the energy industry and to foster action for sustainable development.

ABOUT THE AWARDS

- Through its International Awards program, Association of Energy Engineers (AEE) shines lights on important work that is being done by individuals, organizations, agencies and corporations in the energy industry. These awards identify those who exemplify the very best in their fields. By identifying those who exemplify the very best in their fields, energy professionals are honored, and the industry is advanced.

- Recognition of excellence by one's peers and other professionals in the industry is the purpose of this program by AEE.

- The international awards traditionally presented during the AEE World Energy Conference and Expo will now be presented virtually this year.

THE AWARD - ENERGY MANAGER OF YEAR SUB-SAHARAN AFRICAN REGION

- This award is presented to individuals for outstanding accomplishment in promoting the practices ,principles of energy management and for superior service to the Association. Usually awarded to the Corporate director of Energy or Energy Manager performing duties for an industrial firm or building owner/manager.

ENERGY MANAGEMENT POLICY STATEMENT

Co-operative Bank (Co-op Bank) recognizes and appreciates the importance of Energy Management in the Bank. Co-op Bank is therefore committed to responsible Energy Management and efforts to reduce energy use and costs will support the Bank's commitment to the environment and the communities in which we are part.

Co-op Bank therefore issues this Energy Policy Statement to its employees and stakeholders with the purpose to raise awareness and to be a world class performer on energy efficiency and conservation and to reduce environmental impact of energy use.

Co-operative Bank's objectives under this policy are:

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

To achieve these objectives Co-operative Bank has committed to:

- Complying, as a minimum requirement, with relevant energy management laws, regulations and codes of practice in existing operations, upgrades and new developments.
- Providing the resources needed to establish, implement, maintain and improve the Energy Management System and the resulting energy performance. Resources include human resources, specialised training and skills, technology and financial resources.
- Communicating the importance of our Energy Management Policy and relevant procedures to employees, suppliers, contractors and other stakeholders.
- Management review of the policy, energy objectives and targets.

This policy shall apply to all Co-operative Bank's facilities, business units, employees, and contractors in service to our business.

DR. GIDEON MURIUKI-CBS, MBS
GROUP MANAGING DIRECTOR & CEO
JUNE 2020

The above Energy Management Policy meets the requirements of the Energy (Energy Management) Regulations, 2012 and is hereby approved by the Energy and Petroleum Regulatory Authority.

Signature .... **Date** 05/08/2020.
Chairperson, Electricity and Renewable Energy Licensing Committee

CO-OPERATIVE BANK
We are you

Resource Management
Our bank's environmental policy is aimed at conducting business in a responsible manner through conservation, optimal use of resources, energy saving mechanisms and reduction of waste. We believe operating digitally and paperless hence in our transformation journey we have phased out paper deposit slips and automated over 68 previously manual activities including establishing e-loans. We are also requesting our customers to switch to digital bank statements. We are selling idle assets and shredded paper for re-use. We are enhancing water harvesting at our properties to reduce reliance on public utility firms and free that capacity for access by currently un-connected citizenry. Towards our pursuit of a carbon-neutral operation, we migrated from diesel-powered generators to electric inverters as backup for our ATM machines.
Our Growth and Efficiency Transformation Project continues to eliminate waste as a result of unnecessary motion, rework, overproduction, unnecessary processing, transportation and inventory; we have seen the following gains;
Less Paper

- Customer Relationship Management (CRM) System for bankers- CRM system with automated diaries for sales Appointments and follow-ups has eliminated the need for hard copy diaries.
- E-Loans- Digitization of credit processing via Mco-op Cash E-Flexi and Flexi plus loans eliminating paper use. The e-loan book dis bursements grew by 58 Billion in 2020.
- Proactive Stationery and equipment management Overproduction waste: Branch printers' settings standardized to hold and back to back enforced to reduce unnecessary printing and usage of excess paper. Identification and repatriation of all unused / excess stationery and equipment in branch stores for redeployment.
- Service champions driving customer migration to alternative channels- Through experiential marketing; guiding customers to car ry out transactions through convenience channels namely Mco-opCash, Agency and Internet banking.
- 92% of transactions are now handled outside the branch, reducing paper previously used for these transactions.
- Email statements and Internet banking has saved on statement printing paper.
- Cash and check drop boxes- Self-service cash and cheque deposit channel uses SMS notification cutting deposit receipts by 50%.
- Customer service phones- Installation of customer service phones with a direct line to the call center- Customers can use phones for balance enquiry, ATM blocking, PIN resets and regeneration etc. reducing stationary used to print statements and requisition forms.
- Q-Matic machines for in-branch marketing-The Q-matic kiosk with TV screens running advertisements have reduced use of paper marketing fliers.
- Automated Real- time service floor reports have eliminated the need for performance and customer questionnaire survey on paper.
- Business intelligence (BI) reports- Branch daily reports previously printed have now been automated through BI reports cutting paper and printing costs.
- Sales call reports automated for Relationship Managers hence no need to maintain paper documentation.
- Instant Issuing- Inventory waste: Instant card issuing has saved the cost of wasted unclaimed cards which have to be destroyed after 6 months.

Less Electricity

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

Where we are: Energy Costs

YEAR ON YEAR ELECTRICITY COSTS				
Electricity Costs				
YEAR	2018	2019	2020	2020/2019 cost Savings
COST	264.6	260.9	233.7	27.2
Diesel Costs				
YEAR	2018	2019	2020	2020/2019 cost Savings
COST	26.3	19.2	15.1	4.1

Less Fuel

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

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

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

2. **SOCIAL SUSTAINABILITY INITIATIVES**
To ensure that the group operates as a responsible corporate citizen by investing in the communities, engaging in sustainable programs particularly on education, agriculture and environment, and financial deepening in the co-operative sector.

Employee Diversity

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

We closed 2020 with a staff compliment of 4628 that encompasses the breadth and depth of our diversity as shown here:

Performance Indicator	2020	2019
Total permanent staff	4016	3883
Total Staff (46% Female, 54% Male)	4628	4422
Staff attrition (%) –Voluntary	2.40%	3.22%
Staff attrition (%) –involuntary	1.62%	1.73%
% of our staff who are younger than 40yrs	79%	83%
% of our staff who have a tenure of more than 10 years	31%	24%
% of our staff who have disabilities	0.40%	0.36%
% Permanent staff	91%	88%
% Contract staff	9%	12%
No. of paternity leave applicants	204	207
No. of maternity leave applicants	192	196
Subordinate%	0.85%	0.82%
Senior Management %	2.14%	2.16%
Grievances as a percentage of total employee base %	<1%	<1%
Number of Leadership development programmes and number of leaders trained (E.g. high performing teams training)	Leadership Programmes-13 Number of leaders trained-1,712	741 – whole bank
Number of wellness initiatives	531	320

Employee Welfare

- We are determined to make the bank a great place to work, to encourage people to bring out the best of themselves in work and in helping each other realize their full potential. We view each other as part of one big family, and each member's welfare as our collective responsibility. Our Staff welfare club participates and contributes to the welfare of the members in both times of need and celebrations; such as newborns, marriages, Hospitalization and bereavement. We invest in out-of-office staff activities such as sports events, team building and CSR activities in reflection of our deep commitment to staff wellbeing
- We aim to inspire our employees have meaningful life and work, be healthier and happy to work in Co-op bank every day.
- Mental Health Awareness program training of team leaders and staff on Mental Health issues successful concluded Bank wide in 2020. Mental Health tool kit for team leaders issued leading to an increase in uptake of counseling in 2020 – a total of 209 staff took up counseling referrals compared to 170 staff in 2019
- Upscaling of Employee Assistance Programs (EAPs) by creating awareness of Alcohol and Drug (A&D) abuse.
- Wellness Talk's carried out Bank wide. Covid 19 Pandemic initiatives- Enhancement of Occupational Safety & Health at the Workplace-provisions for Personal Protective Equipment (PPE's), regular talks and regular communication to staff on handling of Covid 19 Pandemic and daily follow up & care calls for staff affected.
- Corporate Wellness plan for 2020 key focus was on health living during Covid-19 and management. Within the year we facilitated 947 initiatives including 623 employee assistance programmes, 159 covid-19 management and support to staff and 159 health promotion webinars.
- The bank facilitated 13 fully furnished and ready to use lactation rooms across the network for use by lactating mothers.

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

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

Our duty to accommodate involves taking deliberate steps to eliminate disadvantage to employees, prospective employees or clients resulting from a rule, practice or physical barrier that has or may have adverse impact on any individual or groups. This includes the hiring process as well as accommodating an individual once they are hired.

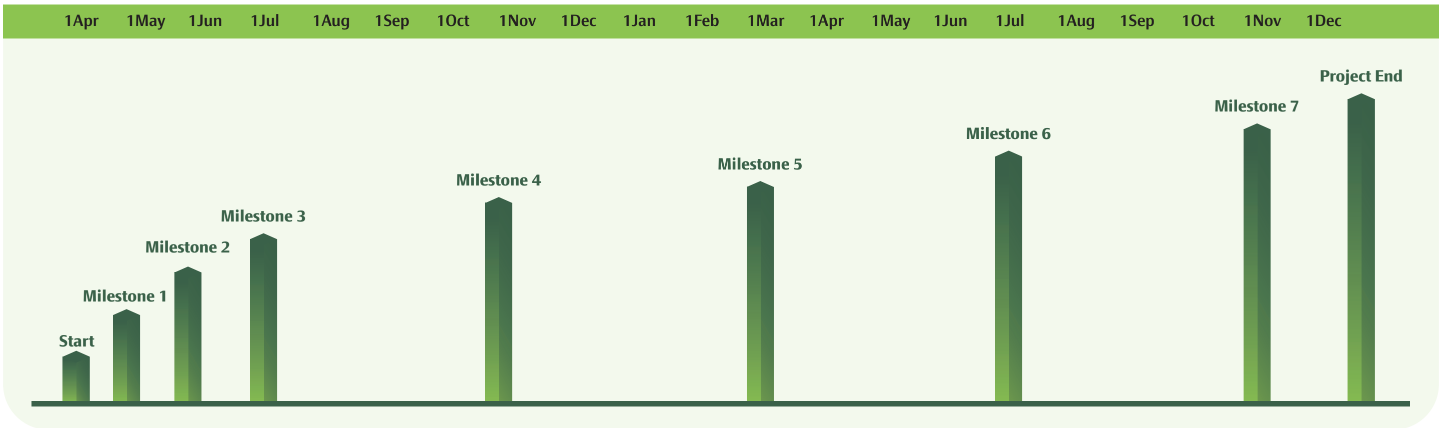
Average work hours policy.
This is clearly spelt out in the Bank's Human Resource Manual/Guidelines as well as the Collective bargaining Agreement, which is binding for our unionizable employees. This aims at striking a healthy work-life integration. The normal work hours are 164 per month. We have a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

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

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

The policy provides that staff may report an issue if it is unlawful; fraudulent; contrary to the bank's policies and procedure; falls below established standards of practice; amounts to improper conduct and breach the Bank's code of Conduct. There are in place systems to encourage staff to raise concerns in a structured and protected way.
This policy supplements other existing procedures relating to probity in the course of the bank's business or matters relating to the conduct of employees, including grievance, disciplinary, harassment and recruitment and selection policies and procedures.

People with Disabilities Policy
The Bank is committed to equal opportunity and access for people with disabilities. In accordance with our values and the law, the Bank does not exclude any qualified persons with disabilities from participating in employment opportunities and Bank programs or activities. We are a strong advocate that people with disabilities have the skills to pursue meaningful careers and play an important role in our society and contribute to the bank's success as well as the wider success of the society.
Implementation of the recommendations of the Banking Industry PwDs (People living with disabilities) Pilot Project Report, by InABLE in collaboration with Kenya Bankers Association and Financial Sector Deepening (FSD Kenya). Co-operative bank Ltd was among the 7 banks that participated in the PWDs digital accessibility study.



MILESTONE	POSITION	ACHIEVED OUTCOMES
Start	1	All security guards in branches have been trained to recognize customers with disabilities and enforce queueing policies
Milestone 1	2	Standardized provision of ATM/Debit cards to all customers including those with visual impairments
Milestone 2	3	PWDs incorporated in product design for digital services
Milestone 3	4	USSD: Full review of the user journey for all functions of the USSD banking channel to ensure ease of use for PWDs as per recommendations of the study
Milestone 4	5	Mobile: Full review of the user journey for all functions of the mobile banking channel to ensure ease of use for PWDs as per recommendations of the study
Milestone 5	6	Staff trained on basic sign language to assist PWDs during in-person banking
Milestone 6	7	Bank website, written and electronic banking documents reviewed and updated appropriately to ensure accessibility by all customers including PWDs
Milestone 7	8	All branches and ATMs to have ramps and lowered counters and dedicated staff to ease banking access for PWDs
Project End	9	Full ease of accessibility achieved across all banking channels for PWDs

HIV/Aids Policy towards Positive Living

The bank has developed a HIV/AIDS policy based on the understanding that we are a caring institution with staff welfare at heart. As a policy, the bank does not screen for HIV during employee recruitment nor does it discriminate in any way against HIV positive staff and such cases are treated like any other health condition for purposes of medical cover.

Our HIV/AIDS policy ensures that staff living with HIV/AIDS enjoy equal health and social discretion, including confidentiality, prevention of stigmatisation and discrimination. Further, emphasis is made to provide information on preventive measures through external professional counsellors and trainers. Structured informal discussions at office level are also managed through the Peer Education Programme to promote sharing of awareness information and material.

Attracting and Retaining Talent

- The Bank has a recruitment policy that guides all the recruitment efforts in terms of the guiding principles, processes and procedures. The policy is reviewed as and when there are any changes effected on the recruitment process. Internally though, all policies are to be evaluated and reviewed every two years. Where the policy is changing, it is taken through an approval process, which involves key stakeholders including Board of Management.
- At Co-op Bank, we have made it a priority to improve on our lead position as an employer of choice. We do this by primarily attracting and retaining the best talent in the market through appropriate investment in human capital development, inculcating high performance culture, rewarding outstanding performance, competitive remuneration packages and encouraging and appreciating innovations.
- To achieve this, we have implemented Flight Risks assessments for critical roles as part of talent management interventions.
- We have succession planning in place for various talent benches for critical and flight-risk roles with at least 3 ready-now candidates per talent bench.
- Of our staff, a high degree of professionalism and integrity is demanded. We are an equal opportunity employer with an inclusive and conducive environment for work-life integration.
- We achieved a retention rate of 96% in 2020. Group wide voluntary attrition was only 2.4% and 1.6% was involuntary.
- Our target is an employee satisfaction rate of at least 92% and maintain a job offer acceptance rate of 95%.

Skills Development and Career Progression

- Our goal is to provide inspiring employee experiences whilst equipping our people quickly with the right skills in the most effective way and developing world-class leaders and managers of our business.
- We believe that human capital is the most valuable asset of a great company, hence our commitment to the development and success of our staff through first class continuous training, leadership-building and skills enrichment.
- There is a clear effort in managing the careers of our employees through coaching and mentoring processes, role specific trainings as well as stretch assignments as part of growing our employees.
- Our Leadership and Management Centre (LMC) is tasked with up-skilling, re-skilling and developing our people. In 2020, 4019 staff underwent instructor led training; 3,332 physical in-person learning and 687 virtually. Another 31,900 cumulatively per head, completed 330 e-learning courses.
- We have Premium training and exposure for retention of key critical skills areas and capabilities e.g. Productivity & Engagement Coach programs, Data Analytics exposure visits and training, Digital capabilities exposure & premium training (design thinking and agile methodology).
- To unlock potential and align staff for role performance we continued enabling team leaders with coaching skills. Coaching has also gone to the level where peers are coaching each other with ease considering that they are more candid to one another. We will continue to demystify coaching at this level for higher impact. Staff in PIP some have been successfully coached and turned around by their line managers. To complement coaching initiatives, we conducted leadership and management programs for team leaders.
- We have a robust Key Performance Indicators (KPI) focused performance management process with clear linkages to rewards and better accountability mechanisms. The introduction of fewer KPIs focused on core deliverables, performance dialogues and daily huddles keep staff focused on their performance at all times, ensure that they focus on core deliverables and provide better ways to measure and ultimately reward great performance. As a result, Staff productivity in 2020, measured by staff costs to total operating income improved to 24.9% compared to 25.5% in 2019, mainly due to transformative initiatives in Sales Force Effectiveness (SFE), operational efficiencies, proactive retention, re-skilling, upskilling, coaching and clarity of performance expectations. This allows career progression, acceleration and growth opportunities for the young and energetic team with 79% being under 40 years. This has further enhanced internal mobility of talent.

Community Dialogue

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

Labour standards

- We practice the virtuous value of mindfulness in appreciating the need for work-life balance for our staff and we have created an inclusive and conducive environment to cater for their different requirements. We support staff in child-rearing responsibilities by providing time off work for male and female staff in line with existing labour laws and best practice for enhanced productivity and employee engagement.

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

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

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

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

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

Supplier Diversity
We have 1336 local suppliers and 99 foreign suppliers. In 2020, we paid over Kshs 13.1 Billion to our suppliers. Of this amount, 80% was paid to local suppliers. Sourcing and Facilities management is anchored on the following; Sourcing and Facilities management Manual, Sourcing and Facilities Management Policy, ICT Sourcing Policy.

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

The bank adheres to these principles both in letter and spirit and we actively seeks to confirm rather than seek to ingeniously go around the code. As a principle, all marketing communication the bank does conforms to the Marketing Operations Manual approved by the bank, which ensures communication doesn't violate any or our national laws. Specifically, the bank communication is deliberately structured to communicate honestly and truthfully. As a result, communication involving words like Free and New are only used where, in truth and fact, the offer is absolutely free of cost or there is something that has never been offered before. All images used in the banks' advertising are legally obtained and models are compensated appropriately. The bank doesn't compel any of its staff or of its associates to offer free services. The bank doesn't run advertising communication seeking to influence children or minors in any way. As a principle, the bank doesn't run comparative advertising where it directly compares prices or other product features with any of our competitor financial institutions. Whereas this may not necessarily be unethical, the bank is careful not to depict other institutions negatively.

Product Stewardship
Our bank's products and brand propositions are designed to far exceed customer expectations and respond to the diversification and sophistication of their needs as well as changes in the business environment. By focusing on understanding our customers' needs, we have created a comprehensive range of ethical and excellent products. Our emphasis on operational excellence allows us to present the right product to the right person at the right time. The Bank has also invested heavily in innovative delivery channels, which has played a critical role in enhancing financial inclusion. We have positioned ourselves as a 'one stop-shop' financial services provider. Across our network of outlets and channels, services offered go over and above the traditional banking services to include, Insurance, securities management, Custodial and trust services, stock brokerage, investments management and consultancy. We leverage our website, mainstream and social media to ensure we inform our customers.
Our staff are well trained and knowledgeable hence able to guide the customers to the financial solutions that best suit their needs. Through our Transformation Initiatives we re-engineered the teller role and now our tellers are Sales and Service advisors. We also retooled our

relationship managers to be able to offer the best from our customer centric basket of products. We have ongoing regional customer training for our MSME segments where we share best practice as we on board them in the new MSME Packages.
On dispute resolution we have centralized all disputes through our CRM (Customer Relationship Management) system where all disputes are logged in and resolved. Enhanced cyber security assessments and monitoring using the newly established Security Operations Center ensures that all our financial solutions and customer data is well secured. We are on course in the implementation of the Kenya Banking Sector Charter.

3. SOCIAL SUSTAINABILITY INITIATIVES

To ensure that the group operates as a responsible corporate citizen by investing in the communities, engaging in sustainable programs particularly on education, agriculture and environment, and financial deepening in the cooperative sector.

Health, Safety & Wellness

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

CO-OPERATIVE BANK
We are you

Occupational Safety and Health Policy Statement

Co-operative Bank (Co-opBank) recognises and appreciates the importance of Occupational Health and Safety Policy in the Bank. The Bank commits to protect the Health and Safety of all persons in the Bank including employees, customers, contractors and visitors to all Bank premises.

Co-opBank will develop and maintain effective Occupational Health Safety and Welfare arrangements to protect its staff and all who come into contact with its operations and will ensure compliance with all relevant legal and statutory instruments in all matters of Occupational Health and Safety:

Co-opbank will make available the necessary resources in order to:-
- Comply with all relevant workplace health and safety legislation;
- Ensure the health and safety of employers and others.

Co-opBank will conduct all its activities and provide a work environment that:
- Protects the health, safety and welfare of all persons including staff, contractors and visitors, affected by our work place activities.
- Actively encourages controlling risk in workplace activities;
- Strives for continuous improvement in workplace health and safety

The Management of Co-opBank are responsible (within the scope of their authority) for:-
- Intergrating workplace health and safety into all aspects of the workplace;
- Promoting communication about workplace health and safety as a normal component of all aspects of work.
- Planning, developing, implementing and monitoring a workplace health and safety program;
- Taking effective action to provide and maintain a healthy and safe workplace.

The employees of Co-opBank and subsidiaries are responsible for:-
- Working in a healthy and safe manner;
- Encouraging others to work in a healthy and safe manner;
- Cooperating with supporting and promoting workplace health and safety at the workplace;
- Reporting or rectifying any unsafe conditions that comes to their attention.

SIGNED,
DR. GIDEON MURIUKI - CBS, MBS
GROUP MANAGING DIRECTOR & CEO

The Co-operative Bank of Kenya Ltd is Licensed and Regulated by the Central Bank of Kenya

Co-opBank Kenya Co-opBank Kenya Co-opBank Kenya Co-op Bank Kenya

In collaboration with our long term funding partners;

- USD 300 Million in partnership with IFC and Philips (a leading health technology company) to help smaller businesses in Africa's health sector purchase essential medical equipment and strengthen their response to COVID-19 and other pressing healthcare challenges.

Global Climate Change

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

Detailed earlier in this section of the report are some of the initiatives we have put in place for a greener environment.

In collaboration with our funding partners;

- USD 10 Million in partnership with Eco. Business Fund to finance sustainable agriculture.
- USD 75 Million in partnership with IFC to support customers to better cope with the disruptions brought about by the pandemic, especially those operating in the Micro small and medium enterprises (MSMEs), Businesses undertaking Climate-Smart Projects, including agricultural inputs and sustainable agricultural practices, renewable energy, energy efficiency and related areas.

Local environment Impact

We seek to establish partnerships with industry members, government agencies, relevant environmental bodies, suppliers, customers and the general public to promote and achieve a high standard of environmental care. Pursuant to this objective, the bank partnered with the Agence Francaise De Development (AFD) towards promoting Renewable Energy and Energy Efficiency investments in the country through a USD 37.1 Million (Euro 30Mn) credit agreement. In 2020, our green lending book stood at Kshs. 3.4 (Kshs. 2.59 billion in 2019). The Bank has funded various entities undertaking projects in Wind power generation, solar power installation and acquiring/upgrading to green energy efficient machinery. We also have a long-standing link with the Nairobi City Council to maintain green-gardens around Co-operative House. We have also collaborated with schools and government agencies in tree-planting activities in support of Kenya's effort to increase forest cover to the recommended 10% of area.

4. ENVIRONMENTAL STEWARDSHIP

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

Caring for the Environment

Climate change continues to be one of the biggest challenges facing the world today, as a global threat that may affect each and every aspect of our lives. The climate change related risks for the banking industry in Kenya vary from the indirect rise in operating costs to largely non-existent legal guidelines. We appreciate that, banks that successfully handle and manage these risks from the onset, will not only be in a position to manage these costs but will also benefit from various opportunities such as being able to address changing customer profile expectations and meeting the financing needs of "green" investments. For this reason, we at co-op bank believe that climate change is a strategic issue that requires full integration with all business processes and decision-making mechanisms.

Waste Minimization/ Resource Management

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

Emissions Reduction

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

Regulatory Compliance

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

Ecosystem Services

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

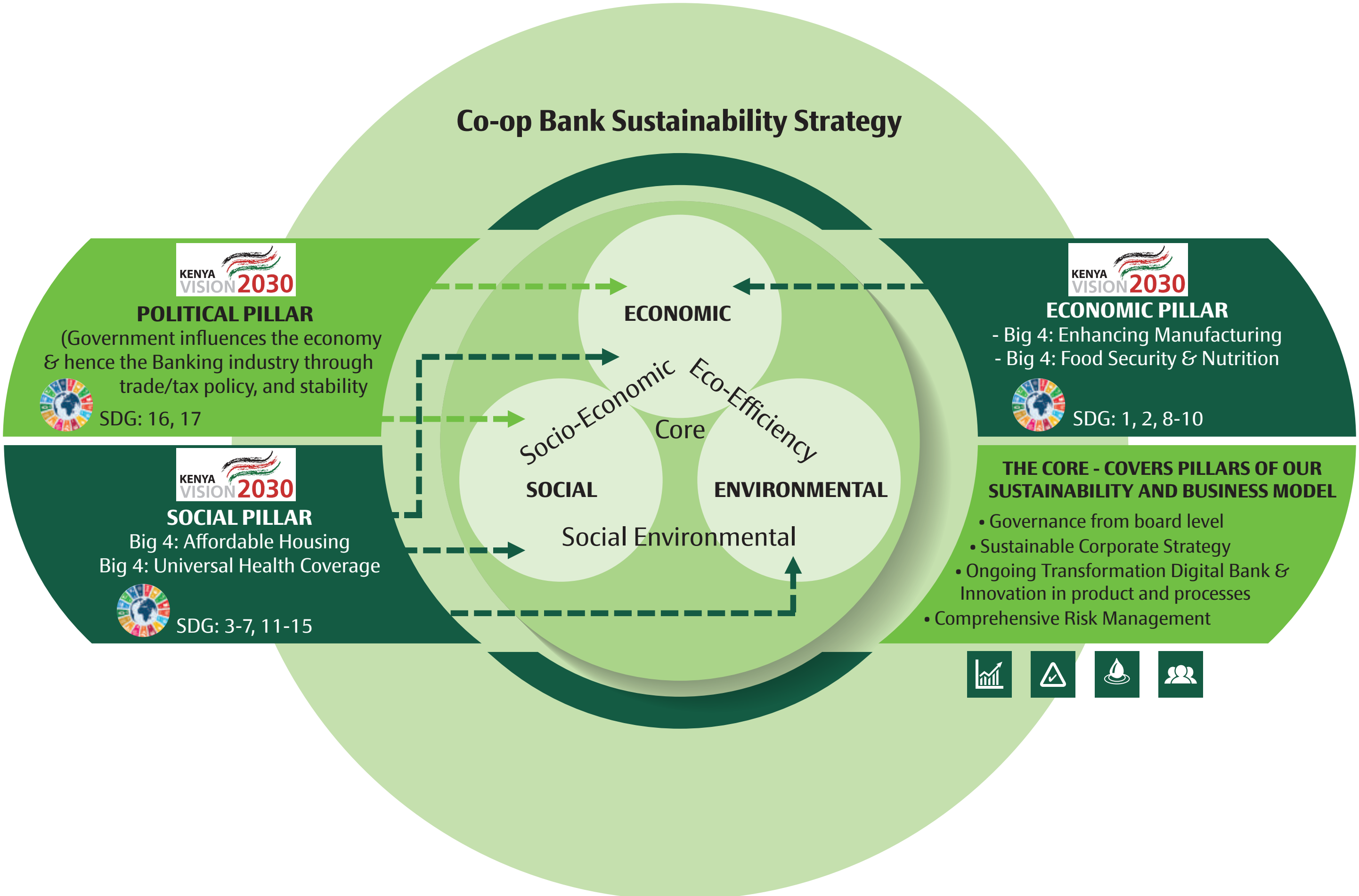
Biodiversity
Biodiversity underpins life on Earth. It ensures the sustainable productivity of soils and provides the genetic resources for all crops, livestock, and marine species harvested for food. We recognize the global threat posed by environmental issues such as climate change and loss of biodiversity. We ensure preservation of biodiversity by requiring our customers to provide requisite approvals from authorities tasked with environmental protection such as National Environmental Management Authority (NEMA).

Sustainability Integration
As illustrated below, our sustainability strategy closely responds to

- Kenya Bankers Sustainable Finance Initiatives principles
- Vision 2030
- Big Four Agenda
- UN Sustainable Development Goals

Conclusion
As a financial services firm, we are driven by our desire to enhance financial inclusion and help millions achieve their ambitions by fulfilling their financial services needs in a responsible and sustainable manner. This is aligned with the UN Sustainable Development Goals (SDGs), which aim to address development challenges to end poverty, protect the planet and ensure prosperity for all. The role of business is fundamental, both to transition away from practices that undermine the goals' achievement and to proactively create solutions that solve existing challenges.

As a bank that is predominantly- owned by the 15 million-member Co-operative Movement, we are inclusive by design. This has not only enabled us to deliver shared prosperity today, but also helped us build awareness and prudence to avoid putting future generations in jeopardy. Sustainability is fully integrated in our business model that stands on the three pillars of Economic sustainability, Social sustainability and Environmental stewardship.



5 Year Financial performance: Key Numbers

Key Financial Position Number

	5Yr CAGR	YoY	Dec-20 KSHS.B	Dec-19 KSHS.B	Dec-18 KSHS.B	Dec-17 KSHS.B	Dec-16 KSHS.B	Dec-15 KSHS.B
Loans and advances to customers (net)	6.6%	7.5%	286.6	266.7	245.4	253.9	236.9	208.6
Total Assets	9.4%	17.5%	536.9	457	413.4	386.9	351.9	342.5
Customer deposits	7.4%	13.8%	378.6	332.8	306.1	287.4	260.2	265.4
Borrowed funds	19.0%	74.3%	46.0	26.4	23.9	21.2	19.8	19.3
Total Liabilities	8.7%	18.3%	444.9	376.2	342.2	316.6	290.7	292.7
Total Shareholders' Funds	12.6%	14.4%	90.7	79.3	69.9	69.6	61.3	50.2

	5Yr CAGR	YoY	Dec-20 KSHS.B	Dec-19 KSHS.B	Dec-18 KSHS.B	Dec-17 KSHS.B	Dec-16 KSHS.B	Dec-15 KSHS.B
Total Interest Income	5.8%	12.0%	48.8	43.6	43	40.4	42.3	36.8
Total Interest Expenses	-1.7%	1.6%	12.5	12.3	12.2	12.3	12.8	13.6
Net Interest Income	9.4%	16.1%	36.3	31.3	30.8	28.1	29.5	23.2
Fees and commissions on loans and advances	17.4%	60.2%	5.1	3.2	0.6	2.6	2.3	2.3
Other Fees and commissions	1.5%	-19.0%	7.8	9.6	8.9	7.2	7.5	7.2
Foreign exchange trading income	-2.4%	35.1%	2.8	2.1	2.3	2.2	1.8	3.2
Total Non-Interest Income	5.8%	1.6%	17.5	17.2	12.9	13.5	12.8	13.2
Total operating income	8.1%	11.0%	53.8	48.5	43.7	41.6	42.3	36.4
Loan loss provision	32.3%	219.5%	8.1	2.5	1.8	3.6	2.6	2
Total Operating Expenses	13.0%	41.7%	39.4	27.8	25.7	25.3	24.6	21.4
Profit Before Tax	-1.5%	-31.0%	14.3	20.7	18.2	16.4	17.7	15.4
Profit After Tax	-1.6%	-24.4%	10.8	14.3	12.7	11.4	12.7	11.7

	Dec-20	Dec-19	Dec-18	Dec-17	Dec-16	Dec-15
Capital Adequacy Ratios						
Core capital (Tier 1) to Total Deposits	19.1%	20.2%	19.3%	20.0%	19.7%	17.5%
Core capital(Tier 1) to Total risk weighted assets	15.4%	16.3%	16.0%	15.8%	16.1%	15.7%
Total capital / Total risk weighted assets	16.9%	16.8%	16.4%	22.0%	22.7%	22.4%
SHEQ Capital / Average Assets	18.3%	18.2%	17.5%	18.8%	17.7%	16.0%
Debt to Equity Ratio (Total Debt / SHEQ)	50.7%	33.3%	34.3%	30.4%	32.3%	38.4%
Asset Quality Ratios						
Coverage Ratio	45.3%	58.1%	54.7%	54.3%	71.2%	87.5%
Cost of Risk	2.9%	1.0%	0.7%	1.5%	1.2%	1.0%
Non-Performing Loans in Total Loans	18.1%	9.9%	10.3%	7.0%	4.3%	3.4%
Earnings and Efficiency Profitability Ratios						
Return on Average Asset (ROAA)	2.2%	3.3%	3.2%	3.1%	3.7%	3.7%
Return on Equity (ROAE)	12.7%	19.2%	18.3%	17.4%	22.7%	25.0%
Net Interest Margin	8.9%	8.8%	9.4%	8.9%	10.5%	10.3%
FX/Non-Funded Income	16.2%	12.5%	17.7%	16.5%	14.1%	24.2%
Non - Funded to Total Operating Income	32.5%	35.4%	29.5%	32.4%	30.2%	36.2%
Cost Income Ratio (With provision)	73.2%	57.4%	58.8%	60.9%	58.3%	58.8%
Cost Income Ratio (Without Provision)	58.1%	52.1%	54.6%	52.2%	52.1%	53.2%
Liquidity Ratios						
Liquidity ratio	52.2%	46.2%	41.1%	33.8%	33.7%	37.1%
Total Loans to Total Deposits	75.7%	80.1%	80.1%	88.2%	89.9%	77.6%
Loans /(Deposits+Borrowed Funds)	67.5%	74.2%	74.3%	82.0%	84.0%	72.0%

*** CBK Audited Disclosure**

Integrated Risk Management Review

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

In the Material Matters section of this integrated report the Banks risk management on Covid 19 Pandemic is discussed in detail.

Group Philosophy on Enterprise Risk Management

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

Risk management is at the core of the operating structure of the Group. We seek to limit adverse variations in earnings and capital by managing risk exposures within agreed levels of risk appetite.

Our risk management approach includes minimizing undue concentrations of exposure, limiting potential losses from stress events and ensuring the continued adequacy of all our financial resources. Our risk management processes proved effective throughout the year, despite the COVID-19 pandemic that adversely impacted the economy with the various containment measures instituted to contain the spread of the virus.

The Board of Management was closely involved in important risk management initiatives, which focused particularly on preserving appropriate levels of liquidity and capital, and effectively managing the risk portfolios.

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

Enterprise Risk Management Framework

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

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

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

Risk Governance

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

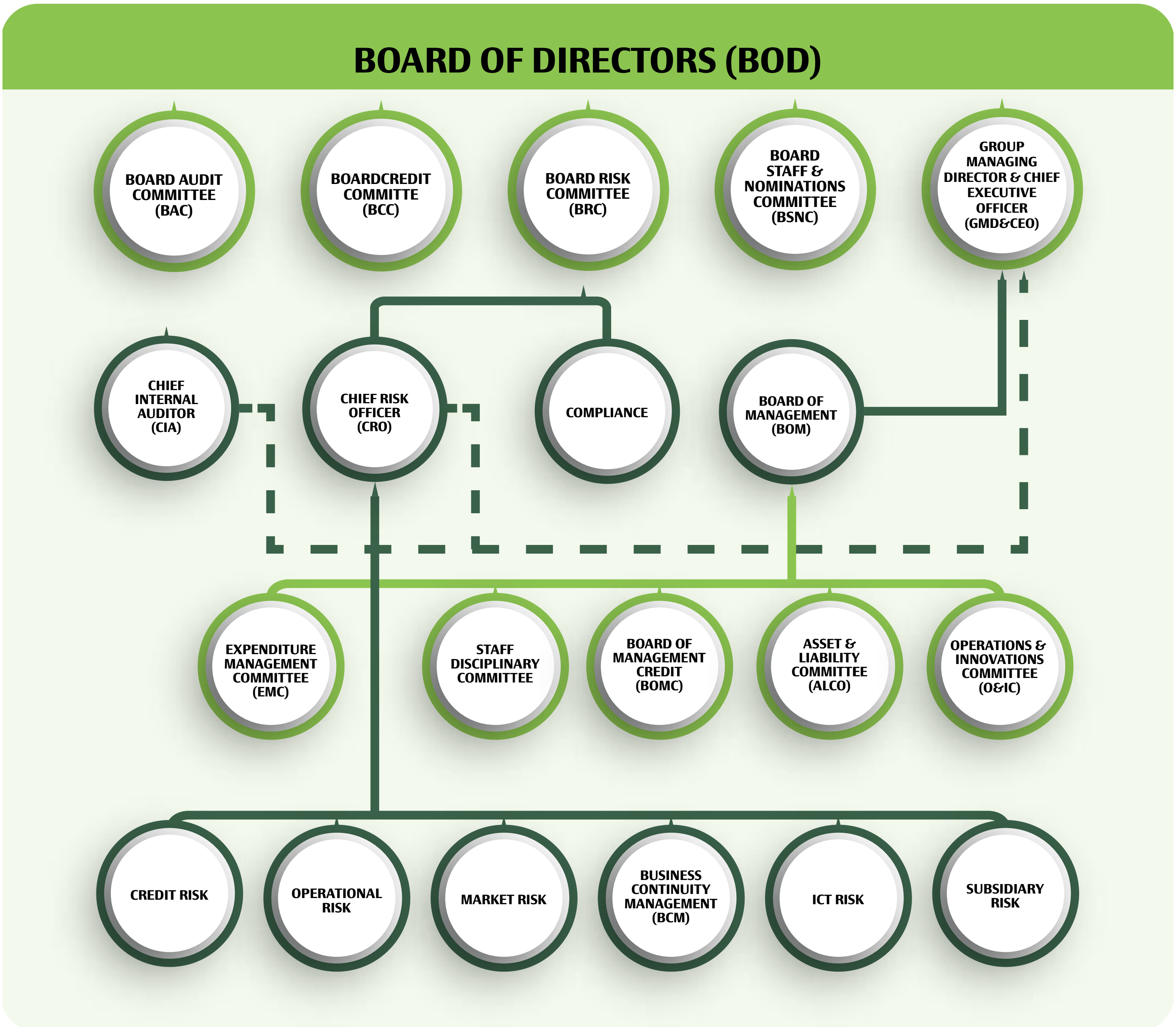
The Group Managing Director & CEO who reports to the Board of Directors (BOD), is supported closely by the Board of Management, Asset and liability Committee, Board of Management Credit, Expenditure Management Committee, Staff Disciplinary Committee and the Operations & Efficiency Committee.

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

Risk Governance Structure

Strong independent oversight is in place at all levels throughout the group. Various committees allow the Board of Directors and the Board of management to evaluate the risks faced by the Group, as well as the effectiveness of the Group's management of these risks.

These committees are integral to the Group's risk governance structure. Figure 3 depicts our risk governance structure.



Risk Governance Standards, Policies and Procedures

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

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

Risk Management Lines of Defense in the Group

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

Risk Management Processes

Our risk management processes include:

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

Risk Appetite Framework & Statement

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

The Group regularly monitors the level of potential deviation from expected financial performance that it is prepared to sustain at relevant points on the risk profile. A review of the Group's business activities is undertaken to ensure that they are within the Group's risk appetite and are of an appropriate level (relative to the risk and reward of the underlying activities). To support its capital management objectives, the Group has an internal formalized and documented capital adequacy assessment process that it leverages to drive the capital management and allocation process which are clearly consolidated in the Group's Internal Capital Adequacy Assessment Process (ICAAP) report prepared by the Board and submitted to the regulator on an annual basis. The Group's internal capital targets exceed the minimum regulatory capital requirements. Performance against risk appetite is measured by the Risk Management Department and reported to BRC regularly throughout the year.

Director ICT and Innovation, Mr. Charles Washika (L) and Chief Information Officer Dr. Peter Njuguna (first R) together with a technical team from Oracle Systems, led by Ms Janet Kamau reviewing the bank investments in data center.

Our Risk Universe

TYPES OF RISKS THAT WE FACE	KEY RISK INDICATORS	2020 Risk Review	Outlook
Pillar 1 Risks			

Credit	• Loan Book Growth
	• Non-performing loan Book growth
	• Cost of risk
	• Coverage
		• Loan Book Growth 7.5%
		• NPL ratio 18.2% Group 16.5% Bank
		• Cost of risk 2.9%
		• Coverage 45.3%
			• Successful implementation of the following 2 projects that have been detailed in the strategic focus section of this report;
			  • Credit Review Implementation Project "Project Kilele" with McKinsey &Co.
			  • Decentralization of loan portfolio management enabling Project 3C (Connect, Collect and Cure).
			  • NPL management initiatives under our Transformation Agenda.
			• Ensure credit growth through Sales Force Effectiveness.
			• Proactive implementation and review of our Credit Policy.
			• Adherence to credit Risk Appetite and limits, credit risk early warning indicators, proper credit appraisal and approval mechanisms, KYC, AML due diligence, segregation of duties in credit analysis, administration, disbursement, collection, portfolio management, valuation and general collateral management, and remedial, proper grading and classification of facilities, restructuring, and proactive NPL management.
			• Stress testing & sensitivity analysis of credit risks scenarios.
			• Environmental & Social Policy guides advances affecting the environment & social impacts.
			• Training – all credit approvers undertake training courses to acquire and upskill on credit approvals. This is delivered via external trainers like Omega and internally through our online E-Learning portal.
			• Adherence to the CBK regulations stipulated in this regard

Market Operational	• Maturity gap • Value at Risk • Position limits • Stop loss limits Gaps that may be identified in People, Processes or Technology especially; • New Products • Security (staff and assets) • ICT infrastructure efficiency and Cyber security • Staff empowerment and productivity. • Business Continuity Plans • Code of Business Conduct • Insurance adequacy • Outsourcing engagements • Fraud and forgeries • Agency Banking • Mobile Banking • Internet banking • Reputation • Customer satisfaction index	The indicators were within our risk appetite Within our risk appetite. We ensured; Operational Risk was kept at the lowest level possible taking into account business strategy, market sentiment, regulatory requirements and the capacity to absorb losses through earnings and capital.	• Dynamic models such as duration analysis, PV01, simulation, value at risk and stress testing to simulate the uncertainties in the future values of the market risk indicators and ensure appropriate actions are effected. • Enhanced Risk and Control Self-Assessments (RCSA) at business unit level • Incident and Loss data Management • Proactive Internal control policies and procedure guidelines; • Service Quality Charter for both internal and external clients; and • Stress testing on identified Key Risk Indicators.

Pillar 2 Risks			
Concentration	Large exposures (Individual, Geographic, Industry / Sector, foreign currency loans or Collateral type)	Within our Risk Appetite The Bank through its risk monitoring tools assesses and monitors concentration risk in both its Banking and Trading Books. The Group also leverages on the Herfindahl-Hirschman index (HHI) to assess the concentration levels.	• Leveraging on internal systems and procedures to identify, assess, control and monitor any substantial credit risk concentrations. • The Bank will continue with strict limitation of concentration. The same will apply to the deposit profile and Bank investments where efforts are made to ensure that there is proper diversification. • Risk limits have been set on industry concentration and incorporated in the Bank's approved Risk Appetite Statement
Interest Rate Risk in Banking Book (IRRBB)	The Bank's 12 months repricing maturity gap between rate sensitive assets and liabilities	We are positively gapped in the aforementioned band (12 months) hence within our risk appetite	• IRRBB is managed by risk-taking business units. • Independent IRRBB monitoring and measurement undertaken by RMD. • ALCO will continue to steer and integrate IRRBB risk management across the Bank
Liquidity	• Liquidity Ratio • Maturity gaps • LCR • NSFR	Our liquidity, LCR, NSFR ratios have been within our internally set limits and the regulatory limits. The liquidity ratio has been above 30% since 2013. (Dec 2020 – 49.52%)	• Managing liquidity risks will continue to be an integral part of Co-op Bank's business operation. Thus, liquidity risk will be continuously forecast and analyzed using different time horizons, with the aim of ensuring that the Group is able to meet its obligations optimally • The group's liquidity risk & contingency planning management framework will be reviewed on a regular basis.
Legal and Contractual	Litigation- net overall Bank exposure (settlement amounts in Kshs) in respect to pending litigations against and for the Bank	Was within our Risk Appetite The cases are in our favor and we do not envisage the exposure materializing against us.	• Co-op Bank is committed to adhere to statutory, regulatory requirements and follow best practices and market standards in the areas of accountability, transparency and business ethics. The Bank aims at a zero tolerance of misconduct and corruption.
Compliance & Regulatory AML/ CTF adherence	Penalties and fines levied by the regulatory bodies to which the Bank and its subsidiaries companies adheres to i.e. CBK, CMA, RBA, IRA, KRA etc.	We have sustained our compliance with the statutory and regulatory requirements.	• Co-op Bank is committed to adhere to statutory, regulatory requirements and follow best practices and market standards in the areas of accountability, transparency and business ethics. The Bank aims at a zero tolerance of misconduct and corruption.

Metrotrans Transport Sacco Financing For 45 Buses

The Managing Director of Isuzu E.A. Rita Kavashe hands over 'Isuzu key' to Oscar Rosana, CEO MetroTrans Sacco while Edward Mutuaruhiu, Head of Sacco Banking at Co-op Bank (extreme right) and John Mathu Njoroge, Chairman MetroTrans Sacco (extreme left) look on.

Strategic	Current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.	The Group has a Corporate Strategic Plan (2020-2024). The objectives and goals enshrined in the Plan have been formulated in a KPI format and these were used to align the Bank's activities to its vision and strategy, improve internal and external communications, and monitor performance against strategic goals. Group wide Biannual review of our strategic objectives and tactical plans was done to assess the implementation of Strategy taking into account the impact of the COVID-19 pandemic which inhibited the full attainment of the bank's 2020 targets The Bank also used budgets and financial modeling tools to assess strategic risk. These tools amongst others are provided in the Group's Strategic Risk Management Policy.	• To continue with strategic response to changes in the industry as well as adequately address any other emerging risks due to COVID-19 pandemic . • To enhance and update the Strategic Risk Register.
Systemic	Systemic risks are caused by factors such as a significant bank run, bank closures, significant interbank exposures through bankruptcy of a counterparty, significant credit exposures in the banking book, significant exposures/ losses in the trading book and macroeconomic shocks such as high inflation, economic recessions, significant FX structural exposures and collapse of key institution/ banks within the industry.	We conducted a systemic risk assessment as part of our ICAAP process and outcome affirmed the Bank's posture within our risk appetite.	• The Bank through the Risk Management Team and the Investor Relations Team in Finance will continue to identify, assess, measure and manage systemic risk. • Stress testing both on a sensitivity analysis and scenario – based analysis will be conducted on a quarterly basis and based on the results of the tests, appropriate actions will be undertaken to inform strategies that need to be put in place to manage the adverse exposures.

Leveraging on risk data and infrastructure

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

The introduction of the automated system in 2016 and its subsequent upgrade in 2020 to a web-based application was timely with one of the key benefits being the provision of a unified platform for effective collaboration between the business units through their risk champions and the Risk Management Department team. This collaboration has registered a number of successes which included the enhanced level of awareness of enterprise risk management within the Group and the level of commitment of the various stakeholders across board in playing their risk management roles as anticipated by the adopted framework. All business units today have been able to create their own risk registers through processes such as Risks & Controls Self-Assessment (RCSA), and Leadership of Business & Support Units identification of their key risks.

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

Risk communication in 2020 took the following forms;
1. BOM and BOD presentations and reports
2. Core briefs to all staff sent through email for team discussion and feedback
3. Online training for our various Departments and branches
4. Risk Policies repository on Bank's intranet that is accessible to all staff
5. Risk champions representing all the subsidiaries, departments and branches
6. CRO Corner- communication from the Chief Risk Officer to all staff

Proactive management of risk through our Risk Appetite Framework.
This is an important tool for enhancing the level of quantitative risk management program within the Group.
Our Risk Appetite Statement was developed and approved by the Board, and we use it to monitor and report on the key risks and deviations from the appetite that impact the Group. Through the framework we engage the various business units and subject our risk assessments through the Appetite Statement, whose outcomes are the various gaps and breaches. These in turn form part of our monthly and quarterly reporting to the Board of Management, Asset and Liability Committee (ALCO) and Board Risk Committee (BRC) respectively.

Proactive management of risk through our Stress Testing Processes.
In the Stress Testing program, we conduct quarterly stress testing exercises leveraging three sets of scenario cases namely, Exceptional but Plausible, Moderate and Extreme stress scenarios. We have conducted the tests for all the quarters in 2020 and the outcomes have informed the various measures that the Group has undertaken to ensure that our capital structure and levels, liquidity and business priorities/ activities are sound. The stress testing reports are also submitted to our regulator, The Central Bank of Kenya (CBK) on a quarterly basis.

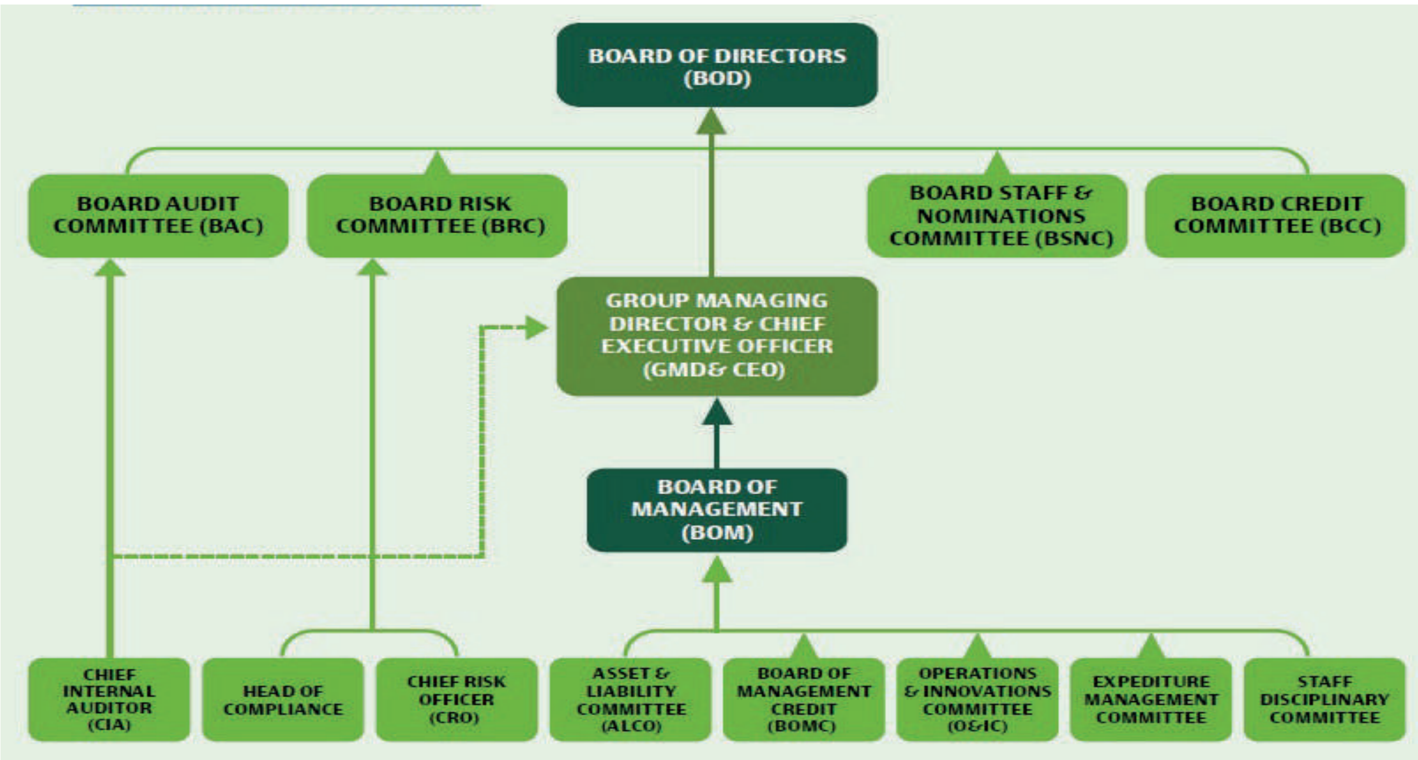
Outlook -2021 and Beyond Risk Priorities

- Proactive monitoring of the COVID-19 pandemic to assess its continuous impact to the bank's stakeholders as well as the overall macroeconomic environment.
- Continue supporting the Credit Risk Adaptation Project (Detailed in the Strategic Focus Review section of this report)
- Actively ensuring that our Policy framework is up to date and benchmarked to ensure optimal guidance on risk matters.
- Ensuring the Board of management and Board Risk Committee are informed on emerging and current risk issues for enhanced strategic decision- making.
- Ensuring the Stress testing framework is proactively updated to capture all emerging key risk indicators and is implemented optimally.
- Optimizing the Vulnerability Management Tool for systems security monitoring.
- Enhanced cyber security assessments and monitoring using the newly established Security Operations Center that leverages on Qradar - a Security Information and Event Management (SIEM) tool for optimal cyber security threat management
- Carrying out annual Business Impact Assessment for the Bank and its subsidiaries.
- Continuous training of Group staff to ensure all staff are well informed on risk matters. Capacity Building on Enterprise Risk Management and Business Continuity.
- Ensuring group wide regulatory compliance.
- Ensuring proactive Internal Capital Adequacy Assessment Process.
- Continuously grow the capacity of the risk management unit commensurate to the Bank's growth and expansion plan.
- Automation of the risk monitoring as well as risk reporting & insights across all risk classes in order to provide a single comprehensive view of risk.

Corporate Governance

Governance Structure

Our Governance structure is as follows;



Key Board of Directors Issues

Statement on Corporate Governance

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

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

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

Code of Conduct

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

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

The Board of Directors

Board Composition

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

	Independent	Directors in Coop Holdings	Skills
John Murugu, OGW, Chairman (70)			• Banking • Public Finance • Organizational Change and Development • Business administration • Management Information Systems • Strategic Planning • Public Secretarial • Strategic Leadership • Corporate & institutional Banking • Mathematics • Business Management • Coffee Industry Management • Human Resource Management • Accountancy • Education management • Co-operative Management • Tax • Economics • Foreign affairs • Finance
Macloud Malonza, HSC, Vice-Chairman (52)			
Dr. Gideon Muriuki, (CBS, MBS), Group Managing Director & CEO (56)			
Patrick K. Githendu, Director (67)			
Weda Welton (Mrs.), Director, Independent (62)			
Lawrence Karissa, Director, Independent (65)			
Julius Sitienei, Director (66)			
Benedict W. Simiyu, Director (59)			
Richard L. Kimanthi, Director (64)			
Wanyambura Mwambia, Principal Secretary - National Treasury appointee (65)			
Wilfred Ongoro (HSC), Director (65)			
Godfrey K. Mburia, Director (64)			
Margaret Karangatha, Director, Independent (60)			

Appointments and induction to the Board

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

corporate governance and modern trends in directorship. Directors are advised of the legal, regulatory and other obligations of a director of a listed company and updated on industry and regulatory developments as they take place. All directors have access to the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable laws and regulations are complied with.

Board Responsibilities

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

- Setting the strategic direction of the Group and putting in place appropriate policies, systems and structures for their successful implementation;
- Establishing and maintaining the Bank's overall systems of planning, accounting and internal controls that facilitate prudent risk assessment and management; Setting policy guidelines for management and ensuring competent management of the business including the selection, supervision and remuneration of Senior Management;
- Ensuring that the business of the Bank is conducted in compliance with relevant laws and regulations; and
- Monitoring the Bank's performance and reporting this to shareholders especially at the Annual General Meeting.

Board and Strategy Meetings

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

Board Chairman and Group Managing Director

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

Board Performance Evaluation

The Board is responsible for ensuring that an evaluation of its performance and that of its committees and individual directors is carried out each year. This involves a self-review of the Board's capacity, functionality and effectiveness of performance against its set objectives. Evaluation enables directors to suggest how Board procedures may be improved by assessing strengths and weaknesses and addressing its balance of skills, knowledge and experience. This is done by way of both peer and self-evaluations, after which results are submitted to the Central Bank of Kenya (CBK). The Board and all its committees conducted evaluations during the year (2020) and no material concerns were expressed.

Internal Control and Audit

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

Risk Management and Compliance

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

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

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

- High Performance Audit and Risk Teams Programme by Strathmore Business School
- Leading with Emotional Intelligence by Institute Of Directors (IOD)
- Demystifying Money Laundering & Terrorism Financing by Institute Of Directors (IOD)
- Effective Director by Strathmore Business School
- Leading The Board (LTB) by Strathmore Business School
- Prudential guidelines for banks by Institute Of Directors (IOD)
- Enterprise wide risk management by Institute Of Directors (IOD)
- Leveraging on generation 'Y' by Institute Of Directors (IOD)
- I.T Governance by Institute Of Directors (IOD)
- Corporate Governance by Institute of Directors
- Governance Training on the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 by Capital Markets Authority.

Board Committees
To enhance the breadth and depth of achieving Board responsibilities, the Board has delegated authority to various sub-committees although the Board retains ultimate collective accountability for performance and corporate governance. Committees of the Board are as follows:
i. Board Credit Committee.
ii. Board Audit Committee;
iii. Board Risk Committee;
iv. Board Staff and Nomination Committee; and

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

Board Credit Committee
The membership of the Committee comprises of at least four directors and the Group Managing Director & CEO currently constituted as hereunder:
• Mrs. Margaret Karangatha - Chair.
• Mr. John Murugu OGW.
• Mr. Macloud Malonza HSC.
• Mr. Wilfred Ongoro HSC.
• Mr. Richard L. Kimanthi.
• Dr. Gideon Muriuki CBS, MBS – Group Managing Director & CEO

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

Board Audit Committee
The Committee comprises at least three non-executive directors, the majority of whom shall be independent non-executive directors, currently constituted as hereunder: -
• Mrs. Weda Welton – Chair.

• Mr. Lawrence Karissa.
• Mr. Wanyambura Mwambia.
• Mr. Patrick Githendu.
• Mr. Benedict Simiyu.

The Committee meets at least once every 3 months and at least twice in a year with the external and internal auditors without management being present. Meetings are normally attended by resources from the Department of Internal Audit. The objective of this Committee is to provide independent oversight of the Group's financial reporting and internal control system, ensure checks and balances within the Bank, its subsidiaries and related institutions are in place and recommend appropriate remedial action regularly and ensure quality integrity and reliability of the Group's internal controls. It also assists the Board of Directors in the discharge of its duties relating to the corporate accountability and associated risks in terms of management, assurance and reporting. The terms of reference of the Committee are achieved through review and evaluation of the financial status of the Group, review of internal controls, consider performance and findings of internal auditors and recommend appropriate remedial action, nominate external auditors for appointment by shareholders, review management reports and reports from external auditors concerning deviations and weaknesses in accounting and operational controls, coordinate between the internal audit function and external auditors, monitor the ethical conduct of the institution and consider the development of ethical standards and requirements, including effectiveness of procedures for handling and reporting complaints, review any related party transactions that may arise within the banking institution.

Board Risk Committee
The Committee comprises at least three non-executive directors, the majority of whom shall be independent non-executive directors, currently constituted as hereunder: -
• Mr. Wanyambura Mwambia – Chairman.
• Mr. Lawrence Karissa.
• Mr. Patrick Githendu.
• Mr. Benedict Simiyu.
• Mrs. Margaret Karangatha.

The Committee meets at least once every 3 months and at least twice in a year. Meetings are normally attended by resources from Risk Management and Compliance. The objective of this Committee is to provide independent oversight of the Group's risk management and independent compliance functions in the Bank and its subsidiaries and outline the scope of risk management work, monitor external developments relating to the practice of corporate accountability and the reporting of specifically associated risks, including emerging and prospective impact, provide independent and objective oversight and review of the information presented by the management to ensure that risk policies are and strategies are effectively monitored and managed and taking account of performance and risk appetite, risk trends, risk concentrations, key performance Indicators for risk.

Board Staff and Nomination Committee
This Committee meets at least two times in a year and its current membership includes:
- Mr. Lawrence Karissa – Chairman.
- Mr. John Murugu OGW.
- Mrs. Weda Welton.
- Mr. Julius Sitienei.
- Mr. Godfrey K. Mburia.

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

Board attendance summary

Cooperative Bank of South Sudan			
	Full BOD	Audit	Risk & Finance
Schedule of meetings:			
ENG. William W. Mayar-Chairman	4		1
John K. Murugu, OGW	4	2	
Macloud Malonza,HSC	4		1
Dr. G. Muriuki, MBS,CBS – Group Managing Director & CEO	4	2	1
Elijah Wamalwa-Managing Director	4	2	1
Prof. Mathew Gordon Udo	4	2	
Rosemary M. Githaiga(Mrs.)	4		

Hon. Ocum Genes Karlo	4		

Directors-2020 Board Meetings Attedance	Co-operative Bank Group				Co-operative Bank of Kenya Ltd Board Sub-committees			
	Co-operative Bank of Kenya Ltd	Co-op Consultancy & Insurance Agency Ltd	Co-optrust Investment Services Ltd	Kingdom Securities Ltd	Audit Committee	Staff and Nomination Committee	Credit Committee	Risk Committee
Schedule of meetings:								
John K. Murugu, OGW – Chairman (appointed on 01 October-2017	7					2	2	
Macloud Malonza,HSC - Vice Chairman(appointed on 01 October 2017)	7	5	5				2	
Dr. G. Muriuki, MBS,CBS – Group Managing Director & CEO	7	5	5			2	2	
Lawrence C. Karissa	7				4	2		4
Rose Simani (Mrs)	3				1	1		
Wilfred Ongoro, HSC	7						2	
W. J. Mwambia -Representing PS Ministry of Finance	7				4			4
Julius Sitienei	7			5		2		
Weda Welton (Mrs)	4				3	1		
Richard L. Kimanthi	7						2	
Benedict W. Simiyu	7				4			4
Godfrey K. Mburia	7					2		
Patrick K. Githendu	7				4			4
Margaret Karangatha (Mrs)	7						2	4
Scholastica Odhiambo (Mrs)		5	5					
James N. Njiru		5	5					
David M. Muthigani		5	5					
Geoffrey Njang'ombe		5	5					
Francis Ngone		5	5					
Geoffrey M'Nairobi		5	5					
Michael Muriithi		5	5					
Boaz Ouma Awitti				5				
Mwangi Kariuki				5				
Anthony Mburu				2				
Arthur Muchangi				3				
Anthony Wangari				5				

Board Remuneration

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

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

Directors and MD's of the subsidiaries. The bank has a performance-based Bonus reward system applicable to all staff including unionizable staff. Board of Directors (Non-Executive) are not on full time employment by the bank and the compensation is by way of paying allowances per board session and an annual honorarium based on the banks performance.

As at 31st December 2020 loans to Non-Executive Directors or companies controlled by Directors amounted to Kshs 400.7M (2019: KShs.330.8M). All loans to directors were made in the ordinary course of business and substantially same terms including collateral as those prevailing at the same time for comparable transactions with other persons. No allowances for impairment were recognized in respect of the loans to Directors. (2019: Nil).

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

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

- The Board of Management Credit – Its mandate is to receive, review and consider material, high-value and sensitive credit cases and matters. It currently has membership of all Business Division Directors, Director– Credit Management division and Representation from Finance & Strategy division and Legal Services Department.

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

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

- The Staff Disciplinary Committee - this committee receives and reviews staff disciplinary cases referred by Human Resource Division and makes recommendations to the Chief Executive as is appropriate.

- Operations & Innovations Committee (OIC) – The OIC is responsible for innovations and the overall monitoring and control of the operational risks. The committee is chaired by the Chief Operating Officer (COO). The Committee's main activities include business process re-engineering, business process automation, mitigation/elimination of operating risks and to continuously evaluate improvement suggestions from Bank staff aimed at exceeding benchmarked industry/market standards on customer services, operation risks management, profitable trading and processing efficiency.

Directors Shareholdings

Directors' interest in the ordinary share capital of the Company on 31 December 2020 was as follows:

Name	No. Shares	% Shareholding
John K. Murugu (OGW) - Chairman	1,895,040	0.03
Macloud Malonza (HSC) - Vice Chairman	5,160,000	0.09
Dr. Gideon Muriuki, CBS, MBS – GMD & CEO	102,528,400	2
Lawrence C. Karissa	3,860	-
Wilfred Ongoro, HSC	84	-
Wanyambura Mwambia	-	-
Julius Sitienei	4,000,000	0.07
Richard L. Kimanthi	7,800	-
Benedict W. Simiyu	3,360	-
Godfrey K. Mburia	2,352,201	0.04
Patrick K. Githendu	86,415	-
Weda Welton	3,254,000	0.06
Scholastica Odhiambo (Mrs.)	1,825,524	0.03
James N. Njiru	1,680	-
David M. Muthigani	11,592	-
Francis Ngone	-	-
Geoffrey M'Nairobi	283,220	-
Boaz Ouma Awitti	-	-
Mwangi Kariuki	-	-

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

CONTENTS

REGISTERED OFFICE AND HEAD OFFICE

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

SUBSIDIARIES

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

Kingdom Bank Ltd
Kingdom Bank Towers
Argwings Kodhek Rd.
P.O. Box 22741 - 00400
NAIROBI

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

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

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

COMPANY SECRETARY

Samuel M Kibugi (Mr)
Co-operative Bank House, Haile Selassie Avenue,
P.O. Box 48231 – 00100,
NAIROBI

SHARES REGISTRAR

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

LAWYERS

Various
A list is available at the Bank

AUDITORS

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

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2020

The directors submit their report together with the audited financial statements for the year ended 31 December 2020.

1. **INCORPORATION**

   The company is domiciled in Kenya where it is incorporated as a public company limited by shares under the Kenyan Companies Act, 2015. The address of the registered office is set out on page 109.

2. **PRINCIPAL ACTIVITIES**

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

3. **GROUP OPERATIONS**

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

4. **RESULTS**

   The results of the Group for the year are set out from page 127.

5. **RECOMMENDED DIVIDEND**

   The directors recommend payment of a first and final dividend of KShs 1 (2019 - KShs 1) for every ordinary share of KShs 1. The dividends will be paid on or about 14 April 2021 to the shareholders registered on the Bank's register at the close of business on 31 March 2021. The register will remain closed for one day on 13 April 2021 for the preparation of dividend warrants.

6. **RESERVES**

   The movement in the Group's reserves is shown on page 133 of these financial statements.

7. **GROUP DIRECTORS**
   The directors who served during the year and to the date of this report were:

Co-operative Bank of Kenya and Kenyan subsidiaries: -

J.K. Murugu, OGW	- Chairman
M. Malonza,MBS, HSC	- Vice Chairman
Dr. G. Muriuki, CBS, MBS	- Group Managing Director & CEO
L.C. Karissa	- Chairman, Staff and Nominations Committee
Margaret Karangatha (Mrs)	- Chairperson, Board Credit Committee
Mrs. Weda Welton	- Chairperson, Board Audit Committee (appointed on 24 September 2020)
R. Simani (Mrs)	- Retired on 24 September 2020
W. Ongoro, HSC	
Wanyambura Mwambia	- Representing PS, National Treasury (Chairman, Board Risk Committee)
J. Sitienei	
R. L. Kimanthi	
S. Odhiambo (Mrs)	
P.K. Githendu	
G. K. Mburia	
B.W. Simiyu	
J.N. Njiru	
D.M. Muthigani	
Geoffrey N. Njang'ombe	-Commissioner of Co-operatives
F.Ngone	
G.M'Nairobi	
M. M. Muthigani	

7. GROUP DIRECTORS (continued)

Co-operative Bank of South Sudan: -

Eng. William Mayar Wol*	Chairman
Elijah Wamalwa	Managing Director
Prof. Mathew Gordon Udo*	
Hon.Ocum Genes Karlo*	
John K Murugu OGW	
Macloud Malonza, MBS, HSC	
Dr. Gideon Muriuki, CBS, MBS	
Rosemary Majala Githaiga (Mrs)	

*South Sudanese

8. BUSINESS REVIEW

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

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

The Group also offers Fund Management, Consultancy & capacity building, Insurance Brokerage, Stock brokerage and leasing through its Subsidiaries.

The Bank has a customer base of 8.8 Million accounts holders. Its 177-branch network (4 in South Sudan, 17-Kingdom Bank) covers 44 counties in Kenya, with alternative channels growing: M-Co-op Cash (5 Million customers), Internet banking (over 115,000 customers 581 ATM's, Over 23,000 Co-op Kwa Jirani Agents and a 24-hour Contact Centre.

In 2014, to sustain the growth momentum and put the group on a new growth trajectory, the Board of Directors appointed McKinsey & Co. for a growth and efficiency review. The Group continues to reap many benefits from an institutionalized Transformation including.

- Set up of a Transformation office that has been key in follow up and seamless implementation of all the transformation initiatives.
- Re-organized branch set up for better customer experience, and drastically reduced branch customer wait-time to less than 15 min (8.4 Minutes by December 2020).
- End to end Migration to alternative banking channels with 92% of the transactions being in Alternative Banking Channels and only 8% in branches.
- MSME – Successful Market launch for the MSME initiatives on 23rd Aug 2018, over 116,000 Clients on boarded by December 2020.
- E-credit growth focus – Over Kshs 58.5B disbursed in 2020.
- Implemented a customer centric relationship model: One Relationship Manager (RM), One Customer, Many products.
- Centralized operations support and Digitization through shared services. The Bank is in the process of upgrading its Core Banking Network.
- Significant improvement on cost to income ratio from a high of 59% in Dec 2014 to 57.4% in December 2020
- Proactive NPL management post IFRS 9

8. BUSINESS REVIEW (continued)

Business Model (continued)

- Data analytics. Improved access and analysis of information throughout the organization.
- An effective performance and consequence management platform.

The Group has a proactive Corporate Strategic Plan 2020-2024. This continues to guide the Group enabling it to quickly reprioritize focus as the Covid-19 Pandemic Situation unfolds. Key focus is as follows.

- Sustained Enterprise risk management including Business Continuity Plan implementation.
- Proactive Regulatory compliance
- Continuous support to customers, staff and all other stakeholders. Over Kshs. 49 billion relief offered to customers who have been impacted by the Pandemic.
- Operational excellence ensuring optimal systems uptime, optimized operational processes and data security as customers and staff embrace contactless and work from home. Our focus is uninterrupted services and processes.
- Quality loan Book growth in the IFRS 9 environment leveraging on Sales Force Effectiveness and proactive credit management.
- New Frontiers in growing Liability and Non-Funded Income leveraging on Sales Force Effectiveness, strong customer base of 8.8 Million, digital channels and the ongoing MSME Transformation thus increasing sales.
- World class Customer experience to ensure complete customer loyalty.
- Cost optimization- Critical focus on lowering the overall cost to income ratio through increased efficiencies.
- Digital Transformation to take the Bank into the new frontier of digitalization.
- Staff productivity and a culture of high performance
- Collaboration with Fintechs to synergize their innovative capabilities.
- Synergized subsidiary business that will generate new revenue streams.
- Enhanced leasing business supported by the joint venture with Super Group.

Financial Review

Despite the challenges in 2020 occasioned by the outbreak of Covid-19 pandemic, the Group made a profit before tax of Kshs 14.3 billion compared to Kshs.20.7 billion in 2019. Loan book grew by 7.5% to Kshs 286.6 billion whereas customer deposits grew by 13.8% to Kshs.378.6 billion. Government securities increased by 37.4% to Kshs 161.9 billion. The bank closed the year with a solid capital base with a core capital to risk weighted assets of 15.4%, which is 4.9% above the statutory minimum of 10.5%. Total capital to risk weighted assets was 16.9% against the statutory minimum requirement of 14.5%.

The performance in 2020 is an affirmation of the resilient business model in view of the most challenging operating environment occasioned by the Covid-19 pandemic that has brought about unprecedented economic and social disruption globally.

Covid_19 Impact
The Group implemented proactive enterprise risk management initiatives to ensure uninterrupted business operations in the following ways.

1. Fortification of digital channels to support uninterrupted access to banking services by customers.
2. Enhancement of digitization of internal bank processes and engagement platforms, to build contactless capabilities for both customers and staff.
3. Adoption of a work-from-home model for the safety and wellness of bank teams and ensuring safe spaces for staff who continue to serve in physical touchpoints.
4. Robust engagement with regulators to ensure full compliance and support.

8. BUSINESS REVIEW (continued)

Financial Review (continued)

The pandemic's key impact on the Bank is as follows;

1. The Bank reported a PBT of Kshs. 14.3B which was 31% lower than the previous year on account of higher loan loss provisions which went up by Kshs.5.6B.
2. In support of Customers who were struggling to make payments for the various facilities advanced to them, the Bank restructured loans worth Kshs. 49 Billion. The cost of restructure was borne by the Bank.
3. Forgone liquidity owing to deferred principal and interest payments.
4. Waiver on transactions fees on Mobile money transfer across platforms as guided by the Central Bank of Kenya.
5. Pandemic related investments that the Bank has made in relation to;
   a. Health and safety assurance initiatives for customers and staff.
   b. ICT costs related to Work from Home - The bank has invested heavily in certain areas so that the Work from Home program can pick up and be effective while maintaining/monitoring productivity of the members of staff. The advantages of this investment include:
      i. Securing the bank systems especially for those accessing from outside the bank premises. This was done by implementing a multifactor authentication on VPN connectivity to the Bank.
      ii. There is enhancement on the Security Monitoring platform capacity to be able to accommodate more systems.

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

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

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

10. TERMS OF APPOINTMENT OF THE AUDITORS

Ernst & Young LLP continues in office in accordance with the company's Articles of Association and Section 719 of the Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditors' appointment and the related fees. The agreed group auditor's remuneration of KShs 25.3 million has been charged to profit or loss in the year.

11. APPROVAL OF FINANCIAL STATEMENTS

The Board of Directors approved the financial statements on 17th March 2021.

By order of the Board

....
Group Managing Director & CEO

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

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

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

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

Having made an assessment of the Group'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 company's ability to continue as a going concern.

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

Approved by the board of directors on 17th March 2021 and signed on its behalf by:

....
CHAIRMAN

....
VICE CHAIRMAN

....
GROUP MANAGING DIRECTOR & CEO

....
COMPANY SECRETARY

The Bank's Directors Remuneration Policy

The Co-operative Bank of Kenya Group Operations comprises the following;
1) The Co-operative Bank of Kenya Limited
2) Co-op Consultancy and Insurance Agency – 100% Owned
3) Co-op Trust Investments Ltd – 100% owned
4) Kingdom Securities Limited – 60% owned
5) Co-operative Bank of South Sudan – 51% owned
6) Kingdom Bank Limited-90% owned

The board of directors as mandated by the shareholders establishes and reviews remuneration of the directors from time to time. At every Annual General Meeting (AGM), shareholders pass a resolution authorizing the Board to fix the directors' remuneration, emoluments and compensation appropriately as per industry practice. At the virtual Annual General Meeting held on 22nd October 2020 the shareholders authorized the Board to fix the directors remuneration.

Board of Directors (Non-Executive) are not on full time employment by the bank and the compensation is by way of fees and allowances as here under; -
- Monthly retainer / fee
- Travelling allowance. The group directors who come from upcountry are paid mileage based on distance travelled and night out allowance for hotel accommodation.
- Sitting allowance based on every meeting attended.
- Honorarium: Based on the annual group performance, the Board of Directors approves an appreciation honorarium to board members.

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

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

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

Loans to Directors
As at 31st December 2020 loans to Non-Executive Directors or companies controlled by Directors amounted to Kshs 400.7M (2019: KShs. 330.8M). All loans to directors were made in the ordinary course of business and substantially same terms including collateral as those prevailing at the same time for comparable transactions with other persons. No allowances for impairment were recognized in respect of the loans to Directors. (2019: Nil)

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

Directors Remuneration Schedules

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

Amounts in KShs Million

Name	Monthly Retainer	Sitting Allowance	Travelling Facilitation	Honorarium	Responsibility Allowance	Housing Allowance	CEO Annual Remuneration	Total 2020	Total 2019
John K. Murugu, OGW – Chairman	4.43	0.64	0.68	4.53	6.17	2.98	-	19.43	20.23
Macloud M. Malonza, MBS, HSC	4.63	1.04	0.68	4.13	2.50	1.28	-	14.26	15.14
Patrick K. Githendu	1.61	0.78	1.15	3.87	2.22	1.02	-	10.65	11.15
Wanyambura Mwambia	1.41	0.65	0.90	3.87	-	-	-	6.83	7.29
Lawrence C. Karissa	1.41	0.83	2.11	3.87	-	-	-	8.22	8.72
Margaret Karangatha (Mrs)	1.41	0.64	0.90	3.87	-	-	-	6.82	2.79
Rose K. Simani (Mrs)	0.59	0.31	0.17	17.2	-	-	-	18.27	7.37
Weda Welton (Mrs)	0.83	0.35	0.73	1.33	-	-	-	3.24	0
Julius Sitienei	1.41	0.41	1.27	3.87	-	-	-	6.96	7.63
Benedict Simiyu	1.41	0.70	1.85	3.87	-	-	-	7.83	8.14
Richard L. Kimanthi	1.41	0.41	1.60	3.87	-	-	-	7.29	7.65
Wilfred Ongoro, HSC	1.41	0.41	1.44	3.87	-	-	-	7.13	7.71
Godfrey Mburia	1.41	0.41	1.27	3.87	-	-	-	6.96	7.95
Scholastica Odhiambo (Mrs)	2.05	0.40	0.75	3.87	-	-	-	7.07	7.61
James N. Njiru	2.05	0.40	0.95	3.87	-	-	-	7.27	8.07
David M. Muthigani	2.05	0.40	0.94	3.87	-	-	-	7.26	7.96
Francis Ngone	2.05	0.40	0.90	3.87	-	-	-	7.22	7.96
Geoffrey M'Nairobi	2.05	0.40	0.95	3.87	-	-	-	7.27	8.18
Geoffrey N. Njang'ombe	2.05	0.40	0.75	3.87	-	-	-	7.07	3.29
Michael M. Muthigani	2.05	0.40	0.75	3.87	-	-	-	7.07	6.98
Mary N. Mungai (Mrs), OGW	-	-	-	-	-	-	-	-	8.72
Didacus O. Ityeng'	-	-	-	-	-	-	-	-	1.03
Dr. G. Muriuki, CBS, MBS - GMD & CEO	-	-	-	-	5.47	-	111.57	117.04	113.51
	37.72	**10.38**	**20.74**	**89.11**	**16.36**	**5.28**	**111.57**	**291.16**	**285.08**

b) **Kingdom Bank Limited (90% Owned)**

Amounts in KShs Million

Name	Monthly Retainer	Sitting Allowance	Travelling Facilitation	Responsibility Allowance	Housing Allowance	CEO Annual Remuneration	Total 2020	Total 2019
Stefan Kaiser	-	1.22	-	-	-	-	1.22	-
Richard Kiplagat	-	1.21	-	-	-	-	1.21	-
Timothy Kabiru	-	-	-	-	-	29.85	29.85	-
Paul D.P.Nyamodi	-	0.84	-	-	-	-	0.84	-
Samuel G. Mburu	-	1.31	-	-	-	-	1.31	-
Margaret Karangatha(Mrs)	-	0.17	-	-	-	-	0.17	-
Macloud M. Malonza,MBS,HSC	-	0.12	-	-	-	-	0.12	-
Dr. G. Muriuki, CBS, MBS - GMD & CEO	-	-	-	-	-	-	-	-
Julius Sitienei	-	0.12	-	-	-		0.12	-
Anthony Mburu						-	-	-
	-	**4.99**	-	-	-	**29.85**	**34.84**	**86.27**

Kingdom Securities Limited (60% Owned)

Amounts in KShs Million

Name	Monthly Retainer	Sitting Allowance	Travelling Facilitation	Total 2020	Total 2019
Julius Sitienei – Chairman	0.72	0.22	0.32	1.26	1.31
Patrick K. Githendu	0.36	0.18	0.15	0.69	0.73
B. M. Ouma-Awiti	0.36	0.18	0.35	0.89	0.94
Samuel M. Kariuki	0.36	0.18	0.07	0.61	0.66
	1.80	**0.76**	**0.89**	**3.45**	**3.64**

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

Amounts in KShs Million

Name	Monthly Retainer	Sitting Allowance	Travelling Facilitation	Honorarium	Responsibility Allowance	Housing Allowance	Total 2020	Total 2019
Eng. William Mayar Wol – Chairman	3.90	0.77	0.84	-	6.20	6.21	17.92	12.94
John K. Murugu, OGW	2.17	0.36	-	-	-	-	2.53	1.60
Prof. Mathew Gordon Udo	1.94	0.48	0.66	-	-	-	3.08	2.94
Macloud M. Malonza, MBS, HSC	2.17	0.25	-	-	-	-	2.42	1.56
Hon. Ocum Genes Karlo	1.94	0.37	0.52	-	-	-	2.83	3.24
Rosemary Githaiga (Mrs)	2.17	0.20	-	-	-	-	2.37	1.50
Hon. Wani Buyu Dyori	-	-	-	-	-	-	-	1.28
Dr. G. Muriuki, CBS, MBS - GMD & CEO	2.16	-	-	-	-	-	2.16	1.44
	16.45	**2.43**	**2.02**	**-**	**6.2**	**6.21**	**33.31**	**26.5**

Five (5) Year Summary of Directors Emoluments

Amounts in KShs'000	**2020**	**2019**	**2018**	**2016**	**2015**
Directors emoluments	**245,715**	**201,701**	**198,843**	**180,790**	**163,742**

Executive Management Compensation

The Bank has undergone tremendous Growth transforming from a co-operatives-based sector model to a universal banking model. The Group was for many years a loss making Bank with no returns to shareholders but has boldly transformed to be one of the Top Banks in the region with an Asset base of over Kshs 537 billion and a Profit Before tax of KShs 14.3 billion in a fast changing and highly competitive market environment, thereby maximizing shareholder value. The Bank is now the largest Cooperative Bank in Africa, and 5th largest company by Market Capitalization at the Nairobi Securities Exchange.

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

Under the performance driven culture, it is noteworthy that the Bank has progressively improved profitability from a huge loss of KShs2.3 billion in year 2000 and an asset base of KShs 22.3 billion to the current profit before tax of over KShs 14.3 billion and asset base of over KShs.537 billion.

In 2020, the group acquired 90% stake in Kingdom Bank Limited (formerly Jamii Bora Bank), a fully-fledged Commercial Bank, licensed and regulated by the Central Bank of Kenya, with over 444,000 customers in 17 branches. The acquisition offers Co-op Bank the opportunity to cross-sell and deepen product offering to the enhanced customer base and create a niche bank to offer specialized credit offerings that include MSME Banking, Microfinance, Youth & Women Banking, Asset Finance and Leasing.

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

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

2011 Awards
Banker Awards: Bank of the Year in Kenya by the Financial Times of UK
Fire Awards Overall winner: Corporate Governance

2012 Awards
FIRE Awards: 2nd runners up in Corporate Social Investment reporting

2013 Awards
Energy Managements Awards: Most Green Bank by Kenya Association of Manufacturers

2014 Awards
Bank CEO of the Year – Africa by International Banker Awards
Best Innovation in Retail Banking by International Banker Awards
Best Commercial Bank in Kenya by World Finance Banking Awards
Best Bank in Retail Banking by East African Banking Awards
Best Bank in Micro-Finance by East African Banking Awards

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

2016 Awards
Best Commercial Bank, Kenya by Banker Africa
The Best Socially Responsible Bank in East Africa by Banker Africa
The Best Retail Bank in Kenya by Banker Africa
CATALYST AWARDS 2ND POSITION Overall winner by Kenya Bankers Association
2ND POSITION: Best Practice in Sustainable Finance
1ST POSITION: Commercial Client Case Study (Strathmore University Solar Energy Project)
1ST POSITION: MSME Case Study (Varomatech Enterprises)

2017 Awards

- EMEA African Banking Awards: Best Bank in Kenya
- Social Bankers: Most Socially Devoted Bank
- KBA CATALYST AWARDS 2018 Overall Winner
- 1ST - Client Case Study – Financing Commercial Clients
- 1ST - Bank Case Study – Bank Operations & Policy
- 2ND -Best Practice in Sustainable Finance
- 3RD - Sustainability Through Policy & Governance
- 3RD - Client Case Study – Financing Micro, Small & Medium-Sized Companies
- FIRE Awards: Overall winner Corporate Social Investment reporting
- 2018 Awards:
- Best Retail Bank Kenya by International Finance
- Best Banking CEO Kenya by International Finance
- Best retail bank by Banker Africa
- Best SME bank in Kenya by Banker Africa
- Best Investment Institution in Kenya by Banker Africa
- Best bank in Kenya by EMEA African Banking Awards
- Best product launch (Mco-op cash Update) EMEA African Banking Awards

2019 Awards:

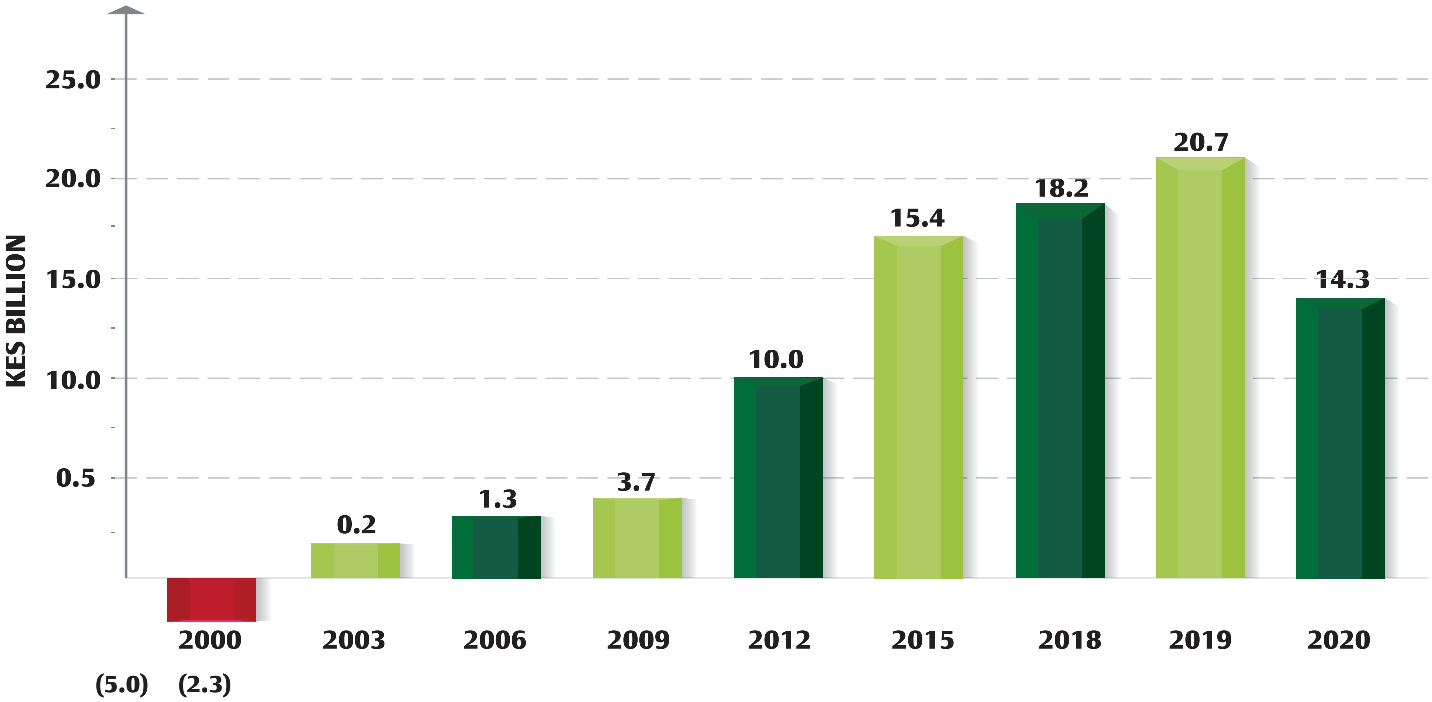
- Kenya Bankers Association, in its 2019 Catalyst Awards,
- Overall Winner
- Winner Client Case Study – Financing SMEs
- 1st runner up Best in Sustainable Finance
- 1st runner up Bank Case Study – Bank Operations
- 1st runner up Financing the informal sector.
- 2nd runner up Client Case Study – Commercial
- 2nd runner up Most innovative bank
- Best Bank in Sustainable Finance in Kenya by the Kenya Association of Manufacturers Awards 2019
- Winner: Environmental Sustainability Reporting by ICPAK FIRE Awards 2019
- Product innovation of the year by global SME Finance Awards 2019
- Best Bank in Kenya by EMEA Finance African Banking Awards 2019

2020 Awards:

- Best Bank in Kenya by EMEA Finance African Banking Awards 2020
- Best Bank in Kenya by Financial Times Banker awards 2020
- Added in MSCI Index in May 2020 under Frontiers Index small Index, raising the Bank visibility in the International Market.

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

Profit Before Tax



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

Amount in KShs' Million	**Salaries**	**Bonus/Gratuity**	**Fees, Other allowances and Honorarium**
Board of Directors	-	-	245.71
Executive Management*	498.82	373.94	-
*Group MD & CEO	117.04	260.32	-

By the order of the board.

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Samuel M. Kibugi
Company Secretary

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
THE CO-OPERATIVE BANK OF KENYA LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the consolidated and separate financial statements of The Co-operative Bank of Kenya Limited and its subsidiaries ('the group') and Bank set out on pages 127 to 259, which comprise of the consolidated and separate statements of financial position as at 31 December 2020, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group and company as at 31 December 2020, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

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

Key Audit Matters

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

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

Key Audit Matter	How the matter was addressed in the audit
Expected Credit Losses (ECLs) on loans and advances to customers. IFRS 9 — 'Financial Instruments' was adopted by the Group on 1 January 2018. This standard requires the Group to recognise expected credit losses (ECL) on financial instruments. We focused on the Expected Credit Losses ('ECL') for loans and advances due to the materiality of the loan balances and the associated allowances for ECL. As disclosed in note 12, as at 31 December 2020, the group had recognised an allowance for ECL for loans and advances of KShs 30.8 billion. In addition, the compliance with IFRS in this area involves significant judgement and estimates to be made by the Group. The most significant areas where we identified greater levels of management judgement were: ▪ determining the criteria for a significant increase in credit risk ('SICR'). ▪ the application of future macro-economic variables reflecting a range of future conditions. ▪ techniques used to determine the Probability of Default (`PD') and Loss Given Default (`LGD'); and ▪ determination of the expected future cash flows related to defaulted loans and advances in stage 2 and 3, including the value of collateral. Relevant disclosures are included in Note 2(d), 2(m), 3(a) and 12(c) to the consolidated financial statements which give a description of the accounting policies, credit risk management and analysis of the expected credit losses for loans and advances.	We performed the following procedures: - ▪ We obtained an understanding of the Company's process for estimating the ECL. ▪ We tested the key controls over the administration of the expected credit loss model. ▪ We tested the design and operating effectiveness of key controls related to the credit approval process, post approval credit management, loan grading system, collateral monitoring, and loan impairment assessment. ▪ We tested the accuracy and completeness of the Group's data used for the ECL model. ▪ For a sample of loan facilities, we performed procedures to determine accuracy for exposures assessed on an individual basis. ▪ We analyzed the expected credit loss models against IFRS 9 guidelines. ▪ For forward looking assumptions used by the Group, we held discussions with management and corroborated the assumptions using both internal and publicly available information; and ▪ We assessed the disclosures included in the consolidated financial statements and assessed their compliance with the requirements of IFRS.

Key Audit Matter	How the matter was addressed in the audit
Reporting in hyperinflationary economies by Co-operative Bank of South Sudan With effect from 2016, the South Sudan economy was considered to be hyperinflationary in accordance with International Practices Task Force (IPTF) which required all registrants in South Sudan to report in accordance with International Accounting Standard (IAS) 29 -Financial Reporting in Hyperinflationary Economies. As a result, the financial statements of Co-operative Bank of South Sudan, which are included in the Group financial statements, have been restated to reflect the changes in general purchasing power of the South Sudanese Pound as required by International Accounting Standard (IAS) 29. The main inputs used in restatement of Co-operative Bank of South Sudan financial statements are the consumer price index (CPI) between 2019 and 2020 and conversion coefficient derived from the CPI. The conversion coefficient derived from the consumer price index (CPI) in the Republic of South Sudan and the corresponding CPI are disclosed in note 32(d). We consider this to be a key audit matter due to the effect of the restatement on the Group Financial Statements as a result of adjusting Co-operative Bank of South Sudan financial statements to reflect the general change in purchasing power. In addition, a change in the CPI for the year may result to a material change in the restated non-monetary items and consequently, the Group's performance for the year.	Our audit procedures included: ▪ Assessing the accuracy of restated financial statements for Co-operative Bank of South Sudan by reviewing the IAS 29 workings prepared by management and evaluating the reasonableness of the inputs used in the restatement. ▪ Assessing whether the Group financial statement disclosure in note 32 (c) appropriately reflect the impact of hyperinflation reporting in Co-operative Bank of South Sudan.
Acquisition of Kingdom Bank Limited (formerly Jamii Bora Bank Limited*)* On 5 August 2020, the Bank acquired 90% shareholding in Kingdom Bank Limited for a purchase consideration of KShs 1 billion. Kingdom Bank has been consolidated into the Group financial results from this date. The acquisition involved the use of significant judgment and assumptions mainly in : (i) Determining of the acquisition date for purposes of establishing when control of Kingdom Bank was obtained. (i) Valuation techniques to determine the fair value of the acquired net assets and the resulting goodwill on acquisition We determined this area to be a key audit matter due to the significant judgment involved which required significant audit focus. Refer accounting policy Note 2(i) and disclosure Note 14 - Acquisition of Kingdom Bank Kenya Limited.	Our audit procedures included the following: - ▪ Assessing the accounting implication of the acquisition of Kingdom Bank of Kenya Limited ▪ Evaluating the appropriateness of management's method of determining the fair value of the assets and liabilities acquired. ▪ Assessing the various stages of this acquisition process to determine the substantive date that the Bank acquired control

Key Audit Matter	How the matter was addressed in the audit
Acquisition of Kingdom Bank Limited (formerly Jamii Bora Bank Limited) (continued)	Our audit procedures included the following (Continued): - ▪ We engaged our valuation specialists to assess the methodology applied in the acquisition of Kingdom Bank Limited, goodwill determination and impairment assessment and the appropriateness of the key assumptions used in determining the valuation of other intangible assets, including brand, customer deposit, core deposit and assembled workforce . ▪ We assessed the competency and experience of the specialist engaged by the Group to assist management in performing the purchase price allocation and determination of goodwill. ▪ We evaluated the adequacy of the disclosures relating to the acquisition in the financial statements. Refer to note 14.

Other Information

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

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, other than that prescribed by the Kenyan Companies Act, 2015, 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.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate annual financial statements in accordance with International Financial Reporting Standards and for such internal control as directors 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, the directors are responsible for assessing the Group and Bank'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 and Bank or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of director'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 Group and/or the Bank 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 Group and Bank to express an opinion on the consolidated annual financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

i) in our opinion, the information given in the report of the directors on pages 110 to 113 is consistent with the consolidated and separate financial statements; and,

ii) in our opinion, the auditable part of directors' remuneration report on page 115 to 120 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

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

EY

Nairobi, Kenya

31st March 2021

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Notes	2020 KShs'000	2019 KShs'000
ASSETS			
Cash and balances with Central Banks	7	26,348,136	29,028,674
Deposits and balances due from banks	8	16,915,263	9,709,748
Debt instruments at fair value through other comprehensive income	9	63,718,146	40,931,155
Equity instruments at fair value through other comprehensive income	9	398,342	411,314
Derivative financial instruments	10	75,549	379,745
Other assets	11	18,686,728	12,496,362
Loans and advances to customers	12(a)	286,634,192	266,712,696
Debt instruments at amortised cost	13	98,901,544	77,845,496
Tax recoverable	24(b)	666,502	-
Investments in associates	15	1,967,532	2,098,354
Intangible assets	16(a)	2,825,101	2,708,018
Leasehold land	17	33,912	34,522
Property and equipment	18(a)	7,939,594	6,514,328
Right of use assets	19(a)	4,362,015	4,906,908
Deferred tax asset	20	4,309,763	3,315,666
Good will	14	3,294,000	-
TOTAL ASSETS		**537,076,319**	**457,092,986**
LIABILITIES			
Deposits and balances due to banks	21	221,890	176,975
Customer deposits	22(a)	378,630,453	332,823,917
Loans and borrowings	23	46,026,141	26,424,266
Tax payable	24(b)	-	24,353
Provisions	25	116,825	151,426
Other liabilities	26	19,901,662	16,534,378
Government grants	27	424,941	443,416
Deferred tax liability	20	131,071	100,778
TOTAL LIABILITIES		**445,452,983**	**376,679,509**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT			
Share capital	28	5,867,180	5,867,180
Share premium	29	1,911,926	1,911,926
Revaluation reserve	30(a)	1,589,944	1,474,773
Retained earnings	30(b)	74,582,478	62,402,380
Fair value reserve	30(c)	546,230	(185,720)
Statutory reserve	30(d)	14,011	1,639,892
Foreign currency translation reserve	30(e)	(78,019)	(85,842)
Proposed dividends	31	5,867,180	5,867,180
		90,300,930	**78,891,769**
Non-controlling interest	32	1,322,406	1,521,708
TOTAL EQUITY		**91,623,336**	**80,413,477**
TOTAL LIABILITIES & EQUITY		**537,076,319**	**457,092,986**

The financial statements were approved by the Board of Directors on 17th March 2021 and signed on its behalf by: -

J. K. Murugu, OGW	-	Chairman	…………………………………
M. Malonza MBS, HSC	-	Vice Chairman	…………………………………
Dr. G. Muriuki, CBS, MBS	-	Group Managing Director & CEO	…………………………………
S. M. Kibugi	-	Company Secretary	…………………………………

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 KShs'000	2019 KShs'000
Interest and similar income	33	48,840,645	44,626,998
Interest and similar expense	34	(12,791,405)	(12,640,378)
NET INTEREST INCOME		**36,049,240**	**31,986,620**
Fees and commission income	35	12,901,027	12,817,634
Fees and commission expense	35	(331,529)	(118,546)
NET FEES AND COMMISSION INCOME		**12,569,498**	**12,699,088**
Net trading income	36	2,837,870	2,148,844
Amortisation of government grants	27	18,475	18,476
Write back of credit loss on other financial assets	40	-	40,768
Other operating income	37	2,054,881	1,302,735
TOTAL OTHER INCOME		**4,911,226**	**3,510,823**
OPERATING INCOME		**53,529,964**	**48,196,531**
Credit loss expense on loans and advances	12(c)	(8,111,824)	(2,539,071)
Credit loss expense on other financial assets	40	(585,350)	-
Amortisation of intangible assets	16(a)	(967,586)	(594,476)
Amortisation of leasehold land	17	(610)	(610)
Depreciation of property and equipment	18(a)	(1,687,344)	(1,523,591)
Depreciation-Right of use asset	19(a)	(1,317,487)	(1,212,163)
Employee costs	38	(13,421,673)	(12,374,217)
Other operating expenses	39	(13,006,291)	(9,286,684)
OPERATING EXPENSES		**(39,098,165)**	**(27,530,812)**
OPERATING PROFIT		**14,431,799**	**20,665,719**
Share of profit of associates	15	(149,939)	40,035
PROFIT BEFORE TAX		**14,281,860**	**20,705,754**
Income tax expense	24(a)	(3,468,985)	(6,394,506)
PROFIT FOR THE YEAR		**10,812,875**	**14,311,248**
Attributable to:			
Equity holders of the parent		11,594,089	14,528,813
Non-controlling interest		(781,214)	(217,565)
		10,812,875	**14,311,248**
Basic earnings per share (KShs)	41	1.98	2.48
Diluted earnings per share (KShs)	41	1.98	2.48

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 KShs'000	2019 KShs'000
PROFIT FOR THE YEAR		**10,812,875**	**14,311,248**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Financial assets at fair value through other comprehensive income	42	725,580	156,747
Revaluation of building surplus		-	219,337
Deferred tax related to building surplus		-	(65,801)
Share of other comprehensive income of associates			
-Fair value gain on debt instruments at fair value through other comprehensive income	15	4,492	22,941
-Exchange differences on translation of a foreign operation	15	7,823	2,767
Income tax related to the above		-	-
Total items to be reclassified to profit or loss.		737,895	335,991
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation gains/(losses) on equity instruments at fair value through other comprehensive income		-	68,273
Share of other comprehensive income of associates		-	
- Revaluation of building	15	6,170	14,178
Income tax related to the above		-	-
Total items that will not be reclassified to profit or loss		6,170	82,451
OTHER COMPREHENSIVE INCOME, NET OF TAX		**744,065**	**418,442**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF INCOME TAX		**11,556,940**	**14,729,690**
Attributable to:-			
Equity holders of the parent		12,338,513	14,947,969
Non-controlling interest		(781,573)	(218,279)
		11,556,940	**14,729,690**

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
BANK STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Notes	2020 KShs'000	2019 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	7	20,795,376	25,393,302
Deposits and balances due from banks	8	16,381,436	8,026,317
Debt instruments at fair value through other comprehensive income	9	63,173,412	40,931,155
Equity instruments at fair value through other comprehensive income	9	308,095	303,424
Derivative financial instruments	10	75,549	379,745
Other assets	11	16,929,684	12,265,057
Tax recoverable	24(b)	697,799	-
Loans and advances to customers	12(a)	280,522,176	265,332,776
Debt instruments at amortised cost	13	77,516,586	77,693,633
Investments in subsidiaries	14	3,512,920	2,512,920
Investments in associates	15	706,444	706,444
Intangible assets	16(b)	2,699,811	2,242,641
Leasehold land	17	33,912	34,522
Property and equipment	18(b)	5,577,625	5,844,283
Right of use asset	19	3,925,238	4,674,823
Deferred tax asset	20	3,966,886	3,275,430
TOTAL ASSETS		**496,822,949**	**449,616,472**
LIABILITIES			
Deposits and balances due to banks	21	654,958	734,804
Customer deposits	22(a)	369,429,653	329,378,392
Loans and borrowings	23	22,262,674	26,424,266
Tax payable	24(b)	-	29,805
Provisions	25	116,576	147,774
Other liabilities	26	18,761,707	15,813,443
Government grants	27	424,941	443,416
TOTAL LIABILITIES		**411,650,509**	**372,971,900**
EQUITY			
Share capital	28	5,867,180	5,867,180
Share premium	29	1,911,926	1,911,926
Revaluation reserve	30(a)	1,316,635	1,351,679
Retained earnings	30(b)	69,602,038	60,096,268
Fair value reserves	30(c)	607,481	(53,282)
Statutory reserve	30(d)	-	1,603,621
Proposed dividends	31	5,867,180	5,867,180
TOTAL EQUITY		**85,172,440**	**76,644,572**
TOTAL LIABILITIES & EQUITY		**496,822,949**	**449,616,472**

The financial statements were approved by the Board of Directors on 17th March 2021 and signed on its behalf by:-

J. K. Murugu, OGW - Chairman ....

M. Malonza, MBS, HSC - Vice Chairman ....

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

S. M. Kibugi - Company Secretary ....

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
BANK STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 KShs'000	2019 KShs'000
Interest and similar income	33	46,613,399	44,245,251
Interest and similar expense	34	(12,494,876)	(12,583,644)
NET INTEREST INCOME		**34,118,523**	**31,661,607**
Fees and commission income	35	10,976,392	11,316,397
Fees and commission expense	35	(319,367)	(118,546)
NET FEES AND COMMISSION INCOME		**10,657,025**	**11,197,851**
Net trading income	36	2,305,791	1,933,761
Amortisation of government grants	27	18,475	18,476
Other operating income	37	3,419,601	1,229,045
TOTAL OTHER INCOME		**5,743,867**	**3,181,282**
OPERATING INCOME		**50,519,415**	**46,040,740**
Credit loss expense on loans and advances	12(c)	(7,516,667)	(2,459,898)
Credit loss expense on other financial assets and commitments	40	(580,990)	(196,362)
Amortization of intangible assets	16(b)	(700,218)	(568,045)
Amortisation of leasehold land	17	(610)	(610)
Depreciation of property and equipment	18(b)	(1,323,247)	(1,362,371)
Depreciation-Right of use asset	19(b)	(1,196,781)	(1,120,094)
Employee costs	38	(12,455,467)	(11,847,149)
Other operating expenses	39	(9,784,805)	(8,160,147)
OPERATING EXPENSES		**(33,558,785)**	**(25,714,676)**
PROFIT BEFORE TAX		**16,960,630**	**20,326,064**
Income tax expense	24(a)	(3,241,362)	(6,070,637)
PROFIT FOR THE YEAR		**13,719,268**	**14,255,427**
Basic earnings per share (KShs)	41	2.34	2.43
Diluted earnings per share (KShs)	41	2.34	2.43

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
BANK STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 KShs'000	2019 KShs'000
PROFIT FOR THE YEAR		**13,719,268**	**14,255,427**
OTHER COMPREHENSIVE INCOME:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Financial assets at fair value through other comprehensive income	42	660,763	177,387
Revaluation of land and buildings surplus		-	219,337
Deferred tax related to building surplus		-	(65,801)
Income tax related to the above		-	-
Total items to be reclassified to profit or loss		660,763	330,923
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation gains/(losses) on equity instruments at fair value through other comprehensive income		-	68,273
Total items that will not be reclassified to profit or loss		-	68,273
OTHER COMPREHENSIVE INCOME, NET OF TAX		**660,763**	**399,196**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		**14,380,031**	**14,654,623**

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	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	Total KShs'000	Non-controlling interest KShs'000	Total equity KShs'000
At 1 January 2019	**5,867,180**	**1,911,926**	**1,292,735**	**1,013,587**	**(438,161)**	**(88,609)**	**5,867,180**	**53,976,280**	**69,402,118**	**1,353,097**	**70,755,215**
Profit /(loss) for the year	-	-	-	-	-	-	-	14,528,812	**14,528,812**	(217,565)	**14,311,248**
Other comprehensive income	-	-	163,947	-	252,441	2,767	-	-	**419,155**	(714)	**418,440**
Total comprehensive income	**-**	**-**	**163,947**	**-**	**252,441**	**2,767**	**-**	**14,528,812**	**14,947,967**	**(218,279)**	**14,729,688**
Deferred tax on excess depreciation	-	-	(65,801)	-	-	-	-		**(65,801)**	-	**(65,801)**
Transfer to statutory reserve	-	-	-	620,991	-	-	-	(620,991)	**-**	-	**-**
Exchange difference on hyperinflationary economy	-	-	83,892	5,314	-	-	-	385,459	**474,665**	386,890	**861,555**
2018- Dividends paid	-	-	-	-	-	-	(5,867,180)	-	**(5,867,180)**	-	**(5,867,180)**
Proposed dividends	-	-	-	-	-	-	5,867,180	(5,867,180)	**-**	-	**-**
At 31 December 2019	**5,867,180**	**1,911,926**	**1,474,773**	**1,639,892**	**(185,720)**	**(85,842)**	**5,867,180**	**62,402,380**	**78,891,769**	**1,521,708**	**80,413,477**

	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	Total KShs'000	Non-controlling interest KShs'000	Total equity KShs'000
At 1 January 2020	**5,867,180**	**1,911,926**	**1,474,773**	**1,639,892**	**(185,720)**	**(85,842)**	**5,867,180**	**62,402,380**	**78,891,769**	**1,521,708**	**80,413,477**
Profit /(loss) for the year	-	-	-	-	-	-	-	11,594,089	**11,594,089**	(781,214)	**10,812,875**
Other comprehensive income	-	-	4,652	-	731,950	7,823	-	-	**744,425**	(359)	**744,066**
Total comprehensive income	**-**	**-**	**4,652**	**-**	**731,950**	**7,823**	**-**	**11,594,089**	**12,338,514**	**(781,573)**	**11,556,941**
Transfer of excess depreciation	-	-	(50,062)	-	-	-	-	50,062	**-**	-	**-**
Deferred tax on excess depreciation	-	-	15,019	-	-	-	-	-	**15,019**	-	**15,019**
Transfer from statutory reserve	-	-	-	(1,611,238)	-			1,611,238	**-**	-	**-**
Exchange difference on hyperinflationary economy	**-**	**-**	145,562	(14,643)				(163,507)	**(32,588)**	327,271	**294,683**
Acquisition of a subsidiary, note14	**-**	**-**	**-**	**-**	**-**	**-**	**-**	4,955,396	**4,955,396**	255,000	**5,210,396**
2019- Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	(5,867,180)	-	**(5,867,180)**	**-**	**(5,867,180)**
Proposed dividends	**-**	**-**	**-**	**-**	**-**	**-**	5,867,180	(5,867,180)	**-**	**-**	**-**
At 31 December 2020	**5,867,180**	**1,911,926**	**1,589,944**	**14,011**	**546,230**	**(78,019)**	**5,867,180**	**74,582,478**	**90,300,930**	**1,322,406**	**91,623,336**

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
BANK STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital	Share premium	Revaluation reserve	Statutory reserve	Fair value reserve	Proposed dividends	Retained earnings	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January 2019	**5,867,180**	**1,911,926**	**1,198,144**	**935,514**	**(298,944)**	**5,867,180**	**52,376,129**	**67,857,129**
Profit for the year	-			-		-	14,255,427	**14,255,427**
Other comprehensive income	-		219,336	-	245,660	-	-	**464,996**
Total comprehensive income	**-**		**219,336**	**-**	**245,660**	**-**	**14,255,427**	**14,720,423**
Deferred tax on excess depreciation	-		(65,800)	-	-	-	-	**(65,800)**
Transfer to statutory reserve	-		-	668,107	-	-	(668,107)	**-**
2018- Dividends paid	-		-	-	-	(5,867,180)	-	**(5,867,180)**
Proposed dividends	-		-	-	-	5,867,180	(5,867,180)	**-**
At 31 December 2019	**5,867,180**	**1,911,926**	**1,351,680**	**1,603,621**	**(53,284)**	**5,867,180**	**60,096,269**	**76,644,572**

	Share capital	Share premium	Revaluation reserve	Statutory reserve	Fair value reserve	Proposed dividends	Retained earnings	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January 2020	**5,867,180**	**1,911,926**	**1,351,680**	**1,603,621**	**(53,284)**	**5,867,180**	**60,096,269**	**76,644,571**
Profit for the year	-	-		-		-	13,719,268	13,719,268
Other comprehensive income	-	-		-	660,763	-	-	**660,763**
Total comprehensive income	-	-		-	**660,763**	-	13,719,268	**14,380,031**
Transfer of excess depreciation	-	-	(50,060)				50,060	**-**
Deferred tax on excess depreciation	-		15,017	-	-	-	-	**15,017**
Transfer to Retained Earnings	-	-	-	(1,603,621)	-	-	1,603,621	**-**
2019- Dividends paid	-	-	-	-	-	(5,867,180)	-	**(5,867,180)**
Proposed dividends	-	-	-	-	-	5,867,180	(5,867,180)	**-**
At 31 December 2020	**5,867,180**	**1,911,926**	**1,316,637**	**-**	**607,479**	**5,867,180**	**69,602,038**	**85,172,440**

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 KShs'000	2019 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES: -			
Cash generated from / (used in) operating activities	43	24,735,141	27,159,908
Tax paid	24(b)	(4,801,866)	(6,826,421)
Net cash generated from operating activities		**19,933,275**	**20,333,487**
CASH FLOWS FROM INVESTING ACTIVITIES: -			
Purchase of property and equipment	18(a)	(2,003,762)	(1,058,429)
Purchase of intangible assets	16(a)	(1,767,021)	(725,645)
Proceeds from disposal of property and equipment		19,427	2,242
Investment in a joint venture		-	(25)
Proceeds from disposal of associate shares		-	106,611
Purchase of investments at amortised cost	13	(64,288,708)	(59,210,392)
Maturity of investments at amortised cost	13	43,198,500	33,205,943
Acquisition of a subsidiary, net of cash acquired	14	(1,039,000)	-
Dividends from an associate	15	-	86,755
Net cash used in investing activities		**(25,880,564)**	**(27,592,940)**
CASH FLOWS FROM FINANCING ACTIVITIES: -			
Proceeds from borrowings	23	31,119,730	7,600,238
Repayment of borrowings	23	(13,575,480)	(5,066,175)
Dividends paid to equity holders of the parent		(5,867,180)	(5,867,180)
Repayment of principal portion of lease liabilities		(1,527,861)	(1,348,900)
Net cash generated from /(used) in financing activities		**10,149,209**	**(4,682,017)**
Net movement in cash and cash equivalents		4,201,920	(11,941,469)
Cash and cash equivalents at the beginning of the year		23,077,620	35,173,827
Effect of foreign exchange difference		(86,439)	(154,738)
Cash and cash equivalents at 31 December	**43**	**27,193,100**	**23,077,620**

Interest received during the year amounted to KShs 48.8 billion (2019: KShs 44.6 billion) while interest paid amounted to KShs 12.8 billion (2019: KShs 12.6 billion)

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
BANK STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 KShs'000	2019 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES:-			
Cash from operating activities	43	26,123,591	23,548,910
Tax paid	24(b)	(4,645,404)	(6,547,273)
Net cash generated from operating activities		**21,478,187**	**17,001,637**
CASH FLOWS FROM INVESTING ACTIVITIES:-			
Purchase of property and equipment	18(b)	(1,056,700)	(1,049,853)
Purchase of software	16(b)	(1,157,388)	(718,820)
Proceeds from disposal of property and equipment		19,155	2,242
Investment in a joint venture		-	(25)
Proceeds from disposal of associate shares		-	106,611
Purchase of investments at amortised cost	13	(42,941,533)	(59,212,027)
Maturity of investments at amortised cost	13	43,088,877	33,200,048
Acquisition of a subsidiary	14	(1,000,000)	-
Net cash used in investing activities		**(3,047,589)**	**(27,671,824)**
CASH FLOWS FROM FINANCING ACTIVITIES:-			
Proceeds from borrowings	23	7,016,096	7,600,238
Repayment of borrowings	23	(13,109,324)	(5,066,175)
Dividends paid		(5,867,180)	(5,867,180)
Repayment of principal portion of lease liabilities		(1,284,429)	(1,261,634)
Net cash used in financing activities		**(13,244,837)**	**(4,594,751)**
Net movement in cash and cash equivalents		5,185,760	(15,264,938)
Cash and cash equivalents at the beginning of the year		16,847,750	32,112,688
Cash and cash equivalents at 31 December	**43**	**22,033,510**	**16,847,750**

Interest received during the year amounted to KShs 46.6 billion (2019: KShs 44.2 billion) while interest paid amounted to KShs 12.5 billion (2019: KShs 12.6 billion)

1. GENERAL INFORMATION

The Co-operative Bank of Kenya Limited is a financial institution incorporated in Kenya under the Companies Act, 2015 as a public limited liability company, licensed under the Kenyan Banking Act (Chapter 488) and domiciled in Kenya. The consolidated financial statements comprise the Bank and its subsidiaries together referred to as "the Group". The Group is primarily involved in corporate and retail banking, investment and asset management services in various parts of Kenya. The Bank's equities are listed on the Nairobi Stock Exchange (NSE). The group information is included on page 109 of these financial statements.

Information on subsidiaries has been disclosed in Note 14 of the financial statements.

2. ACCOUNTING POLICIES

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

(a) ***Basis of preparation***

The consolidated 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 2020. 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***

New and amended standards.

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The following new standards and amendments became effective as at 1 January 2020:

New standards or amendments	Effective for annual period beginning or after
Definition of a Business (Amendments to IFRS 3)	January 1 2020
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	January 1 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	January 1 2020
Amendments to References to Conceptual Framework in IFRS Standards	January 1 2020
COVID-19-Related Rent Concessions (Amendments to IFRS 16)	June 1 2020

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments have been considered in the acquisition Kingdom Bank Limited as indicated on note 14 .

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. There was no significant impact of this amendments on the Bank's borrowings that are referenced to LIBOR

2. ACCOUNTING POLICIES (continued)

(a) ***Changes in accounting policies and disclosures (continued)***

New and amended standards (continued)

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

Standards issued but not yet effective.

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are listed below.

New standards or amendments	Effective for annual period beginning or after
Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	January 1 2021
Reference to the Conceptual Framework (Amendments to IFRS 3)	January 1 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	January 1 2022
Onerous Contracts Cost of Fulfilling a Contract (Amendments to IAS 37)	January 1 2022
AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter	January 1 2022
AIP IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities	January 1 2022
AIP IAS 41 Agriculture – Taxation in fair value measurements	January 1 2022
IFRS 17 Insurance Contracts	January 1 2023
Classification of liabilities as current or non-current (Amendments to IAS 1)	January 1 2023
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28)	To be determined

The standards and interpretations listed below are expected to have an impact on the Group's financial statements when they become effective.

2. ACCOUNTING POLICIES (continued)

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

Standards issued but not yet effective (continued)

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

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

In January 2020, 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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. The expected impact is not significant.

Interest Rate Benchmark Reform ("IBOR reform") phase 2

On 27 August 2020 the International Accounting Standards Board (IASB or the Board) published 'Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2). IBOR reform Phase 2 provides temporary reliefs to address the accounting issues which arise upon the replacement of an InterBank Offered Rate (an IBOR) with an alternative nearly risk-free interest rate (an RFR). Publication of IBOR reform Phase 2 concludes the IASB's work to respond to the effects of IBOR reform on financial reporting.

The effective date of the IBOR reform Phase 2 amendments is for annual periods beginning on or after 1 January 2021, with early application permitted. The requirements must be applied retrospectively. Any hedging relationships that were discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when the Phase 2 amendments are applied, must be reinstated upon initial application. The IBOR reform Phase 2 amendments are expected to be endorsed by the EU in time for 2020 December year-end reporting.

The Group is currently assessing all the contracts affected by the IBOR reforms with a view of carrying out a detailed impact assessment.

2. ACCOUNTING POLICIES (continued)

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

Standards issued but not yet effective. (continued)
Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.
The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.
The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

(d) ***Significant accounting 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 's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2. ACCOUNTING POLICIES (Continued)

(d) ***Significant accounting estimates and assumptions***

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

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.

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.

2. ACCOUNTING POLICIES (continued)

(d) ***Significant accounting estimates and assumptions (continued)***

Impairment losses on Financial assets (continued)
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.

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 32 (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 disclosers 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 48(c).

2. ACCOUNTING POLICIES (continued)

(d) ***Significant accounting estimates and assumptions (continued)***

Impact of Covid-19 -pandemic

The coronavirus pandemic has had a devastating impact on the global economy and has resulted in significant changes to government actions, economic and market drivers as well as consumer behaviour.

The pandemic has had a significant impact on the risks that the Bank is exposed to, in particular credit risk, and has forced the Bank to reassess assumptions, and existing methods of estimation and judgements, used in the preparation of these financial statements. There remains a risk that future performance and actual results may differ from the judgements and assumptions used.

As the outbreak continues to progress and evolve, it is challenging to predict the full extent and duration of its business and economic impact.

Following the government measures to minimises the impact of Covid-19 pandemic, the Bank implemented a payment relief programme from March 2020 for eligible customers, allowing customers requiring short-term financial relief, to reduce or defer their monthly instalments to assist with cash flow needs. The Impact of Covid-19 pandemic reliefs is disclosed in note 54.

(e) ***Recognition of interest income***

i) ***The effective interest rate method***

Under IFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial 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 t, 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 expense. d The Group's accounting policies in respect of interest income/expense and the effective interest method are set out in note 2(e) (i) and (ii) above.

2. ACCOUNTING POLICIES (continued)

(f) ***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)

(f) ***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.

(g) ***Net trading income***

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

(h) ***Property, 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***

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)

(k) ***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 and the shares which is currently held at FVOCI under IFRS 9.
- The trading right is carried as an intangible asset with an indefinite useful life at the value of KShs 25 million, less any subsequent accumulated impairment losses. The right is not subject to annual renewal and can be transferred to another party. Management tests the trading right for impairment by comparing its recoverable amount with its carrying amount annually and whenever there is an indication that the right may be impaired. The Group bases its impairment calculation on market information and the value of the right when a transaction between two parties takes place.
- The value is based on available data from binding sales transactions, conducted at arm's length. In determining the fair value, recent market transactions are taken into account. Any impairment losses are accounted for through profit or loss. Refer to note 2(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.

(l) ***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 losst.

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 19 and 26)

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.

2. ACCOUNTING POLICIES (continued)

(m) ***Financial assets (continued)***

Subsequent measurement

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

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

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 amortised cost (debt instruments) (continued)

Due from banks, Loans and advances to customers, Financial investments at amortised cost (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.

2. ACCOUNTING POLICIES (continued)

(m) ***Financial assets (continued)***

Derivative financial instruments (continued)

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.

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 n (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.

2. ACCOUNTING POLICIES (continued)

(m) ***Financial assets***

(ii) ***The calculation of ECLs***

The Group calculates ECLs based on four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- Probability of Default (PD): The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio. The concept of PDs is further explained in Note 3(a)
- Exposure at Default (EAD): The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in in Note 3(a).
- Loss Given Default (LGD): The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the 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.

2. ACCOUNTING POLICIES (continued)

(m) ***Financial assets (continued)***

(ii) ***The calculation of ECLs (continued)***

Stage 3:

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

(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 3(a).

2. ACCOUNTING POLICIES (continued)

(m) ***Financial assets (continued)***

(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.

When the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 3 (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 (o) below.

(n) ***Derecognition of financial assets***

Derecognition due to substantial modification of terms and conditions

The Bank 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 POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank 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 Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Bank 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.

2. ACCOUNTING POLICIES (continued)

(n) *Derecognition of financial assets (continued)*

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.

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.

2. ACCOUNTING POLICIES (continued)

(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 (2019: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.

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.

2. ACCOUNTING POLICIES (continued)

(a) ***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.

(b) ***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 set off arrangements.

(c) ***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.

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.

2. ACCOUNTING POLICIES (continued)

(d) ***Foreign currency***

i) ***Transactions***

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

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

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

On consolidation, the statements of profit or loss and financial position of foreign operations whose functional currency is the currency of a hyperinflationary economy are translated into the group's functional currency at the closing rate at the reporting date. The exchange differences arising on translation for consolidation are recognised directly through equity.

Where the functional currency is changed to a currency that is not under hyperinflationary economy, the exchange difference arising on translation is recognised through translation reserve.

(v) ***Employee benefits***

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

Short-term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services (i.e. free medical check-ups, counselling and medical complementary follow-ups)

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the reporting date.

(w) ***Taxes***

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

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

(i) where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2. ACCOUNTING POLICIES (continued)

(w) ***Taxes (continued)***

Current tax (continued)

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

(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.

(x) ***Grants***

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

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

(y) ***Cash and cash equivalents***

Cash and cash equivalents comprise balances with maturities of less than 91 days from the date of acquisition and include cash and balances with Central Bank of Kenya (excluding restricted balances - cash reserve ratio), items in the course of collection and deposits and balances due from banking institutions. For the purpose of the consolidated 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.

2. ACCOUNTING POLICIES (continued)

(z) ***Dividends***

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

(aa) ***Fiduciary assets***

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

(ab) ***Fair value***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
The Group's fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible by the Group.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

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.

3. FINANCIAL RISK MANAGEMENT (continued)

(a) **Credit risk (continued)**

Management of credit risk (continued)

Each business unit is required to implement Group credit policies and procedures, with credit approval authorities delegated from the Board's Risk and Finance Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

The table below summarizes the maximum exposure to credit risk and indicates the worst-case scenario, without taking into consideration collateral, other credit enhancements or provisions of impairment.

	Group		Bank	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Items recognised in the statement of financial position:				
Balances with central bank	17,741,046	20,069,039	12,904,226	17,135,079
Items in the course of collection	320,551	1,344,671	320,551	482,790
Deposits and balances due from banking institutions	16,915,263	9,709,748	16,381,436	8,026,317
Derivatives	75,549	379,745	75,549	379,745
Debt instruments at amortised cost	98,901,544	77,845,496	77,516,586	77,693,633
Debt & equity instruments at fair value through other comprehensive income	63,718,146	40,931,155	63,173,412	40,931,155
Interest receivable	3,898,533	3,592,981	3,898,533	3,592,981
Other assets	346,285	346,285	346,285	346,285
Loans and advances to customers	286,634,192	266,712,696	280,522,176	265,332,776
	488,551,109	420,931,816	455,138,754	413,920,761
Items not recognised in the statement of financial position (note 48)	35,300,513	24,627,930	35,300,513	24,627,930
	523,851,622	445,559,746	490,439,267	438,548,691

While collateral is an important means to mitigate against credit risk, the Group's primary policy is to issue loans after establishing capacity of the customer to repay. Unsecured facilities amount to KShs 126 billion (2019: KShs 107 billion). All other facilities are secured by collateral in the form of charges over cash, land and buildings, marketable securities, plant and machinery among others.

The table below presents the maximum gross exposure to credit risk at the end of the period including the effect of collateral and other credit enhancements.

	Group		Bank	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Loans and advances	322,852,406	289,789,634	312,709,406	288,297,728
Fair value of collateral	458,404,251	447,945,254	458,404,251	447,945,254
Allowance for impairments	(30,833,101)	(18,477,170)	(26,802,117)	(18,365,184)

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

3. FINANCIAL RISK MANAGEMENT (continued)

(a) **Credit risk (continued)**

(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(m).

Definition of default and cure
The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Group considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Group also has an early warning system, (EWS), which considers a variety of parameters that may indicate unlikeliness of the customer to pay. EWS accounts are carefully reviewed and decisions made that result in treating customer as either stage 2 or stage 3 for ECL calculations such parameters include:

- Changes in account turnovers
- Adverse industry information
- Missed covenants and conditions especially of financial information or ratios
- Missed monthly payments
- Reduced monthly payments
- The borrower requesting emergency funding from the Group
- Bouncing cheques
- A material decrease in the borrower's turnover or the loss of a major customer
- Suspension of the debtor at the primary exchange because of rumours or facts about financial difficulties
- The borrower having past due liabilities to public creditors or employees.
- Increase of frequency of overdraft.
- Several requests on restructure.
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- The debtor filing for bankruptcy application/protection
- Employee retrenchment
- Diversion of funds

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for six to twelve consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the stage sub segment and the updated credit grade, at the time of the cure, and whether this indicates there has been a significant improvement in credit risk compared to the stage 3 recognition.

The Group's internal rating and PD estimation process
The Group's Credit risk division operates its internal rating models. The Group runs separate models for its key portfolios in which its customers are rated from AAA to F using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behaviour. Where practical, we also build on information from credit reference bureaus. The internal credit grades are assigned based on these Basel III based grades. PDs are then adjusted for IFRS 9 ECL calculations to incorporate historically collected loss behaviour data and forward-looking information and the IFRS 9 Stage classification of the exposure.

3. FINANCIAL RISK MANAGEMENT (continued)

(a) **Credit risk (continued)**

Impairment assessment (continued)

The Group's internal rating and PD estimation process

(i) **Treasury, trading and interbank relationships**

The Group's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, investment banks and stock brokers. For these relationships, the Group's credit department analyses available information such as financial information and other external data, e.g., the rating of credit reference bureaus, ratings by moody or other credible agencies and assigns the internal rating, as shown in the table below.

(ii) **Corporate and Co-operatives, small and medium business lending**

For above segments of customers, the borrowers are assessed by specialised credit risk analysis employees of the Group. The credit risk assessment is based on a mix of expert assessment and credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Group and the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated on basis of behaviours opposed to using an application score and are being migrated to digital channels for more efficient management.

(vii) **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

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments.

To calculate the EAD for a Stage 1 loan, the Group and the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and Stage 3, the exposure at default is considered for events over the lifetime of the instruments.

3. FINANCIAL RISK MANAGEMENT (continued)

(a) **Credit risk (continued)**

Impairment assessment (continued)

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

Exposure at default (continued)
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.

During the year, the Central Bank of Kenya (CBK) issued some relief measures to be extended to customers affected by COVID -19 Pandemic. The Bank extended relief measures as stipulated by CBK to its customers on a case by case basis and not on any scheme. The relief measure was mainly rescheduling of facility period which could include principal and interest or only principal. The request for relief programme under COVID -19 restructure were not considered as SICR by the Bank and the Group. In addition, 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

3. FINANCIAL RISK MANAGEMENT (continued)

(a) **Credit risk (continued)**

Impairment assessment (continued)

Significant increase in credit risk (continued)

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.

Impact of COVID-19 Pandemic

a) In view of the COVID-19, the Bank and the Group reviewed five possible scenarios using different probability weighted outcomes considering (i) containment of virus (growth rebound, slow but steady growth and no growth) and (ii) virus recurrence (return to growth but muted and slow long term growth). For the purpose of ECL calculation, the Bank and Group considered both the virus recurrence and slow long-term growth and assigned higher weighting of 80% downside, base case 10% and upside scenarios 10% which in management perspective demonstrated their expected outcome.

b) The macroeconomic factors are developed based on historical data and correlated with macroeconomic factors derived from a number of sources including National Bureau of Statistics, Central Bank of Kenya and various credit agencies. Considering COVID- 19, the Bank and Group considered that macroeconomic factors correlated to the loan book are all materially significant and therefore none could be isolated for purposes of sensitivity analysis. Further there were no management overlays applied to macroeconomic factors.

c) The Bank and Group considered the implication of COVID-19 on the impact of ECL based on collateral information. Collateral used by the Bank and group are at customer level. In view of the short period of COVID-19 pandemic, the Bank and Group did not consider any adjustments on collateral as there was no supportable information to vary adjustments for time to realization and the values of collaterals.

d) The Bank's Credit department are involved in monitoring credit risk and running the expected credit losses for the Bank and the Group with oversight of Credit committee. In view of COVID 19 impacts, the review and monitoring of restructured facilities are monitored by credit team and approved by the Bank's Credit committee on a regular basis.

3. FINANCIAL RISK MANAGEMENT (continued)

(a) **Credit risk (continued)**

Impairment assessment (continued)

The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for "Subsequent years" represent a long-term average and so are the same for each scenario.

Macroeconomic Overlays

Date	Base scenario	Growth Scenario	Down side scenario	Probability Weighted
31-Dec-19	1.06550688	0.93931898	1.25875031	1.20748284
31-Jan-20	1.06615803	0.94363276	1.25589026	1.20569128
29-Feb-20	1.06680949	0.94504762	1.25257837	1.20324841
31-Mar-20	1.06746128	0.94436652	1.25394748	1.20434076
30-Apr-20	1.06811339	0.94190607	1.25166699	1.20233554
31-May-20	1.06876582	0.94217605	1.24990260	1.20101627
30-Jun-20	1.06941856	0.94071917	1.24759300	1.19908818
31-Jul-20	1.07007163	0.93830905	1.24534209	1.19711174
31-Aug-20	1.07072502	0.93697750	1.24592377	1.19750927
30-Sep-20	1.07137872	0.94053107	1.25518446	1.20533855
31-Oct-20	1.07203275	0.94244600	1.25360972	1.20433565
30-Nov-20	1.07268710	0.94322348	1.24984209	1.20146473
31-Dec-20	1.07334177	0.94595958	1.24929704	1.20136777
31-Jan-21	1.03420650	1.01703150	1.12453134	1.10474887
28-Feb-21	1.03420650	1.01703150	1.12453134	1.10474887
31-Mar-21	1.03420650	1.01703150	1.12453134	1.10474887
30-Apr-21	1.03420650	1.01703150	1.12453134	1.10474887
31-May-21	1.03420650	1.01703150	1.12453134	1.10474887
30-Jun-21	1.03420650	1.01703150	1.12453134	1.10474887
31-Jul-21	1.03420650	1.01703150	1.12453134	1.10474887
31-Aug-21	1.03420650	1.01703150	1.12453134	1.10474887
30-Sep-21	1.03420650	1.01703150	1.12453134	1.10474887
31-Oct-21	1.03420650	1.01703150	1.12453134	1.10474887
30-Nov-21	1.03420650	1.01703150	1.12453134	1.10474887
31-Dec-21	1.03420650	1.01703150	1.12453134	1.10474887

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.

3. FINANCIAL RISK MANAGEMENT (continued)

(c) **Credit risk (continued)**

Impairment assessment (continued)

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:

	Group and Bank	
	2020	2019
	KShs'000	KShs'000
(i) Categorised by loans & advances:		
Stage 3/Doubtful & loss categories	57,322,539	14,822,048
Stage 3/ Sub-standard category	31,282,985	19,303,426
Stage 1&2 / Normal & watch categories	369,798,727	413,819,780
	458,404,251	**447,945,254**
(ii) Categorised by nature of collateral:		
Land & buildings	246,033,593	232,282,747
Cash & other pledges	1,629,461	794,481
Motor vehicles	49,030,352	38,657,642
Hypothecation of stock	1,940,628	1,422,676
Debentures & guarantees	149,571,268	162,916,753
Equities & Shares	240,627	519,049
Other chattels	9,958,322	11,351,906
	458,404,251	**447,945,254**

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group and the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it may remain in this category or may be re-graded depending on performance after restructuring. Note 13 (d) shows the movement of loan between stage 1,2 and 3. The carrying amount of renegotiated financial assets that would otherwise be past due or impaired is as KShs 54,414,481(2019: KShs 6,4343,522).

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.

3. FINANCIAL RISK MANAGEMENT (continued)

(a) **Credit risk (continued)**

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

Loans and advances: -	Group		Bank	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
(i) **Concentration by sector:**				
Agriculture	5,733,829	5,031,369	5,726,757	5,031,369
Manufacturing, energy & water	136,146,833	127,274,887	136,075,265	127,274,887
Financial services	32,112,967	31,313,659	32,112,967	31,313,659
Tourism & hospitality	20,823,786	20,325,022	20,505,351	20,325,022
Wholesale and retail trade	44,486,802	37,186,315	37,912,344	35,694,409
Transport and communication	2,696,113	2,074,308	2,454,351	2,074,308
Real Estate, building & construction	30,254,016	25,686,894	28,896,502	25,686,894
Consumer & household	50,598,060	40,897,180	49,025,870	40,897,180
	322,852,406	289,789,634	312,709,407	288,297,728
Less: staff loans amortisation	(5,385,113)	(4,599,768)	(5,385,113)	(4,599,768)
	317,467,293	**285,189,866**	**307,324,294**	**283,697,960**
(ii) **Concentration by business:**				
Corporate	95,381,953	90,626,620	90,049,063	89,134,714
Mortgage & Asset Finance	63,509,821	61,528,570	62,740,280	61,528,570
Small, Medium and Microenterprises	21,089,654	19,587,549	19,869,917	19,587,549
Retail	137,285,216	114,512,656	134,471,456	114,512,656
Agribusiness	5,585,762	3,534,239	5,578,691	3,534,239
	322,852,406	289,789,634	312,709,407	288,297,728
Less: staff loans amortisation	(5,385,113)	(4,599,768)	(5,385,113)	(4,599,768)
	317,467,293	**285,189,866**	**307,324,294**	**283,697,960**

Write-off policy
As disclosed in note 12, The Group and the Bank writes off a loan balance as and when Board of directors determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

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

3. FINANCIAL RISK MANAGEMENT (continued)

(b) **Liquidity risk**

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

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

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

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

3. FINANCIAL RISK MANAGEMENT (continued)

(b) **Liquidity risk (continued)**

Exposure to liquidity risk
The table below analyses the Group's and Banks assets and liabilities into relevant groupings based on the remaining period at 31 December to the un-discounted contractual cash flows:

GROUP 31 December 2020 FINANCIAL ASSETS	Available immediately and up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	10,883,024	-	-	-	-	10,883,024
Deposits and balances due from banks	16,423,871	491,392	-	-	-	16,915,263
Investment in financial instruments	5,460,989	43,475,092	24,070,124	49,739,462	150,783,267	273,528,934
Loans and advances to customers	8,399,547	1,595,936	33,201,081	180,386,020	227,819,816	451,402,400
Total undiscounted financial assets	**41,167,431**	**45,562,420**	**57,271,205**	**230,125,482**	**378,603,083**	**752,729,621**
FINANCIAL LIABILITIES						
Deposits and balances due to banks						
Customers' deposits	221,890	-	-	-	-	221,890
Loans and borrowings	300,420,117	52,479,757	28,040,640	12,467	-	380,952,981
Lease liability	64,024	-	387,647	19,025,316	42,534,955	62,011,942
Other liabilities	112,978	228,346	1,075,953	3,601,581	483,878	5,502,736
	2,351,199	-	16,527,086	-	-	18,878,285
Total undiscounted financial liabilities	**303,170,208**	**52,708,103**	**46,031,326**	**22,639,364**	**43,018,833**	**467,567,834**
Net liquidity gap at 31 December 2020	**(262,002,777)**	**(7,145,683)**	**11,239,879**	**207,486,118**	**335,584,250**	**285,161,787**
Liabilities not recognised in statement of financial position (note 48)	-	**6,388,056**	**27,724,774**	**1,187,183**	**500**	**35,300,513**

3. FINANCIAL RISK MANAGEMENT (continued)

(b) **Liquidity risk (continued)**

Exposure to liquidity risk (continued)

BANK 31 December 2020 FINANCIAL ASSETS	Available immediately and up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	20,795,376	-	-	-	-	20,795,376
Deposits and balances due from banks	15,847,609	533,828	-	-	-	16,381,437
Investment in financial instruments	5,460,989	11,194,836	24,070,124	46,114,709	119,176,119	206,016,777
Loans and advances to customers	7,937,888	1,240,947	31,329,728	176,605,764	225,568,621	442,682,948
Total undiscounted financial assets	**50,041,862**	**12,969,611**	**55,399,852**	**222,720,473**	**344,744,740**	**685,876,538**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	654,958	-	-	-	-	654,958
Customers' deposits	77,594,482	49,745,021	27,416,449	-	-	154,755,952
Loans and borrowings	64,024	-	387,647	19,025,316	10,454,274	29,931,261
Lease Liability	112,978	228,346	1,075,953	3,361,263	483,878	5,262,418
Other Liabilities	2,351,199	-	16,527,086	-	-	18,878,285
Total undiscounted financial liabilities	**80,777,641**	**49,973,367**	**45,407,135**	**22,386,579**	**10,938,152**	**209,482,874**
Net liquidity gap at 31 December 2020	**(30,735,779)**	**(37,003,756)**	**9,992,717**	**200,333,894**	**333,806,588**	**476,393,664**
Liabilities not recognised in statement of financial position (note 48)	-	**6,388,056**	**27,724,774**	**1,187,183**	**500**	**35,300,513**

3. FINANCIAL RISK MANAGEMENT (continued)

(b) **Liquidity risk (continued)**

Exposure to liquidity risk (continued)

GROUP 31 December 2019 FINANCIAL ASSETS	Available immediately and up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	11,970,785	-	-	-	-	11,970,785
Deposits and balances due from banks	8,791,431	918,317	-	-	-	9,709,748
Investment in financial instruments	4,545,000	35,664,660	35,577,424	55,251,419	63,766,162	194,804,665
Loans and advances to customers	39,586,638	6,194,569	27,170,826	166,108,038	159,776,458	398,836,529
Total undiscounted financial assets	**64,893,854**	**42,777,546**	**62,748,250**	**221,359,457**	**223,542,620**	**615,321,727**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	176,675	-	-	-	-	176,675
Customers' deposits	276,090,117	42,387,483	16,031,942	933,381	-	335,442,923
Loans and borrowings	-	-	1,145,894	12,672,732	21,554,273	35,372,899
Lease liability	120,502	241,004	1,084,518	3,391,624	490,969	5,328,617
Other liabilities	1,423,807	-	-	-	-	1,423,807
Total undiscounted financial liabilities	**277,811,101**	**42,628,487**	**18,262,354**	**16,997,737**	**22,045,242**	**377,744,921**
Net liquidity gap at 31 December 2019	**(212,917,247)**	**149,059**	**44,485,896**	**204,361,720**	**201,497,378**	**237,576,806**
Liabilities not recognised in statement of financial position (note 48)	**507,287**	**2,231,148**	**21,286,427**	**1,236,040**	**16,040**	**25,276,942**

3. FINANCIAL RISK MANAGEMENT (continued)

(b) **Liquidity risk (continued)**

Exposure to liquidity risk (continued)

BANK 31 December 2019 FINANCIAL ASSETS	Available immediately and up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	8,335,413	-	-	-	-	8,335,413
Deposits and balances due from banks	7,108,000	918,317	-	-	-	8,026,317
Investment in financial instruments	4,545,000	9,183,650	35,577,424	54,835,814	63,766,162	167,908,050
Loans and advances to customers	39,204,805	6,194,569	25,611,517	166,108,038	159,776,458	396,895,387
Total undiscounted financial assets	**59,193,218**	**16,296,536**	**61,188,941**	**220,943,852**	**223,542,620**	**581,165,167**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	734,804	-	-	-	-	734,804
Customers' deposits	272,630,236	42,387,483	16,031,942	762,261	-	331,811,922
Loans and borrowings	-	-	1,145,894	12,672,732	21,554,273	35,372,899
Lease Liability	115,967	231,933	1,043,701	3,263,975	472,490	5,128,066
Other Liabilities	345,968	-	-	-	-	345,968
Total undiscounted financial liabilities	**273,826,975**	**42,619,416**	**18,221,537**	**16,698,968**	**22,026,763**	**373,393,659**
Net liquidity gap at 31 December 2019	**(214,633,757)**	**(26,322,880)**	**42,967,404**	**204,244,884**	**201,515,857**	**207,771,508**
Liabilities not recognised in statement of financial position (note 48)	507,287	2,231,148	21,286,427	1,236,040	16,040	25,276,942

Details of the reported Bank ratio of net liquid assets to deposits and customers at the reporting date and during the reporting year were as follows:

	2020 %	2019 %
At 31 December	46.5	44.8
Average for the year	46.8	44.2
Maximum for the year	52.8	48.2
Minimum for the year	43.8	41.6
Statutory minimum ratio	20.0	20.0

3. FINANCIAL RISK MANAGEMENT (continued)

(c) **Market risk**

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

Management of market risk
The Bank separates its exposure to market risk between trading and 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 Bank measures its market risk exposure for the trading portfolio through marking to market on a monthly basis.

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

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

3. FINANCIAL RISK MANAGEMENT (continued)

(c) **Market risk (continued)**

Exposure to interest rate risk (Continued)

GROUP 31 December 2020	**Available immediately and up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non- interest bearing**	**Total**
ASSETS	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**		**KShs'000**
Cash and balances with Central Bank of Kenya	-	-	-	-	-	26,348,136	26,348,136
Deposits and balances due from banks	16,423,871	491,392	-	-	-	-	16,915,263
Investment in financial instruments	5,406,920	10,868,773	21,491,182	30,688,822	94,239,542	-	162,695,239
Loans and advances to customers	8,309,527	1,545,701	29,381,488	109,324,860	138,072,616	-	286,634,192
Total assets	**30,140,318**	**12,905,866**	**50,872,670**	**140,013,682**	**232,312,158**	**26,348,136**	**492,592,830**
LIABILITIES							
Deposits and balances due to banks	221,890	-	-	-	-	-	221,890
Customers' deposits	78,454,531	51,831,859	26,705,371	9,235	-	221,638,692	378,639,688
Loans and borrowings	63,653	-	1,210,003	14,092,827	30,659,658	-	46,026,141
Lease liabilities	112,380	224,761	1,011,424	2,730,539	366,852	-	4,445,956
Total liabilities	**78,852,454**	**52,056,620**	**28,926,798**	**16,832,601**	**31,026,510**	**221,638,692**	**429,333,675**
Interest sensitivity gap	**(48,712,136)**	**(39,150,754)**	**21,945,872**	**123,181,081**	**201,285,648**	**(195,290,556)**	**63,259,155**

3. FINANCIAL RISK MANAGEMENT (continued)

(c) **Market risk (continued)**

Exposure to interest rate risk (Continued)

BANK **31 December 2020**	Available immediately and up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
ASSETS	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cash and balances with Central Bank of Kenya	-	-	-	-	-	20,795,376	20,795,376
Deposits and balances due from banks	15,847,609	533,827	-	-	-	-	16,381,436
Investment in financial instruments	5,406,920	10,868,773	21,491,182	28,513,599	74,485,073	-	140,765,547
Loans and advances to customers	7,852,816	1,201,886	27,725,423	107,033,796	136,708,255	-	280,522,176
Total assets	**29,107,345**	**12,604,486**	**49,216,605**	**135,547,395**	**211,193,328**	**20,795,376**	**458,464,535**
LIABILITIES							
Deposits and balances due to banks	654,958	-	-	-	-	-	654,958
Customers' deposits	77,272,513	49,130,885	26,110,904	-	-	216,915,351	369,429,653
Loans and borrowings	63,653	-	362,287	14,092,827	7,743,907	-	22,262,674
Lease liabilities	112,380	224,761	1,011,424	2,548,342	366,852	-	4,263,759
Total liabilities	**78,103,504**	**49,355,646**	**27,484,615**	**16,641,169**	**8,110,759**	**216,915,351**	**396,611,044**
Interest sensitivity gap	**(48,996,159)**	**(36,751,160)**	**21,731,990**	**118,906,226**	**203,082,569**	**(196,119,975)**	**61,853,491**

3. FINANCIAL RISK MANAGEMENT (continued)

(c) **Market risk (continued)**

Exposure to interest rate risk (Continued)

GROUP 31 December 2019 ASSETS	Available immediately and up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Non- interest bearing	Total KShs'000
Cash and balances with Central Bank of Kenya			-	-	-	29,028,674	29,028,674
Deposits and balances due from banks	8,791,431	918,317	-	-	-	-	9,709,748
Investment in financial instruments	4,500,000	8,504,851	31,765,557	34,532,137	39,853,851	-	119,156,396
Loans and advances to customers	39,162,379	5,999,583	24,044,979	100,671,538	96,834,217	-	266,712,696
	-	-	-	-	-	-	-
Total assets	**52,453,810**	**15,422,751**	**55,810,536**	**135,203,675**	**136,688,068**	**29,028,674**	**424,607,514**
LIABILITIES							
Deposits and balances due to banks	176,975	-	-	-	-	-	176,975
Customers' deposits	78,190,312	41,864,181	15,268,516	746,705	-	196,754,203	332,823,917
Loans and borrowings	-	-	1,070,929	9,387,209	15,966,128	-	26,424,266
Lease liabilities	113,275	226,550	1,019,476	3,188,216	461,523	-	5,009,040
Total liabilities	**78,480,562**	**42,090,731**	**17,358,921**	**13,322,130**	**16,427,651**	**196,754,203**	**364,434,198**
Interest sensitivity gap	**(26,026,752)**	**(26,667,980)**	**38,451,615**	**121,881,545**	**120,260,417**	**(167,725,529)**	**60,173,316**

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT (continued)

(c) **Market risk (continued)**

Exposure to interest rate risk (Continued)

BANK **31 December 2019**	**Available immediately and up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non- interest bearing**	**Total**
ASSETS	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cash and balances with Central Bank of Kenya	-	-	-	-	-	25,393,302	25,393,302
Deposits and balances due from banks	7,108,000	918,317	-	-	-	-	8,026,317
Investment in financial instruments	4,500,000	8,916,165	31,765,557	33,968,960	39,853,851	-	119,004,533
Loans and advances to customers	39,162,379	6,992,521	21,672,121	100,671,538	96,834,217	-	265,332,776
Total assets	**50,770,379**	**16,827,003**	**53,437,678**	**134,640,498**	**136,688,068**	**25,393,302**	**417,756,928**
LIABILITIES							
Deposits and balances due to banks	734,804	-	-	-	-	-	734,804
Customers' deposits	77,464,496	41,864,181	15,268,516	746,705	-	194,034,494	329,378,392
Loans and borrowings	-	-	1,070,929	9,387,209	15,966,128	-	26,424,266
Lease liabilities	109,012	218,024	981,106	3,068,222	444,153	-	4,820,517
Total liabilities	**78,308,312**	**42,082,205**	**17,320,551**	**13,202,136**	**16,410,281**	**194,034,494**	**361,357,979**
Interest sensitivity gap	**(27,537,933)**	**(25,255,202)**	**36,117,127**	**121,438,362**	**120,277,787**	**(168,641,192)**	**56,398,949**

3. FINANCIAL RISK MANAGEMENT (continued)

(c) **Market risk (continued)**

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:

	2020 Carrying amount KShs'000	1% increase	1% decrease	2019 Carrying amount KShs'000	1% increase	1% decrease
ASSETS						
Deposits and balances due from banks	**16,915,263**	169,153	(169,153)	**9,709,748**	97,097	(97,097)
Debt instruments at amortised cost	**98,977,093**	989,771	(989,771)	**77,845,496**	778,455	(778,455)
Debt instruments at fair value through other comprehensive income	**63,718,146**	637,181	(637,181)	**41,310,900**	413,109	(413,109)
Loans and advances to customers	**286,634,192**	2,866,342	(2,866,342)	**266,712,696**	2,667,127	(2,667,127)
		4,662,447	**(4,662,447)**		**3,955,788**	**(3,955,788)**
LIABILITIES & EQUITY						
Deposits and balances due to banks	**221,890**	(2,219)	2,219	**176,975**	(1,770)	1,770
Customers' deposits	**156,991,761**	(1,569,918)	1,569,918	**136,069,714**	(1,360,697)	1,360,697
Lease liabilities	**4,445,956**	(44,459)	44,459	**5,009,040**	(50,090)	50,090
Loans and borrowings	**46,026,141**	(460,261)	460,261	**26,424,266**	(264,243)	264,243
		(2,076,857)	2,076,857		(1,676,800)	1,676,800
Effect on profit before tax		**2,585,589**	**(2,585,589)**		**2,278,988**	**(2,278,988)**
As percentage of profit before tax (%)		18.06%	(18.06%)		11%	(11%)
		1,939,192	**(1,939,192)**		**1,595,291**	**(1,595,291)**
Effect on equity						
As percentage of equity (%)		2.41%	(2.41%)		1.98%	(1.98%)

3. FINANCIAL RISK MANAGEMENT (continued)

(c) **Market risk (continued)**

Exposure to currency risk

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

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

CURRENCY TYPE	USD	GBP	EURO	JPY	CHF	ZAR	OTHERS	TOTAL
EXCHANGE RATE	101.34	132.94	113.37	0.93	104.31	7.19	-	
31-Dec-20	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000
Foreign Currency Assets:								
Cash and balances with banks abroad	22,354,072	519,498	3,100,184	77,477	34,994	23,289	756,380	26,865,894
Loan and advances	27,956,198	142,832	194,036	-	-	-	-	28,293,066
Other foreign assets	2,004,295	24,008	14378	-	-	(32)	11,919	2,054,568
Total statement of financial position items	52,314,565	686,338	3,308,598	77,477	34,994	23,257	768,299	57,213,528
Items not recognised in statement of financial position*	**30,798,927**	**113,886**	**7,705,498**	-	-	-	**149,332**	**38,767,643**
Total Foreign Assets	**83,113,492**	**800,224**	**11,014,096**	**77,477**	**34,994**	**23,257**	**917,631**	**95,981,171**
Foreign Currency Liabilities:								
Deposits	18,618,347	316,416	3,983,594	76,922	11,366	1,372	1,957	23,009,974
Loan and advances	21,821,514	-	-	-	-	-	-	21,821,514
Other foreign liabilities	975,078	9,833	11,854	-	-	-	2,627	999,392
Total statement of financial position items	**41,414,939**	**326,249**	**3,995,448**	**76,922**	**11,366**	**1,372**	**4,584**	**45,830,880**
Items not recognised in statement of financial position*	41,624,327	468,299	7,113,012	-	-	22,162	861,320	50,089,120
Total Foreign liabilities	**83,039,266**	**794,548**	**11,108,460**	**76,922**	**11,366**	**23,534**	**865,904**	**95,920,000**
Net Exposure at 31 December 2020	**74,226**	**5,676**	**(94,364)**	**555**	**23,628**	**(277)**	**51,727**	**61,171**

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

3. FINANCIAL RISK MANAGEMENT (continued)

(c) **Market risk (continued)**

Exposure to currency risk (Continued)

BANK

CURRENCY TYPE	**USD**	**GBP**	**EURO**	**JPY**	**CHF**	**ZAR**	**OTHERS**	**TOTAL**
EXCHANGE RATE	**101.34**	**132.94**	**113.37**	**0.93**	**104.31**	**7.19**	**-**	
31 December 2020	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**
Foreign Currency Assets:								
Cash and balances with banks abroad	22,354,072	519,498	3,100,184	77,477	34,994	23,289	756,380	26,865,896
Loan and advances	27,924,833	142,824	193,994	-	-	-	-	28,261,650
Other foreign assets	1,869,493	23,390	515	-	-	(32)	11,919	1,905,284
Total statement of financial position items	52,148,398	685,712	3,294,693	77,477	34,994	23,257	768,299	57,032,830
Items not recognised in statement of financial position*	**30,798,927**	**113,886**	**7,705,498**	**-**	**-**	**-**	**149,332**	**38,767,643**
Total Foreign Assets	**82,947,325**	**799,598**	**11,000,191**	**77,477**	**34,994**	**23,257**	**917,631**	**95,800,473**
Foreign Currency Liabilities:								
Deposits	18,603,632	316,262	3,983,007	76,922	11,366	1,372	1,957	22,994,518
Loan and advances	21,370,945	-	-	-	-	-	-	21,370,945
Other foreign liabilities	962,747	9,833	11,854	-	-	-	2,627	987,061
Total statement of financial position items	**40,937,324**	**326,095**	**3,994,861**	**76,922**	**11,366**	**1,372**	**4,584**	**45,352,524**
Items not recognised in statement of financial position*	41,624,327	468,299	7,113,012	-	-	22,162	861,320	50,089,120
Total Foreign liabilities	**82,561,651**	**794,394**	**11,107,873**	**76,922**	**11,366**	**23,534**	**865,904**	**95,441,644**
Net Exposure at 31 December 2020	**385,674**	**5,204**	**(107,682)**	**555**	**23,628**	**(277)**	**51,727**	**358,829**

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

3. FINANCIAL RISK MANAGEMENT (continued)

(d) **Market risk (continued)**

CURRENCY TYPE	**USD**	**GBP**	**EURO**	**JPY**	**CHF**	**ZAR**	**OTHERS**	**TOTAL**
EXCHANGE RATE	**101.34**	**132.94**	**113.37**	**0.93**	**104.31**	**7.19**	**-**	
31 December 2019	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**
Foreign Currency Assets:								
Cash and balances with banks abroad	11,768,415	267,748	2,233,372	143,818	52,114	48,052	1,427,777	15,941,296
Loan and advances	29,705,250	140,164	115,413	-	-	-	-	29,960,827
Other foreign assets	1,298,852	15,964	2,174	-	-	(31)	6,821	1,323,780
Total statement of financial position items	42,772,517	423,876	2,350,959	143,818	52,114	48,021	1,434,598	47,225,903
Items not recognised in statement of financial position	25,658,798	232,376	4,339,651	-	-	-	-	30,230,824
Total Foreign Assets	**68,431,315**	**656,253**	**6,690,610**	**143,818**	**52,114**	**48,021**	**1,434,598**	**77,456,727**
Foreign Currency Liabilities:								
Deposits	7,928,382	287,855	2,087,849	67,393	9,461	1,759	4,243	10,386,941
Loan and advances	25,610,653	-	-	-	-	-	-	25,610,653
Other foreign liabilities	44,981	11,215	11,460	-	-	-	2,434	70,090
Total statement of financial position items	**33,584,016**	**299,070**	**2,099,309**	**67,393**	**9,461**	**1,759**	**6,676**	**36,067,684**
Items not recognised in statement of financial position	34,033,617	319,063	4,601,331	80,813	20,862	51,519	1,383,644	40,490,849
Total Foreign liabilities	**67,617,633**	**618,133**	**6,700,640**	**148,206**	**30,323**	**53,278**	**1,390,321**	**76,558,534**
Net Exposure at 31 December 2019	**813,681**	**38,120**	**(10,030)**	**(4,388)**	**21,791**	**(5,256)**	**44,278**	**898,195**

3. FINANCIAL RISK MANAGEMENT (continued)

(c) **Market risk (continued)**

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

	2020 Carrying amount KShs'000	10% appreciation	10% depreciation	2019 Carrying amount KShs'000	10% appreciation	10% depreciation
Foreign Currency Assets:						
USD	**83,113,492**	(8,311,349)	8,311,349	**68,431,315**	(6,843,131)	6,843,131
GBP	**800,224**	(80,022)	80,022	**656,253**	(65,625)	65,625
EURO	**11,014,096**	(1,101,410)	1,101,410	**6,690,609**	(669,061)	669,061
JPY	**77,477**	(7,748)	7,748	**143,818**	(14,382)	14,382
CHF	**34,994**	(3,499)	3,499	**52,114**	(5,211)	5,211
ZAR	**23,257**	(2,326)	2,326	**48,021**	(4,802)	4,802
Other currencies	**917,631**	(91,763)	91,763	**1,434,598**	(143,460)	143,460
		(9,598,117)	**9,598,117**		**(7,745,67)2**	**7,745,672**
Foreign currency liabilities						
USD	**83,039,266**	8,303,927	(8,303,927)	**67,617,634**	6,761,763	(6,761,763)
GBP	**794,548**	79,455	(79,455)	**618,133**	61,813	(61,813)
EURO	**11,108,460**	1,110,846	(1,110,846)	**6,700,639**	670,064	(670,064)
JPY	**76,922**	7,692	(7,692)	**148,206**	14,821	(14,821)
CHF	**11,366**	1,137	(1,137)	**30,323**	3,032	(3,032)
ZAR	**23,534**	2,353	(2,353)	**53,278**	5,328	(5,328)
Other currencies	**865,904**	86,590	(86,590)	**1,390,320**	139,032	(139,032)
		9,592,000	(9,592,000)		7,655,853	(7,655,853)
Effect on profit before tax		**(6,117)**	**6,117**		**(89,820)**	**89,820**
As percentage (%) of profit before tax		**(0.04%)**	**0.04%**		**(0.44%)**	**0.44%**
Effect on equity (profit after tax)		**(4,588)**	**4,588**		**(62,874)**	**62,874**
As percentage (%) of equity		**(0.01%)**	**0.01%**		**(0.08%)**	**0.08%**

3. FINANCIAL RISK MANAGEMENT (continued)

(c) **Market risk (continued)**

Exposure to currency risk (continued)

BANK

	2020 Carrying amount KShs'000	10% appreciation	10% depreciation	2019 Carrying amount KShs'000	10% appreciation	10% depreciation
Foreign Currency Assets:						
USD	**82,947,325**	(8,294,732)	8,294,732	**68,431,315**	(6,843,131)	6,843,131
GBP	**799,598**	(79,960)	79,960	**656,253**	(65,625)	65,625
EURO	**11,000,191**	(1,100,019)	1,100,019	**6,690,609**	(669,061)	669,061
JPY	**77,477**	(7,748)	7,748	**143,818**	(14,382)	14,382
CHF	**34,994**	(3,499)	3,499	**52,114**	(5,211)	5,211
ZAR	**23,257**	(2,326)	2,326	**48,021**	(4,802)	4,802
Other currencies	**917,631**	(91,763)	91,763	**1,434,598**	(143,460)	143,460
		(9,580,047)	9,580,047		(7,745,672)	7,745,672
Foreign Currency Liabilities:						
USD	**82,561,651**	8,256,165	(8,256,165)	**67,617,634**	6,761,763	(6,761,763)
GBP	**794,394**	79,439	(79,439)	**618,133**	61,813	(61,813)
EURO	**11,107,873**	1,110,787	(1,110,787)	**6,700,639**	670,064	(670,064)
JPY	**76,922**	7,692	(7,692)	**148,206**	14,821	(14,821)
CHF	**11,366**	1,137	(1,137)	**30,323**	3,032	(3,032)
ZAR	**23,534**	2,354	(2,354)	**53,278**	5,328	(5,328)
Other currencies	**865,904**	86,590	(86,590)	**1,390,320**	139,032	(139,032)
		9,544,164	(9,544,164)		7,655,853	(7,655,853)
Effect on profit before tax		**(35,883)**	**35,883**		**(89,820)**	**89,820**
As percentage (%) of profit before tax		**(0.21%)**	**0.21%**		**(0.44%)**	**0.44%**
Effect on equity (profit after tax)		**(26,912)**	**26,912**		**(62,874)**	**62,874**
As percentage (%) of equity		**(0.03%)**	**0.03%**		**(0.08%)**	**0.08%**

3. FINANCIAL RISK MANAGEMENT (continued)

(d) **Operational risk**

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

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

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

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

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

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

4. CAPITAL MANAGEMENT

Regulatory capital

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

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

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

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

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

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

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

	2020	2020	2019
Tier I Capital:	**KShs'000**	**KShs'000**	**KShs'000**
		(Regulator adjusted)	
Ordinary share capital	5,867,180	5,867,180	5,867,180
Share premium	1,911,925	1,911,925	1,911,926
Retained earnings	69,602,038	62,526,299	60,096,268
Other reserves	424,938	424,938	443,416
Less: Investments in equity of other institutions & deferred tax	(7,239,806)	(7,239,806)	(5,548,350)
Core Capital	**70,566,276**	**63,490,536**	**62,770,440**
-			
Tier II Capital:			
Revaluation reserves (25%)	329,159	329,159	337,920
Term subordinated debt	6,550,308	6,550,308	
Loan loss provisions	-	-	1,603,621
Supplementary capital	**6,879,467**	**6,879,467**	**1,941,541**
Total regulatory capital	**77,445,743**	**70,370,004**	**64,711,981**
Total risk weighted assets	**455,847,214**	**455,847,214**	**410,346,536**
Capital ratios:			
Core capital to Total deposit liabilities (CBK minimum 10.5%)	19.1%	17.2%	19.00%
Core capital to Total risk weighted assets (CBK minimum 10.5%)	15.5%	13.9%	15.30%
Total capital to Total risk weighted assets (CBK minimum 14.5%)	17.0%	15.4%	15.80%

4. CAPITAL MANAGEMENT (continued)

Capital Allocation

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

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

5. SEGMENT REPORTING

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

1. Retail Banking: Includes loans deposits and other transactions and balances with retail customers;
2. Wholesale Banking: Includes loans deposits and other transactions and balances with corporate and institutional customers
3. Group Functions- This relates to segments which do not fall into the categories of retail or wholesale banking. These mainly comprises of support departments such as ICT, Finance and shared services among others.

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

The Group's segment operations are all financial with a majority of revenues deriving from interest. The management relies primarily on net interest revenue to assess the performance of the segment. Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not gross income and expenses. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2020 or 2019.

5. SEGMENT REPORTING (continued)

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

Profit or loss for the year ended 31 December 2020	Wholesale Banking KShs'000	Retail Banking KShs'000	Group Functions KShs'000	Total KShs'000
Interest income	15,273,413	18,980,072	14,587,160	48,840,645
Interest expense	(7,688,083)	(2,860,645)	(2,242,677)	(12,791,405)
Net interest income	7,585,330	16,119,427	12,344,483	36,049,240
Non-funded income	2,505,556	11,763,181	3,211,987	17,480,724
Operating income	**10,090,886**	**27,882,608**	**15,556,470**	**53,529,964**
Depreciation	(87,543)	(2,193,115)	(724,173)	(3,004,831)
Amortization	-	-	(968,196)	(968,196)
Other operating expenses	(784,359)	(18,146,767)	(16,194,012)	(35,125,138)
Share of profit in associates	-	-	(149,939)	(149,939)
Profit before tax	**9,218,983**	**7,542,726**	**(2,479,849)**	**14,281,860**
Income tax expense	-	-	(3,468,985)	(3,468,985)
Profit after tax	**9,218,983**	**7,542,726**	**(5,948,834)**	**10,812,875**

Profit or loss for the year ended 31 December 2019	Wholesale Banking KShs'000	Retail Banking KShs'000	Group Functions KShs'000	Total KShs'000
Interest income	16,859,561	17,951,526	9,815,911	44,626,998
Interest expense	(8,285,214)	(2,983,429)	(1,371,735)	(12,640,378)
Net interest income	8,574,347	14,968,097	8,444,176	31,986,620
Non-funded income	2,224,004	11,983,000	2,002,907	16,209,911
Operating income	**10,798,351**	**26,951,097**	**10,447,083**	**48,196,531**
Depreciation	(66,920)	(1,865,464)	(803,370)	(2,735,754)
Amortization	-	-	(595,086)	(595,086)
Other operating expenses	(801,949)	(10,458,637)	(13,202,849)	(24,463,435)
Share of profit in associates	-	-	40,035	40,035
Profit before tax	9,929,482	14,626,996	(3,850,724)	20,705,754
Income tax expense	-	-	(6,394,506)	(6,394,506)
Profit after tax	**9,929,482**	**14,626,996**	**(10,245,230)**	**14,311,248**

5. SEGMENT REPORTING (continued)

Statement of financial position as at 31 December 2020	Wholesale Banking KShs'000	Retail Banking KShs'000	Group Functions KShs'000	Total KShs'000
Assets:				
Segment assets	140,357,842	287,987,886	--	428,345,728
Unallocated assets	-	-	108,730,591	108,730,591
Total assets	140,357,842	287,987,886	108,730,591	537,076,319
Liabilities and equity:				
Segment liabilities and Equity	168,072,982	201,824,443	-	369,897,425
Unallocated liabilities and Equity	-	-	167,178,894	167,178,894
Total liabilities and equity	**168,072,982**	**201,824,443**	**167,178,894**	**537,076,319**
Other disclosures				
Capital expenditure	985,585	2,022,234	762,964	3,770,783

Statement of financial position as at 31 December 2019	Wholesale Banking KShs'000	Retail Banking KShs'000	Group Functions KShs'000	Total KShs'000
Assets:				
Segment assets	113,590,824	143,045,590	7,703,424	264,339,838
Unallocated assets	-	-	192,753,148	192,753,148
Total assets	113,590,824	143,045,590	200,457,572	457,092,986
Liabilities and equity:				
Segment liabilities and Equity	146,397,272	166,820,393	16,160,727	329,378,392
Unallocated liabilities and Equity	-	-	127,714,594	127,714,594
Total liabilities and equity	146,397,272	166,820,393	143,875,321	457,092,986
Other disclosures				
Capital expenditure	649,938	671,734	462,403	1,784,075

5. SEGMENT REPORTING (continued)

Geographical information

The Group's operations are within the two geographical segments of Kenya and South Sudan. The table below contains segmental information provided to the Board of Management for the year ended 31 December 2020.

Profit or loss for the year ended 31 December 2020	**Kenya KShs'000**	**South Sudan KShs'000**	**Total KShs'000**
Interest income	48,564,516	276,129	48,840,645
Interest expense	(12,769,157)	(22,248)	(12,791,405)
Net interest income	35,795,359	253,881	36,049,240
Non-funded income	16,075,218	1,405,506	17,480,724
Operating income	**51,870,577**	**1,659,387**	**53,529,964**
Depreciation	(2,648,071)	(356,760)	(3,004,831)
Amortization	(950,182)	(18,014)	(968,196)
Other operating expenses	(32,246,599)	(1,084,020)	(33,330,619)
Loss on net monetary position	-	(1,794,519)	(1,794,519)
Operating profit/(loss)	**16,025,725**	**(1,593,926)**	**14,431,799**
Share of profit in associate	(88,424)	(61,515)	(149,939)
Profit/(Loss) before tax	**15,937,301**	**(1,655,441)**	**14,281,860**
Income tax expense	(3,563,526)	94,541	(3,468,985)
Profit for the year	**12,373,775**	**(1,560,900)**	**10,812,875**
Statement of financial position			
Segment assets			
Non-current assets	521,734,107	2,533,545	524,267,653
Current assets	6,907,716	5,900,950	12,808,666
	528,641,823	8,434,496	537,076,319
Segment liabilities	**440,315,029**	**5,137,952**	**445,452,981**
Equity	**88,326,794**	**3,296,544**	**91,623,338**

Profit or loss for the year ended 31 December 2019	**Kenya KShs'000**	**South Sudan KShs'000**	**Total KShs'000**
Interest income	44,360,272	266,726	44,626,998
Interest expense	(12,600,741)	(39,637)	(12,640,378)
Net interest income	31,759,531	227,089	31,986,620
Non-funded income	15,447,631	762,280	16,209,911
Operating income	47,207,162	989,369	48,196,531

Depreciation	(2,576,292)	(159,462)	(2,735,754)
Amortization	(584,057)	(11,028)	(595,085)
Other operating expenses	(23,029,495)	(760,762)	(23,790,257)
Loss on net monetary position	-	(409,716)	(409,716)
Operating profit/(loss)	21,017,318	(351,599)	20,665,719
Share of profit in associate	33,145	6,890	40,035
Profit/(Loss) before tax	21,050,463	(344,709)	20,705,754
Income tax expense	(6,319,348)	(75,158)	(6,394,506)
Profit for the year	**14,731,115**	**(419,867)**	**14,311,248**
Statement of financial position			
Segment assets			
Non-current assets	358,026,217	6,255,040	364,281,257
Current assets	91,337,350	1,474,379	92,811,729
	449,363,567	**7,729,419**	**457,092,986**
Segment liabilities	**372,057,659**	**4,621,850**	**376,679,509**
Equity	**77,305,908**	**3,107,569**	**80,413,477**

6. FAIR VALUE OF ASSETS AND LIABILITIES

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

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

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

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

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

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

GROUP

As at 31 December 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Assets measured at fair value:				
Free hold land and buildings	-	-	3,139,309	3,139,309
Debt instruments at FVOCI				
Treasury bonds	63,718,146	-	-	63,718,146
Equity instruments at FVOCI	90,247	-	-	90,247
Unquoted equity instruments at FVOCI	-	-	308,095	308,095
Derivatives	-	75,549	-	75,549
Loans and advances				
Directors and staff loans	-	5,385,113	-	5,385,113
Assets for which fair values are disclosed (note 6b)				
Debt Instruments at Amortised cost				
Treasury bonds	66,583,452	-	-	66,583,452
Treasury bills	31,584,220	-	-	31,584,220
Corporate bonds		733,871	-	733,871
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	2,199,437	-	2,199,437

As at 31 December 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
	KShs'000	KShs'000	KShs'000	KShs'000
Assets measured at fair value:				
Free hold land and buildings	-	-	2,408,791	2,408,791
Debt instruments at FVOCI	-	-	-	-
Treasury bonds	40,931,155	-	-	40,931,155
Equity instruments at FVOCI	107,890	-	-	107,890
Unquoted equity instruments at FVOCI	-	-	303,424	303,424
Derivatives	-	379,745	-	379,745
Loans and advances				
Directors and staff loans	-	4,599,768	-	4,599,768

6. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

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

GROUP (Continued)

As at 31 December 2019	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Assets for which fair values are disclosed (note 6b)				
Debt Instruments at Amortised cost				
Treasury bonds	38,876,142	-	-	38,876,142
Treasury bills	37,995,382	-	-	37,995,382
Corporate bonds	-	973,971	-	973,971
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	2,203,120	-	2,203,120

BANK

As at 31 December 2020	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Assets measured at fair value:				
Free hold land and buildings	-	-	2,348,700	2,348,700
Debt instruments at FVOCI				
Treasury bonds	63,173,412	-	-	63,173,412
Equity instruments at FVOCI				
Unquoted equity instruments at FVOCI	-	-	308,095	308,095
Derivatives	-	75,549	-	75,549
Loans and advances				
Directors and staff loans	-	5,385,113	-	5,385,113
Assets for which fair values are disclosed (note 6b)				
Debt Instruments at Amortised cost				
Treasury bonds	45,236,278	-	-	45,236,278
Treasury bills	31,546,437	-	-	31,546,437
Corporate bonds	-	733,871	-	733,871
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	2,199,437	-	2,199,437

As at 31 December 2019	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Assets measured at fair value:				
Free hold land and buildings	-	-	2,408,791	2,408,791
Debt instruments at FVOCI	-	-	-	-
Treasury bonds	40,931,155	-	-	40,931,155
Equity instruments at FVOCI	-	-	-	-
Unquoted equity instruments at FVOCI	-	-	303,424	303,424
Derivatives	-	379,745	-	379,745
Loans and advances				
Directors and staff loans	-	4,599,768	-	4,599,768

6. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

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

BANK (Continued)

As at 31 December 2019	**Level 1 KShs'000**	**Level 2 KShs'000**	**Level 3 KShs'000**	**Total KShs'000**
Assets for which fair values are disclosed (note 6b)				
Debt Instruments at Amortised cost				
Treasury bonds	38,724,279	-	-	**38,724,279**
Treasury bills	37,995,383	-	-	**37,995,383**
Corporate bonds	-	973,971	-	**973,971**
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	2,203,120	-	**2,203,120**

The transfers between levels 1 and 2 in the year are disclosed on note 6(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		**2020**		**2019**
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets:	KShs'000	KShs'000	KShs'000	KShs'000
Amortised cost				
Treasury bonds and bills	98,901,544	100,886,192	77,845,496	82,285,129
Financial liabilities:				
Loans and borrowings				
Fixed-rates borrowings	2,051,498	1,832,257	2,619,194	2,203,120

BANK		**2020**		**2019**
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets:	KShs'000	KShs'000	KShs'000	KShs'000
Amortised cost				
Treasury bonds and bills	77,516,586	79,501,234	77,693,633	82,133,266
Financial liabilities:				
Loans and borrowings				
Fixed-rates borrowings	2,051,498	1,832,257	2,619,194	2,203,120

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.

6. 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% (2018: +/-1%) = Fair value change of +/- KShs 23million (2018: 24million)
		Rent growth p.a.	3%	
		Long-term vacancy rate	5%	
		Discount rate	5%	
Unquoted-equity instruments	DCF method	Long term growth rate	5%	+/-1% (2018: +/-1%) = Fair value change of +/- KShs 0.3million (2018: +/- Nil)
		Discount rate (WACC)	15%	

6. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

(e) **Transfers between Level 1 and Level 2**

There were no transfers between Level 1 & 2 in the year (2019: NIL)

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

	Group and Bank	
	2020 KShs'000	2019 KShs'000
At 1 January	303,424	35,150
Purchase	-	200,000
Remeasurement recognised through OCI	4,671	68,274
At December	308,095	303,424

7. CASH AND BALANCES WITH CENTRAL BANKS

	Group		Bank	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Cash on hand	8,619,107	8,959,634	7,891,150	8,258,224
Central Bank of Kenya:				
Restricted balances (Cash Reserve Ratio)	16,467,755	17,057,889	15,465,112	17,057,889
Unrestricted balances available for use by the Group	(2,620,937)	126,260	(2,560,886)	77,189
Central Bank of South Sudan	3,957,437	2,933,960	-	-
	26,423,362	29,077,743	20,795,376	25,393,302
Allowance for credit losses	(75,226)	(49,069)	-	-
	26,348,136	29,028,674	20,795,376	25,393,302

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 2020, the Cash Reserve Ratio requirement was 4.25% (2019–5.25%) on all deposits. The allowance for credit losses relates to deposits held by Bank of South Sudan.

8. DEPOSITS AND BALANCES DUE FROM BANKS

	Group		Bank	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Local banks	1,962,835	1,729,416	1,472,700	349,446
Foreign banks	14,953,708	7,983,680	14,909,996	7,680,101
	16,916,543	9,713,096	16,382,696	8,029,547
Allowance for credit losses	(1,280)	(3,348)	(1,260)	(3230)
	16,915,263	9,709,748	16,381,436	8,026,317

The weighted average effective interest rate on deposits and balances due from banks as at 31 December 2020 was 2.7% (2019-2.3%).

9. FINANCIAL INVESTMENTS OTHER THAN THOSE MEASURED AT FVPL

a) DEBT INSTRUMENTS AT FVOCI

	Group		Bank	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Treasury Bonds:				
Maturing within 91 days	6,504,120	-	6,504,120	-
Maturing after 91 days	57,214,026	40,931,155	56,669,292	40,931,155
	63,718,146	**40,931,155**	**63,173,412**	**40,931,155**

b) EQUITY INSTRUMENTS AT FVOCI

	Group		Bank	
Quoted equity investments:-	2020	2019	2020	2019
Nairobi Securities Exchange:-				
7,000,000 ordinary shares of KShs 14.65 each	57,120	86,450	-	-
CIC Insurance Group Ltd:-				
8,000,000 ordinary shares of KShs 3.80 each	17,040	21,440	-	-
Uchumi Supermarkets Ltd :- 57,500,000 ordinary shares of KShs. 0.28 each	16,087	-	-	-
Unquoted equity Investments:-				
Consolidated Bank of Kenya Ltd:-				
135,000 ordinary shares of KShs 20 each	2,700	2,700	2,700	2,700
580,000, 4% non-cumulative preference shares of KShs 20 each	1,562	1,562	1,562	1,562
Kenya National Federation of Co-operatives Ltd:-				
82 shares of KShs100 each	8	8	8	8
Kenya National Housing Co-operative Union Ltd:-				
1 shareof KShs 1,000	1	1	1	1
Kenya Mortgage Finance Company:-				
2,000,000 shares of KShs 100 each	200,000	200,000	200,000	200,000
Menno Plaza Limited:-				
9,340 ordinary shares representing 12.39% ownership	103,824	99,153	103,824	99,153
	398,342	**411,314**	**308,095**	**303,424**

9. FINANCIAL INVESTMENTS OTHER THAN THOSE MEASURED AT FVPL (Continued)

Movement in the year for debt and equity instrument through OCI

At January 1	**41,342,469**	**30,736,439**	**41,234,579**	**30,607,509**
Additions	51,985,205	34,459,854	51,440,470	34,459,854
Disposals and maturities	(30,176,219)	(23,898,576)	(30,176,219)	(23,898,176)
Expected credit loss	(392,935)	(180,268)	(392,935)	(180,268)
Change in fair value recognized OCI	1,357,968	225,020	1,375,612	245,660
At December 31	**64,116,488**	**41,342,469**	**63,481,507**	**41,234,579**

The weighted average effective interest rate on debt instruments at FVOCI as at 31 December 2020 was 11.56%

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.

10. DERIVATIVE FINANCIAL INSTRUMENTS

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

	Group and Bank			
	2020		2019	
	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	(305,834)	(2,506)	(579,747)	45,808
Swaps	9,392,101	78,055	7,392,554	333,937
	9,086,267	**75,549**	**6,812,807**	**379,745**

11. OTHER ASSETS

	Group		Bank	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Interest receivable	3,898,533	3,592,981	3,898,533	3,592,981
Items in the course of collection from other banks	320,952	1,344,671	320,551	482,790
Deposits with financial Institutions	346,285	346,285	346,285	346,285
Sundry debtors and prepayments	8,725,260	2,629,762	6,894,587	3,198,662
Amounts due from related parties (43 (c))	-	-	74,030	61,676
Staff loan amortisation	5,385,113	4,599,768	5,385,113	4,599,768
	18,676,143	12,513,467	16,919,099	12,282,162
Impairment losses/gains on deposits with financial institutions & other financial assets	10,585	(17,105)	10,585	(17,105)
	18,686,728	**12,496,362**	**16,929,684**	**12,265,057**

The acquisition of a subsidiary resulted in increase in other receivables of KShs 1.2 billion in 2020. The sundry debtors relates to various types of receivables of low values of which the Group consider it will not be useful to disclose individually.

12. LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
	2020	2019	2020	2019
(a) **Net loans and advances**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Overdrafts	5,962,530	6,240,618	5,961,753	6,187,040
Commercial loans	294,896,760	255,474,989	284,754,537	254,036,661
Government/Donor funded loan schemes	451,157	548,232	451,157	548,232
Credit cards	529,329	512,308	529,329	512,308
Micro enterprises & SME	21,012,630	27,013,487	21,012,630	27,013,487
Gross loans and advances	**322,852,406**	**289,789,634**	**312,709,406**	**288,297,728**
Staff loans amortisation (note 12)	(5,385,113)	(4,599,768)	(5,385,113)	(4,599,768)
	317,467,293	**285,189,866**	**307,324,293**	**283,697,960**
Allowance for expected credit losses (note 12 c)	(30,833,101)	(18,477,170)	(26,802,117)	(18,365,184)
Net loans and advances	**286,634,192**	**266,712,696**	**280,522,176**	**265,332,776**

	Group and Bank	
(b) **The weighted average effective interest rates at 31 December were: -**	2020	2019
	%	%
Overdrafts	12.8	12.5
Commercial loans	12.9	12.4
Government/Donor funded loan schemes	8.5	8.5
Credit card balances	13	12.5

(c) **Allowance for Expected Credit Losses**

Group

Presented in KShs'000	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	4,154,683	4,348,030	7,593,628	16,096,341
Expected credit loss			2,539,071	2,539,071
Interest on impaired loans recognised as income	-	-	(96,656)	(96,656)
Exchange difference on translation of a foreign operation	-	-	11,155	11,155
Write off-E-credit loans	-	-	(72,741)	(72,741)
At 31 December 2019	**4,154,683**	**4,348,030**	**9,974,457**	**18,477,170**
At 1 January 2020	**4,154,683**	**4,348,030**	**9,974,457**	**18,477,170**
Addition	-	-	3,443,502	3,443,502
Expected credit loss	(1,268,568)	1,521,667	7,858,725	8,111,824
Interest on impaired loans recognised as income	-	-	(176,218)	(176,218)
ECL-Interest	-	-	1,086,966	1,086,966
Exchange difference on translation of a foreign operation	-	-	(119,661)	(119,661)
Write Back	-	-	9,518	9,518
At 31 December 2020	**2,886,115**	**5,869,697**	**22,077,289**	**30,833,101**

12. LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) **Allowance for Expected Credit Losses (continued)**

BANK

Presented in KShs'000	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	**4,199,892**	**4,316,527**	**7,558,264**	**16,074,683**
Expected credit loss	-	-	2,459,898	2,459,898
Interest on impaired loans recognised as income	-	-	(96,656)	(96,656)
Write off-e-credit Loans	-	-	(72,741)	(72,741)
At 31 December 2019	**4,199,892**	**4,316,527**	**9,848,765**	**18,365,184**
At 1 January 2020	**4,199,892**	**4,316,527**	**9,848,765**	**18,365,184**
Expected credit loss	(1,268,568)	1,521,667	7,263,568	7,516,667
Interest on impaired loans recognised as income	-	-	(176,218)	(176,218)
ECL Interest	-	-	1,086,966	1,086,966
Write back	-	-	9,518	9,518
At 31 December 2020	**2,931,324**	**5,838,194**	**18,032,599**	**26,802,117**

The table below provides overview of the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year end stage classification.

GROUP

31 December 2020					Provisions for impairment			
Internal risk rating category	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	Lifetime ECL credit Impaired Stage 3 KShs'000	Total ECL KShs'000
Grade1	237,611,122	-	-	**237,611,122**	2,935,045	-	-	**2,935,045**
Grade2	-	26,107,268	-	**26,107,268**	-	5,850,224	-	**5,850,224**
Grade3	-	-	27,176,682	**27,176,682**	-	-	9,451,217	**9,451,217**
Grade4	-	-	24,574,322	**24,574,322**	-	-	8,615,152	**8,615,152**
Grade5	-	-	7,383,013	**7,383,013**	11,817	10,744	3,958,902	**3,981,463**
Total	**237,611,122**	**26,107,268**	**59,134,016**	**322,852,406**	**2,946,862**	**5,860,968**	**22,025,271**	**30,833,101**

12. LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) **Allowance for Expected Credit Losses (continued)**

31 December 2019 | **Provisions for impairment**

Internal risk rating category	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	Lifetime ECL credit Impaired Stage 3 KShs'000	Total ECL KShs'000
Grade1	232,203,064	-	-	**232,203,064**	4,680,665	-	-	**4,680,665**
Grade2	-	26,310,125	-	**26,310,125**	-	1,738,471	-	**1,738,471**
Grade3	-	-	13,302,760	**13,302,760**	-	-	5,029,080	**5,029,080**
Grade4	-	-	17,356,708	**17,356,708**	-	-	6,453,086	**6,453,086**
Grade5	-	-	616,977	**616,977**	-	-	575,868	**575,868**
Total	**232,203,064**	**26,310,125**	**31,276,445**	**289,789,634**	**4,680,665**	**1,738,471**	**12,058,034**	**18,477,170**

Bank

31 December 2020 | **Provisions for impairment**

Internal risk rating category	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	Lifetime ECL credit Impaired Stage 3 KShs'000	Total ECL KShs'000
Grade1	235,326,266	-	-	**235,326,266**	2,931,324	-	-	**2,931,324**
Grade2	-	25,601,957	-	**25,601,957**	-	5,835,335	-	**5,835,335**
Grade3	-	-	27,079,184	**27,079,184**	-	-	9,431,717	**9,431,717**
Grade4	-	-	24,113,588	**24,113,588**	-	-	8,398,797	**8,398,797**
Grade5	-	-	588,411	**588,411**	-	-	204,944	**204,944**
Total	**235,326,266**	**25,601,957**	**51,781,183**	**312,709,406**	**2,931,324**	**5,835,335**	**18,035,458**	**26,802,117**

31 December 2019 | **Provisions for impairment**

Internal risk rating category	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	Lifetime ECL credit Impaired Stage 3 KShs'000	Total ECL KShs'000
Grade1	230,882,433	-	-	**230,882,433**	4,666,568	-	-	**4,666,568**
Grade2	-	26,259,793	-	**26,259,793**	-	1,677,699	-	**1,677,699**
Grade3	-	-	13,256,953	**13,256,953**	-	-	5,015,021	**5,015,021**
Grade4	-	-	17,328,316	**17,328,316**	-	-	6,444,373	**6,444,373**
Grade5	-	-	570,234	**570,234**	-	-	561,523	**561,523**
Total	**230,882,433**	**26,259,793**	**31,155,503**	**288,297,729**	**4,666,568**	**1,677,699**	**12,020,917**	**18,365,184**

12. 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 and Bank loan portfolio is as follows:

Group	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Gross carrying amount as at 1 January 2020	**231,689,788**	**26,606,328**	**31,493,518**	**289,789,634**
Additions	1,912,645	207,532	6,751,714	**8,871,891**
Disbursement	127,249,394	2,925,464	(61,064,973)	**69,109,885**
Repayment (excluding write-off)	(96,443,015)	(1,473,016)	(1,417,454)	**(99,333,485)**
Movement to Stage 1	61,164,694	(29,269,279)	(31,895,415)	**-**
Movement to Stage 2	(14,463)	6,791,051	(6,776,588)	**-**
Movement to Stage 3	(6,969)	(264,800)	271,769	**-**
Restructures	34,130,510	20,283,971	-	**54,414,481**
31 December 2020	**359,682,584**	**25,807,251**	**(62,637,429)**	**322,852,406**
Impairment allowance as at 1 January 2020	**4,309,380**	**(8,717)**	**14,176,505**	**18,477,168**
Additions	103,713	30,854	3,308,936	**3,443,503**
ECL on disbursement	764,095	581,378	2,712,569	**4,058,042**
ECL on repayment (excluding write-off)	(2,346,244)	1,639,706	(494,047)	**(1,200,585)**
Movement to Stage 1	16,556,488	(4,575,172)	(11,981,316)	**-**
Movement to Stage 2	(44)	4,882,868	(4,882,824)	**-**
Movement to Stage 3	(369)	(240,641)	241,010	**-**
Impact on year end ECL of exposures transferred between stages during the year	212,675	2,583,519	(5,546)	**2,790,647**
ECL on restructures	130,530	3,133,795	-	**3,264,325**
31 December 2020	**19,730,224**	**8,027,590**	**3,075,287**	**30,833,101**

Group	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Gross carrying amount as at 1 January 2019	**207,725,659**	**29,774,480**	**28,051,256**	**265,551,395**
Disbursement	62,242,170	(2,404,235)	6,287,332	**66,125,267**
Repayment (excluding write-off)	(38,439,087)	(6,887,437)	(2,922,285)	**(48,248,809)**
Movement to Stage 1	867,357	(731,491)	(135,866)	**-**
Movement to Stage 2	(237,268)	574,695	(337,427)	**-**
Movement to Stage 3	(469,043)	(154,206)	623,249	**-**
Restructures	-	6,434,522	-	**6,434,522**
Write-offs	-	-	(72,741)	**(72,741)**
31 December 2019	**231,689,788**	**26,606,328**	**31,493,518**	**289,789,634**

12. LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) **Allowance for Expected Credit Losses (continued)**

	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Impairment allowance as at 1 January 2019 under IFRS 9	**1,388,726**	**1,936,415**	**12,771,200**	**16,096,341**
ECL on disbursement	6,946,277	67,350	4,848,650	**11,862,277**
ECL on repayment (excluding write-off)	(4,137,428)	(1,996,321)	(3,561,864)	**(9,695,613)**
Movement to Stage 1	336,526	(324,423)	(12,103)	-
Movement to Stage 2	(77,369)	100,380	(23,011)	-
Movement to Stage 3	(147,352)	(79,022)	226,374	-
ECL on restructures	-	286,904	-	**286,904**
Write-Back	-	-	-	-
Write-offs	-	-	(72,741)	**(72,741)**
31 December 2019	**4,309,380**	**(8,717)**	**14,176,505**	**18,477,168**

Bank	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Gross carrying amount as at 1 January 2020	**230,882,433**	**26,259,793**	**31,155,503**	**288,297,729**
Disbursement	127,247,831	2,544,447	(61,267,479)	**68,524,799**
Repayment (excluding write-off)	(95,689,219)	(1,425,857)	(1,412,527)	**(98,527,603)**
Movement to Stage 1	23,163,415	(5,999,182)	(17,164,233)	-
Movement to Stage 2	(35,287)	6,805,515	(6,770,228)	-
Movement to Stage 3	(30,429)	(331,971)	362,400	-
Restructures	34,130,510	20,283,971	-	**54,414,481**
Write-offs	-	-	-	-
31 December 2020	**319,669,254**	**48,136,716**	**(55,096,564)**	**312,709,406**

Bank	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Impairment allowance as at 1 January 2020 under IFRS 9	**4,666,567**	**1,677,699**	**12,020,918**	**18,365,184**
ECL on disbursement	764,093	579,944	2,104,683	**3,448,720**
ECL on repayment (excluding write-off)	(361,780)	(324,989)	(491,985)	**(1,178,754)**
Movement to Stage 1	16,558,567	(4,593,831)	(11,964,736)	-
Movement to Stage 2	(450)	4,877,716	(4,877,266)	-
Movement to Stage 3	(388)	(239,312)	239,700	-
Impact on year end ECL of exposures transferred between stages during the year	304,571	2,598,071	-	**2,902,642**
ECL on restructures	130,530	3,133,795	-	**3,264,325**
Write-offs	-	-	-	-
31 December 2020	**22,061,710**	**7,709,093**	**(2,968,686)**	**26,802,117**

12. LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) **Allowance for Expected Credit Losses (continued)**

Bank	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Gross carrying amount as at 1 January 2019	**206,558,229**	**29,497,376**	**27,610,213**	**263,665,818**
Disbursement	61,421,454	(2,615,997)	6,257,387	**65,062,844**
Repayment (excluding write-off)	(37,664,159)	(6,758,286)	(2,370,269)	**(46,792,714)**
Movement to Stage 1	866,363	(730,497)	(135,866)	**-**
Movement to Stage 2	(321,903)	659,330	(337,427)	**-**
Movement to Stage 3	(77,551)	(126,655)	204,206	**-**
Restructures	-	6,434,522	-	**6,434,522**
Write-offs	-	-	(72,741)	**(72,741)**
31 December 2019	**230,782,433**	**26,359,793**	**31,155,503**	**288,297,729**

Bank	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Impairment allowance as at 1 January 2019 under IFRS 9	**1,958,756**	**1,353,832**	**12,762,095**	**16,074,683**
ECL on disbursement	6,846,071	66,452	4,838,371	**11,750,894**
ECL on repayment (excluding write-off)	(4,351,256)	277,160	(5,600,460)	**(9,674,556)**
Movement to Stage 1	337,717	(325,905)	(11,812)	**-**
Movement to Stage 2	(77,369)	100,380	(23,011)	**-**
Movement to Stage 3	(47,352)	(81,124)	128,476	**-**
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	**-**
ECL on restructures	-	286,904	-	**286,904**
Write-offs	-	-	(72,741)	**(72,741)**
31 December 2019	**4,666,567**	**1,677,699**	**12,020,918**	**18,365,184**

13. DEBT INSTRUMENTS AT AMORTISED COST

	Group		Bank	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Government treasury bills:				
Maturing within 91 days	13,941,614	13,325,094	13,941,614	13,325,094
Maturing after 91 days	17,642,605	24,670,289	17,604,823	24,670,289
Treasury bonds:				
Maturing within 91 days	1,001,156	-	1,001,156	-
Maturing after 91 days	65,582,298	38,876,142	44,235,122	38,724,279
Corporate bonds:				
Maturing within 91 days	-	-	-	-
Maturing after 91 days	733,871	973,971	733,871	973,971
	98,901,544	**77,845,496**	**77,516,586**	**77,693,633**
Movement in the year:				
At 1 January	77,845,496	52,092,150	77,693,633	51,935,363
Additions	64,288,709	59,210,392	42,941,533	59,212,027
Allowance for credit losses	(34,161)	(251,103)	(29,703)	(253,709)
Maturities	(43,198,500)	(33,205,943)	(43,088,877)	(33,200,048)
At December 31	**98,901,544**	**77,845,496**	**77,516,586**	**77,693,633**

The weighted average effective interest rate on Debt instruments measured at amortised cost as at 31 December 2020 was 11.67%. 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.

14. INVESTMENT IN SUBSIDIARIES

The following subsidiaries are owned by the Bank: -

Bank	Ownership	Principal Activity	2020 KShs'000	2019 KShs'000
Co-op Consultancy & Insurance Agency Limited	100%	Consultancy & Insurance Agency	70,000	70,000
Co-optrust Investment Services Limited	100%	Fund management	20,000	20,000
Kingdom Securities Limited	60%	Brokerage Services	150,000	150,000
Co-operative Bank of South Sudan	51%	Banking	2,272,920	2,272,920
Kingdom Bank Limited	90%	Banking	1,000,000	-
			3,512,920	2,512,920

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

Co-op Consultancy & Insurance Agency Limited was established as Co-op Consultancy Services in 2002 to offer consultancy, advisory and insurance agency services. The audited financial statements for the year ended 31 December 2020 show that the company made a profit after tax of KShs 586,733,910 (2019- KShs 498,223,595).

Co-optrust Investment Services was established in 1998 to offer fund management and investment services. The audited financial statements for the year ended 31 December 2020 show that the company made a profit after tax of KShs 49,335,685 (2019- KShs 60,648,553).

Kingdom Securities Limited (previously Bob Mathews Stockbrokers Limited) was acquired by Co-operative Bank Limited through purchase of 60% shareholding in 2009. The company offers brokerage services and is a registered broker with the Nairobi Securities Exchange. The audited financial statements for the year ended 31 December 2020 show that the company made a loss after tax of KShs 23,234,174 (2019 – loss after tax of KShs 29,576,137). Refer to note 32 for financial statements summaries.

Co-operative Bank of South Sudan was registered in 2013 with the partnership of Government of South Sudan which holds 49% of the ordinary shares. As at year end, Co-operative Bank of Kenya Limited had contributed 51% of the total share capital with the Government of South Sudan contributing 49%. The Subsidiary is based in South Sudan and commenced operation in September 2013. The audited financial statements for the year ended 31 December 2020 show that the company made a loss of KShs 1,560,899,650 (2019- KShs 419,866,580 -Loss). Refer to note 32 for financial statements summaries.

14. INVESTMENT IN SUBSIDIARIES (Continued)

Acquisition of a Subsidiary - Kingdom Bank Limited (formerly Jamii Bora Bank Limited)

(a) **Summary of acquisition**

The Co-operative Bank of Kenya Limited acquired 90% of the issued share capital of Jamii Bora Bank, now Kingdom Bank Limited with the objective of accessing the SME market share. The fair valuation of assets and liabilities was completed on 5 August 2020. In applying the provisions of IFRS 3, management made a decision to have 31 July 2020 as the acquisition date for the purpose of accounting for the transaction.

This transaction has been accounted for by the acquisition method of accounting.

Details of the purchase consideration, the net assets acquired, and goodwill are as follows:

Purchase consideration (refer to (b) below):	KShs'000
Cash paid	1,000,000
Total purchase consideration	1,000,000

The assets and liabilities recognised as a result of the acquisition are as follows:	Fair value KShs'000
Loans and advances to customers (net)	5,267,000
Deposits and balances with other banks	178,000
Government securities	523,000
Cash and balances with CBK	433,000
Other assets	682,000
Equity investments	17,000
Investment property	788,000
Property and equipment	502,000
Intangible assets	42,000
Corporate tax receivable	5,000
Deferred tax asset	599,000
Customer deposits	(5,290,000)
Deposits and balances from other banks	(2,650,000)
Borrowings	(1,121,000)
Other liabilities	(2,506,000)
Corporate tax payable	(7,000)
Deferred tax liability	(11,000)
Net identifiable liabilities acquired	(2,549,000)
Less: non-controlling interests	254,900
Net assets acquired	**(2,294,100)**

The goodwill is attributable to expected synergies from the acquired business. It will not be deductible for tax purposes. There were no acquisitions in the year ended 31 December 2019.

14. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Acquisition of Subsidiary - Kingdom Bank Limited (formerly Jamii Bora Bank Limited) (continued)

(a) **Summary of acquisition (continued)**

(i) Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	Valuation technique
Loans and advances to customers	Fair value of loans of KShs 5,267 million is based on contractual amounts of KShs 5,922 million. The impairment of KShs 655 million represents the estimated contractual cashflows not expected to be collected as at the acquisition date.
Deposit and balances with other banks	Carrying amount of KShs 412 million was fair valued based on a contractual amount of KShs 646 million. The write off of KShs 234 million represents the contractual cashflows not considered collectable at acquisition date.
Government securities	Fair value of KShs 523 million is based on contractual value of KShs 602 million less fair value loss of KShs 79 million arising from management's assessment of marked to market by reference to quoted market prices from Nairobi Stock Exchange (NSE). There are no contractual cashflows that are not expected to be collected.
Balances with Central Bank	Carrying amount of KShs 433 million at the acquisition date considered to approximate fair valued
Other assets	Fair value of KShs 682 million is based on contractual amount of KShs 811 million. The write off or full provision amounting to KShs 129 million represents the contractual cashflows not considered recoverable in respect of prepayments and deposits.
Equity Investment	Fair value of KShs 17 million is based on quoted market prices at NSE based on carrying amount of 46 million and fair value adjustment of KShs 29 million relating Uchumi Supermarket shares which are no longer trading due to restructuring of the Company.
Investment property	Property fair value of KShs 788 million was determined by a registered valuer broken down to land KShs 170 million and development KShs 618 million at acquisition date.
Property and equipment	Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence. In this regard, the net book value of KShs 502 million was assessed to approximate fair value at acquisition date.
Intangible asset	Fair value of KShs 42 million is based on carrying amount of KShs 239 million less fair value adjustment of KShs 197 million relating to impairments of previously acquired intangibles.
Corporation tax receivable	The carrying amount of KShs 5 million is assessed to approximates fair value at acquisition date
Deferred tax asset	The fair value KShs 599 million is based on carrying amount KShs 198 million and fair value adjustment of KShs 401 million at acquisition date pertaining to fair value of potential liabilities, securities, and investment property at acquisition date.
Customer deposit	Fair value of KShs 5,290 million is based on carrying amount of KShs 4,817 million and fair value adjustment of KShs 473 million arising from reconciliation differences at acquisition date.
Deposits from other Banks	Carrying amount of KShs 2,650 million at acquisition date was assessed to approximate fair valued by management.
Other liabilities	Recognised at fair value of KShs 2,506 million as at the acquisition date is based on carrying amount of KShs 1,674 million and management adjustment of KShs 832 relating to estimates for potential legal liabilities
Corporate tax payable	Carrying amount of KShs 7 million at acquisition date was assessed to approximate fair valued by management.
Deferred tax liability	Carrying amount of KShs 11 million at acquisition date was assessed to approximate fair valued by management.

14 . INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(a) **Summary of acquisition (continued)**

Acquisition of Subsidiary - Kingdom Bank Limited (formerly Jamii Bora Bank Limited) (continued)

(ii) Goodwill arising on acquisition

Goodwill arose on the acquisition of Kingdom Bank Limited because the cost of the combination included expected synergies and a control premium.

	KShs'000
Total purchase consideration	1,000,000
Fair value of identifiable net liabilities acquired	2,294,100
Goodwill arising on acquisition	**3,294,100**

Though the fair value of liabilities exceeded fair value of assets acquired , the consideration paid for the acquisition of the Bank effectively included amounts in relation to the benefit of expected synergies of the new management, Cooperative Bank brand association , and related support to Kingdom Bank Limited. In view of these synergies the goodwill has been recognised as a combination of Consideration paid and fair value of identifiable net liabilities.

These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

(iii) Accounting policy choice for non-controlling interests

The group recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis.

The group elected to recognise the non-controlling interests in Kingdom Bank Limited at its proportionate share of the acquired net identifiable assets. See note 2(b) for the group's accounting policies for business combinations.

(iv) Non-controlling interest (NIC)

The minority shareholders hold 10% shareholding in Kingdom Bank Limited. The NCI of KShs 255 million has been measured at NIC's proportionate share of fair value of net asset as at acquisition date. The fair values are based on a comprehensive review done by management at acquisition date.

(v) Revenue and profit contribution

The acquired business contributed revenues of KShs 843 million net loss after tax of KShs 370 million to the group for the period from 1 August to September 2020.

If the acquisition had occurred on 1 January 2020, consolidated pro-forma revenue and loss after tax for the year ended 31 December 2020 would have been KShs 1.7 billion and KShs 170 million respectively. These amounts have been calculated using the subsidiary's results and adjusting them for:

- differences in the accounting policies between the group and the subsidiary, and
- the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2020, together with the consequential tax effects.

(vi) Impairment of goodwill

The Group performed its initial impairment test as at 31 December 2020. Arising from acquisition of the subsidiary. Management noted that there had been significant improvement in performance due to association of the subsidiary with Co-operative Bank. As a result, the Kingdom Bank has recorded improved performance from a loss of KShs 1.2 billion in 2019 to a loss of KShs 169 million as at 31 December 2020. Further management projects that the Bank will turn around by 31 December 2021 with projected profit of KShs 300 million. In view of this, management has assessed that goodwill recorded of KShs 3.2 billion as at year end is not impaired.

(b) Purchase consideration – cash outflow	**2020 KShs'000**	**2019 KShs'000**
Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration paid	1,000,000	-
Less: Balances acquired		
Cash and balances with CBK	(433,000)	-
Deposits and balances due from banking institutions	(178,000)	-
Deposits and balances due to banking institutions	2,650,000	-
	2,039,000	-
Net outflow of cash – investing activities	**(1,039,000)**	-
Acquisition-related costs		

Acquisition-related costs of KShs 68.32 million that were not directly attributable to the transfer of shares are included in administrative expenses in the statement of profit or loss and in operating cash flows in the statement of cash flows.

15. INVESTMENTS IN ASSOCIATES

The Bank 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 2020 was KShs 1.38 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		Bank	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January	**2,098,354**	**2,161,475**	**706,444**	**755,118**
Share of (loss)/ profit	(149,939)	40,035	-	-
Other comprehensive income	18,487	39,886		-
Exchange difference on translation	630	(7,613)		-
Sale of shares	-	(48,699)		(48,699)
Investment in Co-op Bank Fleet Africa Leasing Limited	-	25		25
Dividends received	-	(86,755)	-	-
As at 31 December	**1,967,532**	**2,098,354**	**706,444**	**706,444**

15. INVESTMENTS IN ASSOCIATES (continued)

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

	Co-operative Insurance Society Limited		CIC South Sudan Limited	
	2020	2019	2020	2019
Statement of financial position:	KShs'000	KShs'000	KShs'000	KShs'000
Non-current assets	12,809,351	9,671,817	399,610	356,971
Current assets	25,911,818	25,393,985	993,836	839,397
	38,721,169	35,065,802	1,393,446	1,196,368
Current liabilities	(30,914,546)	(27,409,120)	(1,021,553)	(638,059)
Equity	7,806,623	7,656,682	371,893	558,309
Group's share in equity	2,639,564	2,558,097	115,287	173,075
Other adjustments	(672,032)	(674,024)	-	-
Group's carrying amount of the investment	1,967,532	1,884,073	115,287	173,075

Statement of comprehensive income:	Co-operative Insurance Society Limited		CIC South Sudan Limited	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Revenue	16,844,249	17,655,031	740,640	718,019
Operating and other expenses	(16,903,266)	(17,457,144)	(939,076)	(660,380)
Profit before tax	(59,017)	197,887	(198,436)	57,639
Income tax expense	(217,288)	(108,586)	-	-
Profit after tax	(276,305)	89,301	(198,436)	57,639
Other comprehensive income	36,871	129,720	19,903	24,792
Total comprehensive income for the year	**(239,434)**	**219,021**	**(178,533)**	**82,431**
Attributable to parent	(180,261)	162,733	-	-
Attributable to Non-controlling interest	(59,173)	56,288	-	-
	(239,434)	**219,021**	**-**	**-**
Group's share of comprehensive income	**(79,971)**	**54,368**	**(55,345)**	**25,554**
Split as follows				
Share of profit or loss	(92,285)	22,168	(61,515)	17,868
Share of OCI				
-Fair value gain of FVOCI investment	4,492	22,941	-	-
-Translation difference	7,823	2,767	-	-
- Revaluation gain of building	-	6,492	6,170	7,686
	12,315	32,200	6,170	7,686
	(79,971)	**54,368**	**(55,345)**	**25,554**

16. INTANGIBLE ASSETS

(a) 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 2020	5,477,772	154,174	25,000	605,495	6,262,441
Additions	1,260,183	-	-	506,838	1,767,021
Transfers from WIP	860,060	-	-	(860,060)	-
Write off*	(671,564)	-	-	-	(671,564)
	-				
Exchange difference on translation	137,658	128,431	-	-	266,089
At 31 December 2020	7,064,109	282,605	25,000	252,273	7,623,987
AMORTISATION					
At 1 January 2020	3,430,184	124,240	-	-	3,554,424
Amortisation for the year	967,586		-	-	967,586
Exchange difference on translation	118,511	158,365	-	-	276,876
At 31 December 2020	4,516,281	282,605	-	-	4,798,886
NET CARRYING AMOUNT					
At 31 December 2020	**2,547,828**	**-**	**25,000**	**252,273**	**2,825,101**

* The write off relate to cost incurred to implement a new software in Co-operative Bank of South Sudan but later discontinued to allow the Group adopt a uniform core banking system which is currently at the initial implementation stage.

(a) 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 2019	3,654,328	131,460	25,000	1,634,461	5,445,249
Additions	330,727	-	-	394,918	725,645
Transfers from WIP	1,482,745	-	-	(1,482,745)	-
Write off	-	-	-	(2,085)	(2,085)
Exchange difference on translation	9,973	22,714	-	60,946	93,633
At 31 December 2019	**5,477,772**	**154,174**	**25,000**	**605,495**	**6,262,442**
AMORTISATION					
At 1 January 2019	2,822,782	125,225	-	-	2,948,007
Amortisation for the year	594,476	-	-	-	594,476
Exchange difference on translation	12,926	(985)	-	-	11,941
At 31 December 2019	**3,430,184**	**124,240**	**-**	**-**	**3,554,424**
NET CARRYING AMOUNT					
At 31 December 2019	**2,047,589**	**29,934**	**25,000**	**605,495**	**2,708,018**

Other intangible assets relate to trading rights by Kingdom Securities Limited to participate in trading at Nairobi Securities Exchange (NSE). The business rights relate to the costs incurred in negotiating a business arrangement with the Government of South Sudan for the Co-Operative Bank of South Sudan. Under the agreement with the Government of South Sudan, the Bank acquired certain rights that are identifiable e.g., business relationships with the government and co-operative movement.

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

16. INTANGIBLE ASSETS (continued)

(b) BANK

	Computer Software KShs'000	Work –in rogress KShs'000	Total KShs'000
COST			
At 1 January 2020	**5,310,859**	**191,814**	**5,502,673**
Additions	651,534	505,854	1,157,388
Transfer from Work in Progress	188,496	(188,496)	-
At 31 December 2020	**6,150,889**	**509,172**	**6,660,061**
AMORTISATION			
At 1 January 2020	**3,260,032**	**-**	**3,260,032**
Amortisation for the year	700,218	-	700,218
At 31 December 2020	**3,960,250**	**-**	**3,960,250**
NET CARRYING AMOUNT			
At 31 December 2020	**2,190,639**	**509,172**	**2,699,811**
COST			
At 1 January 2019	**3,504,212**	**1,281,726**	**4,785,938**
Additions	323,902	394,918	718,820
Transfers	1,482,745	(1,482,745)	-
Write Offs	-	(2,085)	(2,085)
At 31 December 2019	**5,310,859**	**191,814**	**5,502,673**
AMORTISATION			
At 1 January 2019	**2,691,987**	**-**	**2,691,987**
Amortisation for the year	568,045	-	568,045
At 31 December 2019	**3,260,032**	**-**	**3,260,032**
NET CARRYING AMOUNT			
At 31 December 2019	**2,050,827**	**191,814**	**2,242,641**
COST			

Amortisation has not been charged in arriving at the results for the year in respect of certain fully amortised software assets with a cost of KShs. 2,139,644,271 (2019-KShs 1,671,017,282), which are still in use. If amortisation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs 427,928,854 (2019-KShs 334,203,456).

17. LEASEHOLD LAND

	Group and Bank	
	2020	2019
	KShs'000	KShs'000
COST		
At 1 January 2020	**54,413**	**54,413**
AMORTISATION:		
At 1 January 2020	19,891	19,281
Charge for the year	610	610
At 31 December 2020	**20,501**	**19,891**
NET CARRYING AMOUNT		
At 31 December 2020	**33,912**	**34,522**

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.

18. (a) PROPERTY AND EQUIPMENT-GROUP

COST/VALUATION	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery, furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
At 1 January 2020	**2,350,123**	**491,168**	**8,689,533**	**2,673,924**	**192,387**	**7,268,601**	**21,665,736**
Additions	-	296,024	343,443	697,370	41,713	625,212	**2,003,762**
Disposals	-		(2,428)	(5,623)	(76,503)	(3,490)	**(88,044)**
Transfers from WIP	-	(335,747)	175,778	-	-	159,969	**-**
Exchange difference on translation	1,186	139,321	151,494	-	35,799	145,206	**473,006**
Acquisition of a subsidiary	788,000	-	-	(1,050)	-	1,050	**788,000**
Write off	-	-	(285)	-	-	(79)	**(364)**
At 31 December 2020	**3,139,309**	**590,766**	**9,357,535**	**3,364,621**	**193,396**	**8,196,469**	**24,842,096**
ACCUMULATED DEPRECIATION							
At 1 January 2020	**-**	**-**	**7,244,781**	**2,002,897**	**133,352**	**5,770,378**	**15,151,408**
Charge for the year	103,791	-	539,037	384,291	31,517	628,708	**1,687,344**
Disposals	-	-	(2,428)	(5,603)	(76,230)	(3,400)	**(87,661)**
Write off	-	-	(100)	-	-	(73)	**(173)**
Exchange difference on translation	-	-	-	-	22,648	128,936	**151,584**
Asset Reclassification	-	-	-	(175)	-	175	-
At 31 December 2020	**103,791**	**-**	**7,781,290**	**2,381,410**	**111,287**	**6,524,724**	**16,902,502**
NET CARRYING AMOUNT							
At 31 December 2020	**3,035,518**	**590,766**	**1,576,245**	**983,211**	**82,109**	**1,671,745**	**7,939,594**

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

(i) Land and Buildings were revalued on open market value basis by professional valuers (Realty Valuers, Mwaka Musau Consultants and Solomon & Associates Co Ltd) as at 31 December 2019. 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 2,244,908,852 (2019: KShs 2,129,363,324)

(ii) Freehold land and buildings are revalued every three years. Freehold land and buildings include an amount of KShs 255,290,830 (2019- KShs. 292,790,830) against which no depreciation has been charged, as these are pieces of land.

(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 5,904,806,562 (2019- KShs 5,246,718,954), 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 868,125,314 (2019 - KShs 886,435,730).

(iv) The Group has not pledged any item of property, plant and equipment as security as at 31 December 2020 (31 December 2019: Nil)

(v) 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.

18. (a) PROPERTY AND EQUIPMENT-GROUP

COST/VALUATION	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery, furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
At 1 January 2019	**2,408,791**	**643,280**	**8,626,621**	**2,352,792**	**187,338**	**6,348,572**	**20,567,394**
Additions	1,423	228,996	75,218	126,273	16,407	610,113	**1,058,430**
Disposals	-	-	-	(3,730)	(6,498)	(6,488)	**(16,716)**
Revaluation	(60,091)	-	-	-	-	-	**(60,091)**
Transfers from WIP	-	(398,953)	104,292	3,503	-	291,158	**-**
Exchange difference on translation	-	25,156	-	194,720	(4,860)	25,246	**240,262**
Asset Reclassification	-	-	(366)	366	-	-	**-**
Write off	-	(7,311)	(116,232)	-	-	-	**(123,543)**
At 31 December 2019	**2,350,123**	**491,168**	**8,689,533**	**2,673,924**	**192,387**	**7,268,601**	**21,665,736**
ACCUMULATED DEPRECIATION							
At 1 January 2019	**186,286**	**-**	**6,719,954**	**1,742,050**	**119,865**	**5,185,191**	**13,953,346**
Charge for the year	93,143	-	614,882	216,910	18,690	579,966	**1,523,591**
Disposals	-	-	-	(3,107)	(6,498)	(6,441)	**(16,046)**
Revaluation	(279,429)	-	-	-	-	-	**(279,429)**
Write off	-	-	(90,055)	-	-	-	**(90,055)**
Exchange difference on translation	-	-	-	47,044	1,295	11,662	**60,001**
At 31 December 2019	**-**	**-**	**7,244,781**	**2,002,897**	**133,352**	**5,770,378**	**15,151,408**
NET CARRYING AMOUNT							
At 31 December 2019	**2,350,123**	**491,168**	**1,444,752**	**671,027**	**59,034**	**1,498,223**	**6,514,328**

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

(i) Land and Buildings were revalued on open market value basis by professional valuers (Realty Valuers, Mwaka Musau Consultants and Solomon & Associates Co Ltd) as at 31 December 2019. 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 2,129,363,324 (2018: KShs 1,284,818,514)

(ii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs 292,790,830 (2018- KShs. 292,790,830) against which no depreciation has been charged, as these are pieces of land.

(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 5,246,718,954 (2018- KShs 5,246,718,954), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs 886,435,730 (2018 - KShs 886,435,730).

(iv) The Group has not pledged any item of property, plant and equipment as security as at 31 December 2019 (31 December 2018: Nil)

(v) 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.

18. (b) PROPERTY AND EQUIPMENT-BANK

	Freehold land & buildings	Capital work-in progress	Fixtures	Office machinery, furniture & equipment	Motor vehicles	Computers	Total
COST/VALUATION	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
At 1 January 2020	**2,348,700**	**323,922**	**8,688,897**	**1,404,447**	**149,412**	**7,079,487**	**19,994,865**
Additions	-	262,448	115,982	55,577	-	622,693	**1,056,700**
Disposals	-	-	(2,428)	(5,623)	(76,231)	(3,490)	**(87,772)**
Transfer from Work in Progress	-	(335,562)	175,593	-	-	159,969	**-**
Asset Reclassification	-	-	-	(1,050)	-	1,050	-
At 31 December 2020	**2,348,700**	**250,808**	**8,978,044**	**1,453,351**	**73,181**	**7,859,709**	**20,963,793**
ACCUMULATED DEPRECIATION							
At 1 January 2020	**-**	**-**	**7,243,453**	**1,204,014**	**103,193**	**5,599,922**	**14,150,582**
Charge for the year	103,791	-	505,035	74,971	14,636	624,814	**1,323,247**
Disposals	-	-	(2,428)	(5,603)	(76,230)	(3,400)	**(87,661)**
Reclassification	-	-	-	(175)	-	175	-
At 31 December 2020	**103,791**	**-**	**7,746,060**	**1,273,207**	**41,599**	**6,221,511**	**15,386,168**
NET CARRYING AMOUNT							
At 31 December 2020	**2,244,909**	**250,808**	**1,231,984**	**180,144**	**31,582**	**1,638,198**	**5,577,625**

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

(ii) Freehold land and buildings are revalued every three years. Freehold land and buildings include an amount of KShs 255,290,830 (2019- KShs. 292,790,830) against which no depreciation has been charged, as these are pieces of land. If the freehold land and buildings were measured using the cost model, the carrying amount would be KShs. 154,147,745 (2019: KShs 170,289,185)

(iii) Land and Buildings were revalued on open market value basis by professional valuers (Realty Valuers,Mwaka Musau Consultants and Solomon & Associates Co Ltd) as at 31 December 2019. 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 2,244,908,852 (2019: KShs 2,129,363,324).

(iv) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 5,904,806,562 (2019- KShs 8,288,806,982), 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 868,125,314 (2019 - KShs 1,386,488,916)

(v) 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.

18. (b) PROPERTY AND EQUIPMENT-BANK

	Freehold land & buildings	Capital work-in progress	Fixtures	Office machinery, furniture & equipment	Motor vehicles	Computers	Total
COST/VALUATION	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
At 1 January 2019	**2,408,791**	**497,687**	**8,625,985**	**1,284,818**	**142,662**	**6,185,419**	**19,145,362**
Additions	-	228,996	75,218	122,993	13,247	609,399	**1,049,853**
Disposals	-	-	-	(3,730)	(6,498)	(6,488)	**(16,716)**
Revaluation	(60,091)	-	-	-	-	-	**(60,091)**
Transfer from Work in Progress	-	(395,450)	104,292	-	-	291,158	**-**
Write Off	-	(7,311)	(116,232)	-	-	-	**(123,543)**
Asset Reclassification	-	-	(366)	366	-	-	-
At 31 December 2019	**2,348,700**	**323,922**	**8,688,897**	**1,404,447**	**149,411**	**7,079,488**	**19,994,865**
ACCUMULATED DEPRECIATION							
At 1 January 2019	**186,286**	**-**	**6,718,970**	**1,141,809**	**95,496**	**5,031,257**	**13,173,816**
Charge for the year	93,142	-	614,882	64,970	14,194	575,183	**1,362,371**
Revaluation	(279,428)	-	-	-	-	-	**(279,428)**
Disposals	-	-	-	(3,107)	(6,498)	(6,443)	**(16,048)**
Write Off	-	-	(90,055)	-	-	(76)	**(90,131)**
Reclassification	-	-	(343)	343	-	-	-
At 31 December 2019	**-**	**-**	**7,243,454**	**1,204,015**	**103,192**	**5,599,921**	**14,150,582**
NET CARRYING AMOUNT							
At 31 December 2019	**2,348,700**	**323,922**	**1,445,443**	**200,432**	**46,219**	**1,479,567**	**5,844,283**

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

(i) Freehold land and buildings are revalued every three years. Freehold land and buildings include an amount of KShs 292,790,830 (2018- KShs. 292,790,830) against which no depreciation has been charged, as these are pieces of land. If the freehold land and buildings were measured using the cost model, the carrying amount would be KShs. 170,289,185.17 (2018: KShs 129,813,710)

(ii) Land and Buildings were revalued on open market value basis by professional valuers (Realty Valuers, Mwaka Musau Consultants and Solomon & Associates Co Ltd) as at 31 December 2019. 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 2,129,363,324 (2018: KShs 1,284,818,514).

(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. 8,288,806,982 (2018- KShs 5,234,583,558), 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 1,386,488,916 (2018 - KShs 884,008,651)]

(iv) 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.

19. RIGHT OF USE ASSETS

(a) GROUP	Land and Buildings	Motor Vehicles	Total
COST	**KShs'000**	**KShs'000**	**KShs'000**
At 1 January 2020	**5,948,748**	**170,323**	**6,119,071**
Additions	409,146	37,950	**447,096**
Acquisition of a subsidiary	140,755	-	**140,755**
Disposals	-	-	**-**
Exchange differences	209,022	-	**209,022**
At 31 December 2020	**6,707,671**	**208,273**	**6,915,944**
DEPRECIATION			
At 1 January 2020	**1,205,052**	**7,111**	**1,212,163**
Depreciation for the year	1,267,681	49,806	**1,317,487**
Disposals	-	-	**-**
Exchange differences	24,279	-	**24,279**
At 31 December 2020	**2,497,012**	**56,917**	**2,553,929**
NET CARRYING AMOUNT			
At 31 December 2020	**4,210,659**	**151,356**	**4,362,015**
COST			
Effect of adoption of IFRS 16 as at 1 January 2019	**5,948,748**	**170,323**	**6,119,071**
Additions			
Disposals			
Exchange differences	-	-	**-**
At 31 December 2019	**5,948,748**	**170,323**	**6,119,071**
DEPRECIATION			
At 1 January 2019	-	-	**-**
Depreciation for the year	1,205,052	7,111	**1,212,163**
Disposals			
Exchange differences	-	-	**-**
At 31 December 2019	**1,205,052**	**7,111**	**1,212,163**
NET CARRYING AMOUNT			
At 31 December 2019	**4,743,696**	**163,212**	**4,906,908**

19. RIGHT OF USE ASSETS (continued)

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

	2020	2019
	KShs'000	KShs'000
As at 1 January	5,009,040	6,053,709
Additions	665,050	-
Accretion of interest	299,727	304,231
Payments	(1,527,861)	(1,348,900)
As at 31 December	**4,445,956**	**5,009,040**

The Group's 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.

The Group had total cash outflows for leases of KShs 1.52 billion in 2020 (2019: KShs.1.34 billion). The Group also had non-cash additions to right-of-use assets and lease liabilities of KShs 447 million in 2020 (2019: KShs 6.1 billion).

19. RIGHT OF USE ASSETS

(b) BANK	Land and Buildings	Motor Vehicles	Total
COST	**KShs'000**	**KShs'000**	**KShs'000**
At 1 January 2020	**5,624,694**	**170,323**	**5,795,017**
Additions	409,146	37,950	**447,096**
Disposals	-	-	-
Exchange differences	-	-	-
At 31 December 2020	**6,033,840**	**208,273**	**6,242,113**
DEPRECIATION			
At 1 January 2020	**1,112,983**	**7,111**	**1,120,094**
Depreciation for the year	1,146,975	49,806	**1,196,781**
Disposals	-	-	-
Exchange differences	-	-	-
At 31 December 2020	**2,259,958**	**56,917**	**2,316,875**
NET CARRYING AMOUNT			
At 31 December 2020	**3,773,882**	**151,356**	**3,925,238**
COST			
Effect of adoption of IFRS 16 as at 1 January 2019	**5,624,694**	**170,323**	**5,795,017**
Additions			
Disposals	-	-	-
Exchange differences	-	-	-
At 31 December 2019	**5,624,694**	**170,323**	**5,795,017**
DEPRECIATION			
At 1 January 2019	-	-	-
Depreciation for the year	**1,113,083**	**7,111**	**1,120,094**
Disposals	-	-	-
Exchange differences	-	-	-
At 31 December 2019	**1,113,083**	**7,111**	**1,120,094**
NET CARRYING AMOUNT			
At 31 December 2019	**4,511,611**	**163,212**	**4,674,823**

19. RIGHT OF USE ASSETS (Continued)

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

	2020 KShs'000	2019 KShs'000
At 1 January	4,820,517	-
Additions	447,098	5,795,017
Accretion of Interest	280,573	287,134
Payments	(1,284,429)	(1,261,634)
At 31 December (note 26)	**4,263,759**	**4,820,517**

The bank's lease holdings include leased space where the bank's branches 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.

The Bank had total cash outflows for leases of KShs 1.28 billion (2019: KShs 1.26 billion). The Bank also had non-cash additions to right-of-use assets and lease liabilities of KShs 447million in 2020 (2019: KShs 1.26 billion).

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	2020 Deferred tax assets KShs'000	2020 Through Profit or loss KShs'000	2020 Through reserves KShs'000	2019 Deferred tax assets KShs'000	2019 Through Profit or loss KShs'000	2019 Through reserves KShs'000
Collective allowance for impairment disallowed for tax purposes	(3,427,482)	(664,832)	-	(2,873,034)	(284,735)	
Revaluation surplus	486,738	-	(15,019)	498,463	-	65,801
Excess of tax wear and tear allowance over depreciation	(937,774)	47,952	-	(1,087,094)	49,701	-
Unrealised exchange gains	293,944	110,920	-	183,188	45,753	-
Right-of-use asset	(736)	(46,994)	-	43,974	43,912	-
Tax losses	(422,041)	19,859		-	-	-
Other temporary differences	(302,412)	(108,931)	-	(81,163)	(30,585)	-
Deferred tax asset	**(4,309,763)**	**(642,026)**	**(15,019)**	**(3,315,666)**	**(175,954)**	**65,801**
Collective allowance for impairment disallowed for tax purposes	(71,547)	-	-	(89,904)	22,738	-
Excess of tax wear and tear allowance over depreciation	191,773	-	-	182,571	(430)	-
Right of use asset	81,684	-	-	(5,901)	(603)	
Other temporary differences	(70,839)	-	-	14,012	1,261	-
Deferred tax liability	131,071	-	-	100,778	22,966	-
Net deferred tax asset	**(4,178,692)**	**(642,026)**	**(15,019)**	**(3,214,888)**	**(152,988)**	**65,801**

20. DEFERRED TAX (CONTINUED)

BANK	2020 Deferred tax assets KShs'000	2020 Through Profit or loss KShs'000	2020 Through reserves KShs'000	2019 Deferred tax assets KShs'000	2019 Through Profit or loss KShs'000	2019 Through reserves KShs'000
Collective allowance for impairment disallowed for tax purposes	(3,468,447)	(629,279)	-	(2,839,168)	(320,985)	-
Revaluation surplus	483,445	-	(15,019)	498,463	-	65,801
Accelerated wear and tear allowance over depreciation	(1,036,986)	50,324	-	(1,087,310)	49,672	-
Unrealised exchange gains	294,107	110,919	-	183,187	45,753	-
Provision for staff leave pay	(50,333)	(32)	-	(50,300)	(6,025)	-
Right-of-use asset	(2,020)	(45,728)	-	43,708	43,708	-
Other temporary differences	(186,652)	(162,642)	-	(24,010)	(24,010)	-
	(3,966,886)	(676,438)	(15,019)	(3,275,430)	(211,887)	65,801

The Group unused tax losses relates to Kingdom Bank Limited and Kingdom Securities Limited. The prior year deferred tax asset for Kingdom Securities Limited and amounting to KShs 6.12 million arising from accumulated tax losses was fully derecognised in 2020 since there are uncertainties that the company will realise the deferred tax asset in the near future.

As at 31 December 2020, the Kingdom Bank Limited had accumulated tax losses amounting to KShs 3.4 billion (2019: Kshs 2.5 billion) and available to be offset against future taxable profit. The first year of taxable loss is from 2013. In accordance with the Kenyan Income Tax Act, the tax losses are available for utilization subject to their respective expiry dates.

21. DEPOSITS AND BALANCES DUE TO BANKS

	Group		Bank	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Local banks	155,993	108,873	173,261	108,873
Foreign banks	65,897	68,102	481,697	625,931
	221,890	176,975	654,958	734,804

The weighted average effective interest rate on deposits from other banks at 31 December 2020 was 1% (2019- 1.7%). These current accounts do not accrue any interest.

22. CUSTOMER DEPOSITS

	Group		Bank	
	2020	2019	2020	2019
(a) Deposit category	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Call deposits	51,177,008	40,755,000	51,177,008	40,755,000
Fixed deposits	82,597,647	62,717,083	79,821,868	62,920,566
Transaction accounts	116,265,927	104,488,507	116,475,450	104,488,654
Savings accounts	21,139,822	19,672,150	19,438,143	18,746,797
Current accounts	105,372,765	103,815,175	100,439,902	101,091,373
Foreign currency deposits	2,077,284	1,376,002	2,077,282	1,376,002
	378,630,453	**332,823,917**	**369,429,653**	**329,378,392**
(b) From government and parastatals: -				
Payable on demand	45,172,489	46,871,654	35,762,166	44,148,001
Payable within 30 days	7,017,935	5,405,679	7,017,935	5,405,678
Payable after 30 days but within 1 year	18,143,159	17,580,001	18,143,159	17,580,001
	70,333,583	**69,857,334**	**60,923,260**	**67,133,680**
From private sector and individuals: -				
Payable on demand	182,672,694	165,699,093	182,882,219	165,001,796
Payable within 30 days	44,562,163	35,643,246	44,562,163	35,643,246
Payable after 30 days but within 1 year	81,062,013	61,624,244	81,062,011	61,599,670
	308,296,870	262,966,583	308,506,393	262,244,712
	378,630,453	**332,823,917**	**369,429,653**	**329,378,392**

Included in customers' deposits is an amount of KShs. 10,135 Million (2019- KShs 8,794 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 3.38% (2019– 3.71%).

23. LOANS AND BORROWINGS

	Group		Bank	
	2020	2019	2020	2019
Long-term borrowing	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
DEG	-	1,070,929	-	1,070,929
International Finance Corporation (IFC)	19,226,358	22,024,201	19,226,358	22,024,201
European Investment Bank	371,091	742,126	371,091	742,126
AFD Microfinance & line of credit	2,199,437	2,587,010	2,199,437	2,587,010
Responsibility	155,995	-	-	-
Shelter Afrique	3,247	-	-	-
Housing Finance Group	218,020	-	-	-
Progression Africa	470,454	-	-	-
	22,644,602	**26,424,266**	**21,796,886**	**26,424,266**
Central Bank of Kenya	23,381,539	-	465,788	-
	46,026,141	**26,424,266**	**22,262,674**	**26,424,266**
Movement in the year:				
At 1 January	26,424,266	23,949,611	26,424,266	23,949,611
Additional loan disbursement	30,653,942	7,600,238	6,550,308	7,600,238
Central Bank REPO	465,788	-	465,788	-
Accrued interest	166,135	89,092	40,146	89,092
Loan Repayment	(13,575,480)	(5,066,175)	(13,109,324)	(5,066,175)
Foreign exchange difference	1,891,490	(148,500)	1,891,490	(148,500)
At 31 December	**46,026,141**	**26,424,266**	**22,262,674**	**26,424,266**

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

European Investment Bank

A loan agreement of Euros 50 million was entered into in April 2012 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 micro and small enterprises including self-employed entrepreneurs and sole proprietorships in income generating activities and productive sectors such as trade, retail, agro industries, fishing, food processing, manufacturing, construction transport, tourism. The interest on loan is 2.43% plus a currency risk premium determined over a period of time. As at end of 2020, Euros 35.39 Million had been disbursed to the bank.

French Development Agency (AFD)

wThe 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 2020, the amount disbursed to the bank was USD 35,710,169. The bank secured an additional credit facility of USD 50 Million in year 2016 and the first drawdown of USD 8 Million has already being disbursed.

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, WOEs portfolio and affordable housing through expansion of mortgage & construction finance. The loan has an element of fixed and variable interest rate which is pegged to the LIBOR rate. The loan has a maturity period of 7 years and a 2-year grace period on principal repayment. As at the end of year 2020, 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 2020, the bank had received a drawdown of USD 60Million.

DEG - Deutsche Investitions- Und Entwicklungsgesellschaft Mbh

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

ResponsAbility

The ResponsAbility loan is denominated in United States American Dollars (USD). Its effective interest rate is 5.5% per annum. The loan matured during the year and was restructured for two (2) years after successful negotiations. The new terms commence in January 2021 and the loan will be repaid in full by end of November 2022.The loan has been granted to Kingdom Bank Limited. This borrowing is unsecured.

Shelter Afrique

The loan is denominated in Kenya Shillings. Its effective interest rate is 13% per annum. The loan is guaranteed by 130% assignment of related mortgage book. The Bank is left with two installments on the loan, one in July 2021 and the final installment of the loan is in January 2022. The loan has been granted to Kingdom Bank Limited. This borrowing is unsecured.

Housing Finance Group

The loan is denominated in Kenya Shillings. Its effective interest rate is 14% per annum. The loan is payable after 6 years and matures in January 2026. The loan has been granted to Kingdom Bank Limited. This borrowing is unsecured.

Progression Africa

The loan is denominated in Kenya Shillings and United States American Dollars (USD) on fifty percent basis. Its effective interest rate is 9.5% and 3.5% per annum for the Kenya Shillings and United States American Dollars loan respectively. The loan is payable within one (1) year after successful negotiations and restructure on maturity. Both loans will be repaid by end of October 2021. This borrowing is unsecured. The loan has been granted to Kingdom Bank Limited.

Central Bank of Kenya Borrowing

During the year 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.

24. TAXATION

	Group		Bank	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
(a) Income Statement: -				
Current tax at 25% on the taxable profit for the year (2019-30%)	4,111,011	6,547,494	3,917,800	6,282,524
Under provision in previous year	-	-	-	-
Hyper-inflationary adjustment	-	-	-	-
Deferred tax (credit) / charge	(642,026)	(152,988)	(676,438)	(211,887)
Income tax expense	**3,468,985**	**6,394,506**	**3,241,362**	**6,070,637**
(b) Statement of Financial Position: -				
Tax (recoverable)/ Payable				
Balance brought forward	24,353	303,280	29,805	294,555
Under provision in previous year	-	-	-	-
Charge for the year	4,111,011	6,547,494	3,917,800	6,282,523
Paid during the year	(4,801,866)	(6,826,421)	(4,645,404)	(6,547,273)
	(666,502)	**24,353**	**(697,799)**	**29,805**
(c) Reconciliation of tax expense to tax based on accounting profit: -				
Accounting profit	14,319,820	20,705,754	16,960,630	20,326,064
Tax applicable rate at 25% (2019:30%)	3,579,955	6,211,726	4,240,158	6,097,819
Share of profit in associate	(26,821)	(12,011)	-	-
Unrecognized deferred tax asset on tax loss	1,780	3,770	-	-
Hyper inflationary adjustment	(375,396)	184,098	-	-
Tax effect of items not eligible for tax	289,467	6,923	(998,796)	(27,182)
Tax expense in the income statement	**3,468,985**	**6,394,506**	**3,241,362**	**6,070,637**

The corporation tax rate applicable to the Bank, subsidiaries and associates is 25% except for Co-operative Bank of South Sudan charged at a rate of 10-25% depending on the revenue of the taxpayer.

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

25. PROVISIONS

	Group		Bank	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Leave liability	**116,825**	**151,426**	**116,576**	**147,774**
Balance at 1 January	**151,426**	**151,147**	**147,774**	**147,582**
Movement through profit or loss	(34,601)	279	(31,198)	192
Balance at 31 December	**116,825**	**151,426**	**116,576**	**147,774**

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

26. OTHER LIABILITIES

	Group		Bank	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Bills payable	5,423,318	5,276,545	5,423,318	5,276,545
Lease liabilities (note 19)	4,445,956	5,009,040	4,263,759	4,820,517
Sundry creditors and accruals	9,088,738	5,493,155	8,130,980	4,960,743
Allowance for credits losses for off balance sheet commitments	943,650	- 755,638	943,650	755,638
	19,901,662	**16,534,378**	**18,761,707**	**15,813,443**

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

27. GOVERNMENT GRANTS

	Group and Bank	
	2020	2019
Grant net of amortisation:	KShs'000	KShs'000
At 1 January	**443,416**	**461,892**
Amortisation for the year	(18,475)	(18,476)
At 31 December	**424,941**	**443,416**

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

28. SHARE CAPITAL

	Group and Bank	
	2020	2019
	KShs'000	KShs'000
Authorised :-		
7.5 billion (2019: 7.5 billion) ordinary shares of KShs 1 each.	7,500,000	7,500,000
Issued and fully paid:-		
5.8 billion (2019: 5.8 billion) ordinary shares of KShs 1 each.	5,867,180	5,867,180

29. SHARE PREMIUM

These reserves arose in 2008 when the Bank issued 557,242,300 new shares through an Initial Public Offering. The shares, with a par value of KShs 1 were issued at KShs 9.50. These reserves may be applied towards capital in the future.

	Group and Bank	
	2020	2019
	KShs'000	KShs'000
At 1 January and 31 December	**1,911,926**	**1,911,926**

30. RESERVES

(a) **Revaluation reserve**

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

(b) **Retained earnings**

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

(c) **Fair value reserve**

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

(d) **Statutory reserve**

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

For the year ended 31 December 2020, the Group and the Bank's allowance for expected credit losses calculated in line with IFRS 9 amounted to KShs 30.8 billion and KShs.26.8 billion (2019: KShs18.4 billion and KShs 18.3 billion) respectively while the Group and the Bank's Statutory loan loss provisions amounted to KShs 0.014 billion and Nil in 2020, (2019: KShs1.64 billion and KShs 1.6 billion) 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

(e) **Foreign currency translation reserve**

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

31. PROPOSED DIVIDENDS AND DIVIDENDS PER SHARE

	Group and Bank	
	2020	**2019**
	KShs'000	**KShs'000**
Proposed dividends	5,867,180	5,867,180

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

(ii) Proposed dividends are accounted for as a separate component of equity at year end until they are ratified at an Annual General Meeting (AGM). At the AGM to approve year 2020 financial statements, a first and final dividend in respect of year 2020 of KShs 1 (2019 - KShs 1) for every ordinary share of KShs 1 each will be proposed by the directors and is subject to approval by shareholders.

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

32. MATERIAL PARTLY OWNED SUBSIDIARIES

(a) Kingdom Securities Limited

Kingdom Securities Limited (previously Bob Mathews Stockbrokers Limited) was acquired in 2009 by the Bank through the purchase of 60% shareholding. The proportion of equity interest held by non-controlling Interest is 40%. The company offers brokerage services and is a registered broker with the Nairobi Securities Exchange.

32. MATERIAL PARTLY OWNED SUBSIDIARIES (continued)

(b) **Co-operative Bank of South Sudan**
Co-operative Bank of South Sudan was registered in partnership with the Government of South Sudan which holds 49% of the ordinary shares while the Bank holds 51%. The subsidiary is based in South Sudan and offers banking services.

(c) **Kingdom Bank Limited**
Kingdom Bank Limited (formerly Jamii Bora Bank Limited) was acquired by The Co-operative Bank Limited through purchase of 90% shareholding in August 2020. The proportion of equity interest held by non-controlling Interest is 10%. The company offers banking services and is a commercial bank registered and regulated by the Central Bank of Kenya.

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

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

As at 31 December 2020	**Kingdom Bank Limited 2020 KShs'000**	**Kingdom Securities Limited 2020 KShs'000**	**Co-operative Bank of South Sudan 2020 KShs'000**
Interest and other income	1,975,907	65,180	1,681,635
Interest and commission expenses	(254,354)	(774)	(22,248)
	1,721,553	**64,406**	**1,659,387**
Operating expenses	(1,797,878)	(81,520)	(1,458,794)
Loss on net monetary position	-	-	(1,794,519)
Profit / (loss) before tax	(76,326)	(17,114)	(1,593,926)
Share of profit of an associate	-	-	(61,515)
Income tax expense	(93,578)	(6,120)	94,541
Profit / (loss) for the year	**(169,904)**	**(23,234)**	**(1,560,900)**
Other comprehensive income	**98,546**	**(29,330)**	**3,098**
Total comprehensive income	**(71,358)**	**(52,564)**	**(1,557,802)**
Allocated to non-controlling interest	**(7,136)**	**(21,026)**	**(763,323)**

As at 31 December 2019	**Kingdom Securities Limited 2019 KShs'000**	**Co-operative Bank of South Sudan 2019 KShs'000**
Interest and other income	69,681	1,029,007
Interest and commission expenses	(3,674)	(39,638)
	66,007	**989,369**
Operating expenses	(92,814)	(931,252)
Loss on net monetary position	-	(409,716)
Profit / (loss) before tax	(26,807)	(351,599)
Share of profit of an associate		6,890
Income tax expense	(2,769)	(75,158)
Profit / (loss) for the year	**(29,576)**	**(419,867)**
Other comprehensive income	(11,200)	7,686
Total comprehensive income	**(40,776)**	**(412,181)**
Allocated to non-controlling interest	(16,310)	(201,969)

32. MATERIAL PARTLY OWNED SUBSIDIARIES (continued)

(c) Kingdom Bank Limited

Summarised statement of financial position:-

As at 31 December 2020	Kingdom Bank Limited 2020 KShs'000	Kingdom Securities Limited 2020 KShs'000	Co-operative Bank of South Sudan 2020 KShs'000
Current assets	23,841,998	189,965	5,900,950
Non-current Assets	6,864,967	93,593	2,533,545
Liabilities	(29,309,106)	(168,026)	(5,137,952)
Total equity	**1,397,859**	**115,532**	**3,296,543**
Attributable to:-			
Equity holders of the parent	1,258,073	69,319	1,681,237
Accumulated non-controlling interests of the subsidiary	139,786	46,213	1,615,306

As at 31 December 2019	Kingdom Securities Limited 2019 KShs'000	Co-operative Bank of South Sudan 2019 KShs'000
Current assets	261,121	6,255,040
Non-current Assets	61,992	1,474,379
Liabilities	(155,017)	(4,621,850)
Total equity	**168,096**	**3,107,569**
Attributable to:-		
Equity holders of the parent	100,858	1,584,860
Accumulated non-controlling interests of the subsidiary	67,238	1,522,709

(d) 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. The corresponding figures for the previous reporting period for Co-operative Bank of South Sudan were restated. However, the Group did not restate the corresponding figures on the consolidated financial statements as its not required to do so. Following the application of IAS 29, the subsidiary recorded a loss on net monetary position of KShs 1,794.5 million (2019: KShs 409.7 million). In the application of IAS 29, the Group used conversion coefficients derived from the consumer price index (CPI) in the Republic of South Sudan. CPIs and the corresponding conversion coefficients are presented below:

Year	CPI	Conversion factor
2016	2,799	1
2017	4,502	2.2
2018	6,503	1.4
2019	7,751	1.2
2020	14,549	1.9

33. INTEREST AND SIMILAR INCOME

	Group		Bank	
	2020	2019	2020	2019
Interest income calculated using the effective interest method	KShs'000	KShs'000	KShs'000	KShs'000
Loans and advances to customers	33,500,169	32,765,280	32,709,725	32,498,554
Debt instruments at amortised cost	8,629,948	4,515,317	7,422,574	4,492,520
Debt instruments at FVOCI	6,448,198	4,130,270	6,412,979	4,130,270
Amortization of financial instruments	(255,881)	2,709,724	(261,659)	2,709,724
Deposits and balances due from other banks	518,211	477,320	329,780	385,096
Interest received repo placements	-	29,087	-	29,087
	48,840,645	44,626,998	46,613,399	44,245,251

34. INTEREST AND SIMILAR EXPENSE

	2020	2019	2020	2019
Interest expense calculated using the effective interest method	KShs'000	KShs'000	KShs'000	KShs'000
Call deposits	2,192,927	1,680,559	2,019,578	1,680,559
Fixed deposits	6,088,872	6,452,797	6,088,872	6,452,783
Savings accounts	1,041,268	1,176,984	1,039,866	1,176,371
Current accounts	1,616,139	1,311,697	1,616,092	1,311,694
Deposits and balances due to banks	217,006	149,558	171,710	110,551
Lease obligations	299,727	304,231	280,573	287,134
Borrowed funds	1,335,466	1,564,552	1,278,185	1,564,552
	12,791,405	12,640,378	12,494,876	12,583,644

35. FEES AND COMMISSIONS

	Group		Bank	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Fees and commissions income	12,901,027	12,817,634	10,976,392	11,316,397
Fees and commissions expense	(331,529)	(118,546)	(319,367)	(118,546)
Net fees and commissions income	12,569,498	12,699,088	10,657,025	11,197,851

35. FEES AND COMMISSIONS (continued)

Disaggregated fees and commission information for the year ended 31 December 2020

	Banking services KShs'000	Advisory & training KShs'000	Bancassurance KShs'000	Investment management KShs'000	Brokerage KShs'000	Total KShs'000
Fees and commission income						
Custodial	155,973	-	-	-	-	155,973
Share registration	16,693	-	-	-	-	16,693
Fund management	-	-	-	218,970	-	218,970
Brokerage	-	-	-	-	54,927	54,927
Consultancy	-	39,249	-	-	-	39,249
Training	-	13,987	-	-	-	13,987
Insurance agency	-	-	841,829	-	-	841,829
Ledger fees and service charges	1,113,755	-	-	-	-	1,113,755
Other fees & commissions	10,114,115	-	-	-	-	10,114,115
Total revenue from contracts with customers	**11,400,536**	**53,236**	**841,829**	**218,970**	**54,927**	**12,569,498**
Timing of revenue recognition						
Services transferred at a point in time	11,227,870	53,236	841,829		54,927	12,177,862
Services that are provided over time	172,666			218,970		391,636
Total revenue from contracts with customers	**11,400,536**	**53,236**	**841,829**	**218,970**	**54,927**	**12,569,498**

36. NET TRADING INCOME

	Group 2020 KShs'000	Group 2019 KShs'000	Bank 2020 KShs'000	Bank 2019 KShs'000
Foreign exchange gain	2,837,870	2,148,844	2,305,791	1,933,761
	2,837,870	**2,148,844**	**2,305,791**	**1,933,761**

37 OTHER OPERATING INCOME

	Group 2020 KShs'000	Group 2019 KShs'000	Bank 2020 KShs'000	Bank 2019 KShs'000
Gain on disposal of property and equipment	19,044	1,572	19,044	1,572
Dividend income	1,444	3,446	1,701,444	86,755
Rental income	109,048	103,670	109,048	103,670
Gain on sale of financial assets at Fair value	982,948	620,306	982,948	620,306
Sundry Income	942,397	573,741	607,117	416,742
	2,054,881	**1,302,735**	**3,419,601**	**1,229,045**

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 monthly when it falls due.

38. EMPLOYEE COSTS

	Group		Bank	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Basic salaries	11,049,924	10,142,359	10,391,501	9,780,971
Allowances	415,432	415,361	395,111	400,359
Pension scheme contribution				
- Statutory Scheme	9,631	9,274	8,972	9,149
- Employee Scheme	827,659	766,562	773,044	730,463
Medical expenses	578,342	544,042	553,014	538,902
Education and training	24,512	72,420	24,269	70,164
Others	516,173	424,199	309,556	317,141
	13,421,673	**12,374,217**	**12,455,467**	**11,847,149**

The number of employees at the year-end was:	2020	2019	2020	2019
Management	661	616	568	584
Supervisory and unionizable	3,368	3,282	3,130	3,215
Others	599	524	495	421
	4,628	**4,422**	**4,193**	**4,220**

39. OTHER OPERATING EXPENSES

	Group		Bank	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Rent and maintenance costs for branch premises	1,032,853	748,872	949,452	707,561
Motor vehicle running & other equipment maintenance	2,187,899	1,718,813	2,107,386	1,710,167
Stationery and printing	558,351	467,889	551,002	463,800
Travelling and insurance	540,205	638,161	496,305	565,530
Telephone, postage, electricity and water	656,580	603,097	609,971	573,258
Contribution to Deposit Protection Fund	487,798	447,153	481,005	447,153
Directors' emoluments	245,715	201,701	147,925	150,487
Auditors' remuneration	41,555	24,274	17,408	15,825
Loss on net monetary position	1,794,519	409,716	-	-
Other operating and administrative expenses	5,460,816	4,027,008	4,424,351	3,526,366
	13,006,291	**9,286,684**	**9,784,805**	**8,160,147**

The increase in operating expenses is mainly due to acquisition of a subsidiary. The other operating and administrative expenses relates to various expenses of low values of which the bank consider it will not be useful to disclose individually.

40. ECL-OTHER FINANCIAL ASSETS

	Group		Bank	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Credit loss expense				
ECL-off balance sheet balances	188,012	-	188,012	-
ECL- Investments in Government securities	427,096	431,371	422,638	433,976
	615,108	**431,371**	**610,650**	**433,976**
Credit loss write back				
ECL- Local Bank balances	(2,068)	(4,543)	(1,970)	-
ECL-Foreign bank balances	-	(233,225)	-	(3,243)
ECL-off balance sheet balances	-	(111,808)		(111,808)
ECL- Sundry debtors	(27,690)	(122,563)	(27,690)	(122,563)
	(29,758)	(472,139)	(29,660)	(237,614)
Net credit loss expense/ (write back)	**585,350**	**(40,768)**	**580,990**	**196,362**

41. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share for the Group and the Bank is based on the year's profit attributable to equity holders of the parent and the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The calculation of basic earnings per share for the Group and the Bank is based on the year's profit attributable to equity holders of the parent and the weighted average number of ordinary shares outstanding during the year.

	Group		Bank	
	2020	2019	2020	2019
Profit for the year attributable to equity holder of the parent (KShs'000)	11,594,089	14,528,812	13,719,268	14,255,427
Weighted average number of ordinary shares for basic earnings per share (Thousands)	5,867,180	5,867,180	5,867,180	5,867,180
Weighted average number of ordinary shares for diluted earnings per share (Thousands)	5,867,180	5,867,180	5,867,180	5,867,180
Basic earnings per share (KShs)	1.98	2.48	2.34	2.43
Diluted earnings per share (KShs)	1.98	2.48	2.34	2.43

42. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Financial Assets at fair value through other comprehensive income	Group		Bank	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Gains/(losses) arising during the year	1,643,444	7,362,277	1,578,627	7,382,917
Reclassification to profit or loss	(917,864)	(7,205,530)	(917,864)	(7,205,530)
	725,580	156,747	660,763	177,387

43. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of profit before tax to cash generated from operations

	2020	2019	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES: -	KShs'000	KShs'000	KShs'000	KShs'000
Profit before tax	14,281,860	20,705,754	16,960,630	20,326,064
Adjustments for: -				
Depreciation of property and equipment	1,687,344	1,523,591	1,323,247	1,362,295
Depreciation of right-of-use asset	1,317,487	1,212,163	1,196,781	1,120,094
Impairment on property and equipment	191	33,488	-	33,488
Amortization of leasehold	610	610	610	610
Gain on disposal of associate shares	-	(57,274)	-	(57,274)
Write-off on intangible assets	671,564	2,085	-	2,085
Movement in provisions	12,355,931	2,380,829	8,436,933	2,290,501
Leave provision	(34,601)	280	(31,198)	192
Allowance for credit losses	611,507	(40,768)	580,990	196,363
Unrealised exchange difference	(2,521,051)	845,098	(2,521,051)	845,098
Amortization of intangible assets	967,586	594,474	700,218	568,045
Amortization of capital grants	(18,475)	(18,476)	(18,475)	(18,476)
Gain on disposal of property and equipment	(19,044)	(1,572)	(19,044)	(1,572)
Share of (loss)/ profit in associates	149,939	(40,035)	-	-
Interest on lease liability	(299,727)	(304,231)	(280,573)	(287,134)
Exchange difference on borrowings	1,891,490	(148,500)	1,891,490	(148,500)
Accrued interest on borrowings	166,135	89,092	40,146	89,092
Loss on net monetary position	1,794,519	409,716	-	-
Cash flows from operating activities before working capital changes	**32,998,761**	**27,186,324**	**28,260,607**	**26,320,971**
Advances to customers	(32,277,427)	(23,683,223)	(23,626,333)	(24,076,894)
Other assets	(4,665,345)	7,081,982	(2,431,827)	6,615,649
Deposits from customers	45,806,536	26,706,871	40,051,261	25,625,231
Deposits from banks	44,915	(266,285)	(79,846)	(104,817)
Other liabilities	3,742,357	1,255,637	3,317,007	936,745

43. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

Central Bank of Kenya cash reserve ratio	590,134	(658,938)	1,592,777	(1,232,712)
FVOCI Investments	(21,808,986)	(10,747,229)	(21,264,251)	(10,820,032)
Derivative financial instruments	304,196	284,769	304,196	284,769
Cash generated from operating activities	**24,735,141**	**27,159,908**	**26,123,591**	**23,548,910**
Cash and cash equivalents comprises of:-				
Cash on hand	8,607,089	8,959,634	7,891,150	8,258,223
Cash with Central Bank of Kenya	17,816,271	20,118,108	12,904,226	17,135,079
Deposits and balances due from banking institutions	16,916,543	9,713,096	16,382,696	8,029,547
Items in the course of collection from other Banks	320,952	1,344,671	320,551	482,790
	43,660,855	40,135,509	37,498,623	33,905,639
Less: Central Banks restricted Cash	(16,467,755)	(17,057,889)	(15,465,112)	(17,057,889)
Cash and cash equivalents	**27,193,100**	**23,077,620**	**22,033,510**	**16,847,750**

44. RELATED PARTY BALANCES AND TRANSACTIONS

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

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

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

	Group and Bank	
	2020	**2019**
	KShs'000	**KShs'000**
Directors	400,791	330,753
Employees	11,003,462	9,117,557
Associates	5,383,254	6,123,845
	16,787,507	**15,572,155**
Interest income earned	**887,286**	**768,047**
Weighted average interest rate	**6%**	**6%**

44. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

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 (2019-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 3.95 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.

The Bank disbursed a loan to Kingdom Securities Limited of KShs 45 million during the year 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.

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

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

	Group and Bank	
	2020	2019
	KShs'000	KShs'000
Directors and Employees (Key personnel)	881,969	834,041
Subsidiaries and Associate companies	662,234	1,097,043
Interest expensed	29,127	40,682
Weighted average interest rate	3.3%	5%

(c) Inter-company balances and transactions: -

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

Bank

	Relationship	2020	2019
		KShs'000	KShs'000
Due from:-			
Co-optrust Investment Services Limited	Subsidiary	-	-
Co-op Consultancy & Insurance Agency Ltd	Subsidiary	-	13,595
Co-opholdings Co-operative Society Limited	Parent	625	1,369
Co-operative Bank of South Sudan	Subsidiary	73,405	46,712
		74,030	**61,676**

44. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

(c) Inter-company balances and transactions: -

	Relationship	Group and Bank 2020	2019
		KShs'000	KShs'000
Due to:-			
Kingdom Securities Limited	Subsidiary	-	995
Insurance premium:-			
Co-operative Insurance Company Limited	Associate	194,771	158,461

Outstanding balances at the year-end are unsecured and no guarantees have been provided or received from any related party. The Bank has not made any provision for impairment losses on balances at period end (2019-158,461).

(d) Compensation of key management personnel: -

	Group 2020	Group 2019	Bank 2020	Bank 2019
	KShs'000	KShs'000	KShs'000	KShs'000
Non-executive directors				
Directors' emoluments:				
-Fees	227,572	184,218	135,765	136,020
-Others	**18,143**	**17,483**	**17,136**	**14,467**
	245,715	201,701	152,901	150,487
Executive director				
-Short-term employee benefits	117,040	113,510	111,570	107,750
-Post-employment benefits/bonus	**204,540**	**271,010**	**204,540**	**271,010**
	321,580	384,520	316,110	378,760
Senior Managers:				
-Short-term employee benefits	1,659,884	1,188,610	1,559,049	1,129,208
-Post-employment pension	118,384	105,629	114,071	102,363
-Termination benefits	155,546	1,006	155,546	1,006
	1,933,814	**1,295,245**	**1,828,666**	**1,232,577**

(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 2020, KShs 89,519,458 (2019-KShs 151,102,002) was disbursed to the Foundation. At 31 December 2020, the Foundation held deposits of KShs 11,896,879 (2019 - KShs 3,709,744) with the Bank.

(f) Co-operative Bank of Kenya Limited Staff Retirement Contribution Scheme: -

This is a defined contribution scheme and provides, under the rules of the scheme, retirement benefits for the staff of Co-operative Bank of Kenya Limited and its subsidiaries. The Group contributed KShs 798 million as at 31 December 2020 (2019- KShs 754 million). Under the terms of their appointment, Co-optrust Investment Services Limited, a subsidiary of the Bank, is responsible for the investment of funds.

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

	2020	2019
	KShs'000	KShs'000
Rent paid to the scheme on leased property	7,805	8,273
Dividends paid on the Bank's ordinary shares	63,167	36,904

45. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

	Group			Bank		
	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
As at 31 December 2020						
ASSETS	26,348,136	-	**26,348,136**	20,795,376	-	**20,795,376**
Cash and balances with Central Banks	16,915,263	-	**16,915,263**	16,381,436	-	**16,381,436**
Deposits and balances due from banks	37,766,875	125,326,706	**163,093,581**	37,766,875	103,306,767	**141,073,642**
Investment in Financial Instruments	39,236,716	247,397,476	**286,634,192**	36,780,125	243,742,051	**280,522,176**
Loans and advances	-	666,502	**666,502**	-	697799	**697799**
Tax recoverable	-	4,309,763	**4,309,763**	-	3,966,886	**3,966,886**
Deferred tax asset	-	33,912	**33,912**	-	33,912	**33,912**
Prepaid Lease Rentals	-	18,686,728	**18,686,728**	-	16,929,683	**16,929,683**
Other assets	-	-	**-**	-	3,512,920	**3,512,920**
Investment in subsidiaries	-	1,967,532	**1,967,532**	-	706,444	**706,444**
Investment in associates	-	7,939,594	**7,939,594**	-	5,577,625	**5,577,625**
Property and equipment	-	4,362,015	**4,362,015**		3,925,238	**3,925,238**
Right of Use assets	-	2,825,101	**2,825,101**	-	2,699,811	**2,699,811**
Intangible assets	-	3,294,000	**3,294,000**	-	-	**-**
Total assets	**120,266,990**	**416,809,329**	**537,076,319**	**111,723,812**	**385,099,136**	**496,822,948**
LIABILITIES						
Customer Deposits	156,991,761	221,638,692	**378,630,453**	152,514,302	216,915,351	**369,429,653**
Deposits and balances due to banks	221,890	-	**221,890**	654,958	-	**654,958**
Tax Payable	-	-	**-**	-	-	**-**
Provisions	-	116,825	**116,825**	-	116,576	**116,576**
Other Liabilities	19,901,662	-	**19,901,662**	18,761,706	-	**18,761,706**
Government grants	-	424,941	**424,941**	-	424,941	**424,941**
Loans and borrowings	1,273,656	44,752,485	**46,026,141**	425,940	21,836,734	**22,262,674**
Deferred tax liability	-	131,071	**131,071**	-	-	**-**
Total liabilities	178,388,969	267,064,014	**445,452,983**	172,356,906	239,293,602	**411,650,508**
Net	**(58,121,979)**	**149,745,315**	**91,623,336**	**(60,633,094)**	**145,805,534**	**85,172,440**

45. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	Group			Bank		
	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
As at 31 December 2019						
ASSETS						
Cash and balances with Central Banks	29,028,674	-	**29,028,674**	25,393,302	-	**25,393,302**
Deposits and balances due from banks	9,709,748	-	**9,709,748**	8,026,317	-	**8,026,317**
Investment in Financial Instruments	45,181,722	74,385,988	**119,567,710**	45,181,722	74,126,235	**119,307,957**
Loans and advances	69,206,941	197,505,755	**266,712,696**	67,827,021	197,505,755	**265,332,776**
Tax recoverable	-	-	**-**	-	-	**-**
Deferred tax asset	-	3,315,666	**3,315,666**	-	3,275,430	**3,275,430**
Prepaid Lease Rentals	-	34,522	**34,522**	-	34,522	**34,522**
Other assets	-	12,496,362	**12,496,362**	-	12,265,057	**12,265,057**
Investment in subsidiaries	-	-	**-**	-	2,512,920	**2,512,920**
Investment in associates	-	2,098,354	**2,098,354**		706,444	**706,444**
Property and equipment	-	6,514,328	**6,514,328**	-	5,844,283	**5,844,283**
Right of Use assets	-	4,906,908	**4,906,908**		4,674,823	**4,674,823**
Intangible assets	-	2,708,018	**2,708,018**	-	2,242,641	**2,242,641**
Total assets	**153,127,085**	**303,965,901**	**457,092,986**	**146,428,362**	**303,188,110**	**449,616,472**
LIABILITIES						
Customer Deposits	332,077,212	746,705	**332,823,917**	328,631,687	746,705	**329,378,392**
Deposits and balances due to banks	176,975	-	**176,975**	734,804	-	**734,804**
Tax Payable	24,353	-	**24,353**	29,805	-	**29,805**
Provisions	-	151,426	**151,426**			
Other Liabilities	16,534,378	-	**16,534,378**	15,961,217	-	**15,961,217**
Government grants	-	443,416	**443,416**	-	443,416	**443,416**
Loans and borrowings	1,070,929	25,353,337	**26,424,266**	1,070,929	25,353,337	**26,424,266**
Deferred tax liability	-	100,778	**100,778**	-	-	**-**
Total liabilities	**349,883,847**	**26,795,662**	**376,679,509**	**346,428,442**	**26,543,458**	**372,971,900**
Net	**(196,756,762)**	**277,170,239**	**80,413,477**	**(200,000,080)**	**276,644,652**	**76,644,572**

46. OPERATING LEASE COMMITMENTS

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

	Group and Bank	
	2020	2019
	KShs'000	KShs'000
Within One year	109,458	100,056
Between 2 and 5 years	333,974	210,143
Over 5 years	57,420	70,261
	500,852	**380,460**

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

46. OPERATING LEASE COMMITMENTS (continued)

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

	Group and Bank	
	2020	2019
	KShs'000	KShs'000
Within one year	1,348,565	921,718
Between 2 and 5 years	3,627,792	2,161,873
Over 5 years	366,851	312,951
	5,343,208	**3,396,542**

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.

47. COMMITMENTS

	Group and Bank	
	2020	2019
	KShs'000	KShs'000
Capital: Authorised and contracted for	385,172	550,282
Capital: Authorised and not contracted for	3,493,232	4,530,475
Loans committed but not disbursed at year end	14,563,650	11,803,572

48. CONTINGENT LIABILITIES

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

	Group and Bank	
	2020	2019
	KShs'000	KShs'000
Letters of credit	13,725,691	5,571,338
Guarantees	21,574,822	19,056,592

48. CONTINGENT LIABILITIES (continued)

	35,300,513	**24,627,930**
Unutilised overdraft	920,743	1,967
Unutilised Credit Card	123,065	487,886
	1,043,808	**489,853**
Gross Carrying Amount	**36,344,321**	**25,117,783**
Allowance for credit losses	(943,650)	(755,638)
Net Carrying Amount	**35,400,671**	**24,362,145**

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

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other commitments to lend. Even though these obligations may not be recognised on the statement of financial position, they contain credit risk and, therefore, form part of the overall risk of the Bank.

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

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

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

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

An analysis of changes in the outstanding exposures and the corresponding ECLs are, as follows

Letters of credit	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Gross carrying amount as at 1 January 2020	**5,571,338**	**-**	**-**	**5,571,338**
Disbursement	18,342,139	-	-	18,342,139
Repayment (excluding write-off)	(10,187,786)	-	-	(10,187,786)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2020	**13,725,691**	**-**	**-**	**13,725,691**

	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
ECL allowance as at 1 January 2020	**407,485**	**-**	**-**	**407,485**
ECL on disbursements	229,831	-	-	229,831
ECL on Repayment (excluding write-off)	(60,475)	-	-	(60,475)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2020	**576,841**	**-**	**-**	**576,841**

48. CONTINGENT LIABILITIES (continued)

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

Guarantees

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 1 January 2020	**19,056,592**	**-**	**-**	**19,056,592**
Disbursements	17,993,914	-	-	17,993,914
Repayment (excluding write-off)	(15,475,683)	-	-	(15,475,683)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2020	**21,574,823**	**-**	**-**	**21,574,823**

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
ECL allowance as at 1 January 2020	**328,988**			**328,988**
ECL on disbursements	186,131	-	-	186,131
ECL on Repayment (excluding write-off)	(168,906)	-	-	(168,906)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2020	**346,213**	**-**	**-**	**346,213**

Undrawn commitment

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 1 January 2020	**489,853**	**-**	**-**	**489,853**
Disbursements	641,924	-	-	641,924
Repayment (excluding write-off)	(87,969)		-	(87,969)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2020	**1,043,808**	**-**	**-**	**1,043,808**

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
ECL allowance as at 1 January 2020	**19,164**	**-**	**-**	**19,164**
ECL on disbursements	1,605	-	-	1,605
ECL on Repayment (excluding write-off)	(173)		-	(173)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2020	**20,596**	**-**	**-**	**20,596**

48. CONTINGENT LIABILITIES (continued)

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

Letters of credit	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 1 January 2019	**8,350,239**	**-**	**-**	**8,350,239**
Disbursement	4,710,610	-	-	4,710,610
Repayment (excluding write-off)	(7,489,511)	-	-	(7,489,511)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2019	**5,571,338**	**-**	**-**	**5,571,338**

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
ECL allowance as at 1 January 2019	**678,419**	**-**	**-**	**678,419**
ECL on disbursements	341,048	-	-	341,048
ECL on Repayment (excluding write-off)	(611,982)	-	-	(611,982)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2019	**407,485**	**-**	**-**	**407,485**

48. CONTINGENT LIABILITIES (continued)

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

Guarantees

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 1 January 2019	**11,283,670**	**-**	**-**	**11,283,670**
Disbursements	14,507,275	-	-	14,507,275
Repayment (excluding write-off)	(6,734,353)	-	-	(6,734,353)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2019	**19,056,592**	**-**	**-**	**19,056,592**

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
ECL allowance as at 1 January 2019	**176,217**	**-**	**-**	**176,217**
ECL on disbursements	(37,199)	-	-	(37,199)
ECL on Repayment (excluding write-off)	189,970	-	-	189,970
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2019	**328,988**	**-**	**-**	**328,988**

Undrawn commitment

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 1 January 2019	**134,279**	**1,997**	**-**	**136,276**
Disbursements	438,188	-	-	438,188
Repayment (excluding write-off)	(82,614)	(1,997)	-	(84,611)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2019	**489,853**	**-**	**-**	**489,853**

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
ECL allowance as at 1 January 2019	**11,122**	**1,688**	**-**	**12,810**
ECL on disbursements	14,885	-	-	14,885
ECL on Repayment (excluding write-off)	(6,843)	(1,688)	-	(8,531)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2019	**19,164**	**-**	**-**	**19,164**

48. CONTINGENT LIABILITIES (Continued)

c) **Pending legal suits**

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings, arising in the ordinary course of the Bank's business. When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosures in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

Some of the key pending legal suits include:-

(i) **Kenya Continental Holdings**
This is an injunction application seeking to stop the Bank from selling the company's security alleging fraud and misrepresentation on the part of the Bank with a claim for special damages for alleged loss of opportunities amounting to Kshs. 404,785,225. The Bank has a counterclaim amounting to Kshs 521,318,439 against the debtor. Judgment was entered in favour of the Bank on 2nd November 2020. The Court dismissed the Plaintiff's suit and James Nderitu's Counterclaim against the Bank with costs. The Court entered Judgment for the Bank on its Counterclaim as follows: (i) Kshs. 145 Million against Kenya Continental Hotel Limited together with interest at the rate of 18% per annum from 29th January, 1999 until payment in full; (ii) Kshs.80,644,151.00 against Kenya Continental Hotel Ltd together with interest at the rate of 20% per annum from 25th September, 2000 until payment in full; (iii) Against the Guarantors a sum not exceeding Kshs. 100 Million each; (iv)The Bank was also awarded costs of the suit. There is therefore no exposure to the Bank in this matter.

(ii) **Boaz Mathews Ouma Awiti & three others**
This is a claim for KShs 31,864,120 against the Bank relating to the sale and purchase of shares in Bob Mathews 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. The plaintiffs have not been able to agree on an arbitrator.

(iii) **Alice Anyona Mumo & Others vs. RBA & Co-operative Bank of Kenya Limited Retirement Benefit Scheme, 2007 RBA Tribunal appeal no. 8 of 2013 (NBI)**
This is an appeal against the RBA ruling dated 26 May 2011 confirming that member benefits were duly paid in accordance with the applicable Trust Deed and Rules. The ruling is in regard to the initial claim filed with the Retirement Benefits Authority (RBA) under section 46 of the RBA Act alleging that the scheme had not computed and paid the ex-staff the correct amounts. They claimed that the estimated amount allegedly due to them is approximately KShs 2 billion. The ex-staff being dissatisfied with the ruling appealed against the same citing various grounds of appeal. The matter is pending for determination before the Tribunal. Based on advice received from the Scheme Administrators and the Actuaries, no liability is expected to arise in future in respect of this claim. The Bank is awaiting for the judgment of the Tribunal which will be delivered on notice.
No provision has been made in these financial statements for the above pending suits as based on professional legal advice, the directors are of the opinion that no liabilities are expected to arise in future in respect of these claims.

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

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

48. CONTINGENT LIABILITIES (Continued)

(d) **Excise duty on financial transactions (continued)**

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 has since challenged the ruling at the High Court of Kenya and the case is yet to be determined.

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

49. FIDUCIARY ACTIVITIES

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

The Group at Custodial Services department holds assets on behalf of customers with a value of KShs 124.029 billion (2019 – KShs 94.199 billion). The income for the period for custodial services was KShs 133.52 million (2019- KShs 107.054 million) while the expenses amounted to KShs 47.34 million (2019- KShs 52.868 million).

The Group, through Co-op Trust Investment Services Limited manages securities with a value of KShs 127.48 billion (2019- KShs 102.09 billion) on behalf of customers. The total income for the period from fund management was KShs 218.97 million (2019- KShs 208.91 million), with total expenses amounting to KShs 186.06 million (2019 - KShs 147.16 million).

50. ASSETS PLEDGED AS SECURITY

As at 31 December 2020, there were no assets pledged by the Group to secure liabilities.

51. HOLDING ENTITY

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

52. INCORPORATION

The Bank is incorporated in Kenya under the Companies Act, 2015

53. CURRENCY

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

54. IMPACT OF COVID-19 PANDEMIC AND MEASURES TAKEN BY THE BANK

The outbreak of Novel Coronavirus leading to the COVID-19 disease, which begun in China towards end of 2019 has since become not only a global public health pandemic, but also an economic crisis of unquantifiable proportions.

Since the first reported COVID-19 case in Kenya on March 12, 2020, there have been containment measures that have been put in place including stay-at-home measures to manage the spread of the disease in Kenya.

54. IMPACT OF COVID-19 PANDEMIC AND MEASURES TAKEN BY THE BANK (Continued)

The Ministry of Health (MOH) has been issuing guidelines on a regular basis as various studies are being done to understand the virus. The Ministry of Industrialization, Trade and Enterprise Development also issued guidelines for business operations during COVID -19 that were aimed at allowing business to reopen while at same time strictly observing the social distancing and other containment measures. Based on the stipulated guidelines, the Bank has attained the below compliance status:

Guideline	**Status**	**Remark**
Maintain appropriate distances between co-workers and clients whenever possible	Achieved	The Bank has ensured that social distancing has been maintained between co-workers and clients by limiting staff concentration in offices and banking halls.
Maintain social distancing measures in communal areas or close the for the duration of the pandemic	Achieved	Among other measures, the bank shut down its training school at Karen where meals used to be served during the training sessions.
Stagger shifts and rotate staff members on leave to reduce the number of people in the office at any given time	Achieved	The Bank introduced a Work From Home program that ensures that 50% of the teams in all units are working from home while the other 50% is in office. This is done interchangeably on a weekly basis.
Limit external visitors and request that they abide by all workplace safety protocols whilst in the premise	Achieved	The number of external visitors has been limited to those that must be seen physically. Those that must visit the offices particularly for Head Office have to abide by the safety protocols put in place. Additionally, the bank encouraged its customers to leverage the use of alternative banking channels in a bid to limit physical branch visits.
All workers must always wear masks while at the workplace.	Achieved	The Bank is providing protective gear like masks for all members of staff. Gloves and dust coats have been provided for front office staff as well as cash centres. No one is allowed into any bank office (Head Office and branches) without a mask.
Provide easily accessible hand washing stations for employees.	Achieved	This has been availed in all bank offices along with hand sanitization stations.
Cleaning of high traffic areas, equipment and surfaces preferably 3-4 times a day.	Achieved	This has been effected in all bank offices. This is for desks, doorknobs, telephone handsets by using appropriate disinfectants.
Assign cleaners to clean specific areas on the premises (not on rotation to different areas)	Achieved	This has been effected in all bank offices where each area (could be per floor or branch) has specific cleaners
Take temperature of employees using infrared thermometers before entry	Achieved	All incoming staff and visitors are scanned at the main reception of all office buildings and all branch entrances. Guards have also been trained by a medic on handling any issues arising from their work stations.

54. IMPACT OF COVID-19 PANDEMIC AND MEASURES TAKEN BY THE BANK (Continued)

Guideline	Status	Remark
Encouraging employees to self monitor	Achieved	There is heightened awareness of tell-tale signs of COVID-19 symptoms like persistent coughing, complaints of chest pains, frequent sneezing, shortness of breath etc. through a centralized communication channel for all COVID-19 matters.
Develop company protocols for employees demonstrating symptoms	Achieved	There is a 24-hour hotline number that has been availed to all staff by HR to guide on covid-19 related concerns. The bank has 2 qualified medics and 1 wellness officer based at Human Resources department who are ready to handle any covid-19 medical emergencies.
Introduce and maintain a daily attendance register at receptions with names, ID and contact details for all visitors	Achieved	The register is being maintained at the branches and the Head Office. Restrictions are on persons exhibiting flu-like symptoms or temperatures exceeding 37.5 degrees centigrade.
Request employees to declare having knowingly been in close contact with a confirmed COVID-19 case.	Achieved	This has been done through the constant health talks coordinated by the Human Resource Department aligned with MOH guidelines on COVID-19 management
Display up-to-date company and the MOH social distancing and health guidelines clearly within the premises	Achieved	The display has been done on all common areas of all bank premises.
Encourage remote working through text and video platforms such as email, Ms Teams etc	Achieved	The bank has been holding virtual meetings through Microsoft Teams which had been availed in every bank machine.

The Central Bank of Kenya has provided guidelines on managing the COVID-19 pandemic through the issuance of two circulars and below is the compliance status:

Guideline	Status	Remarks
Putting in place alternate teams (Blue and Red) in all business areas	Achieved	This has been done for all business units of the bank. This is through the introduction of the Work From Home program. A productivity matrix for measuring performance for staff working from home has been established and in use.
Creation of redundant teams for all critical functions and ensuring that the teams are facilitated to undertake the requisite functions	Achieved	This has been done for all critical units of the bank. Continuous review is done on a weekly basis at minimum or as necessary and centrally collate.

54. IMPACT OF COVID-19 PANDEMIC AND MEASURES TAKEN BY THE BANK (Continued)

Guideline	Status	Remarks
Development of plans and identification of alternate sites that are able to conduct full spectrum of the bank's operations in the event that the geographical location of the HQ is adversely affected by the pandemic	Achieved	Alternate recovery sites have been identified and are ready for use with all the necessary backup power generation and supply.
Review and update the Business Continuity Plans, strategies and frameworks to ensure continuity of operations while mitigating the pandemic risk	Achieved	Business Continuity Policy and Plan for the bank has been reviewed, updated and approved by the Board Risk Committee.
Formulate pandemic response plans for close monitoring of the implementation of the Business Continuity Plans	Achieved	The Bank has documented a Pandemic Response Plan that has been approved by the Board Risk Committee.
Promotion of good hygiene and social distancing for staff, customers and visitors visiting the bank premises.	Achieved	There are programs in place that enhance dissemination of materials cover bugs the disease pandemic fundamentals. The display posters promoting handwashing and preventive measures of the pandemic are in place around the premises where Co-op bank is represented. The same is also on the bank's intranet.
Development and enhancement of Alternative Channels minimizing the handling of cash and human interaction	Achieved	The bank has deployed business channels (Mco-op cash, Internet Banking, ATMs, Merchant POS Debit and Credit cards) with continuous testing at the DR site to assure continuity.
Assessing and testing existing IT infrastructure noting higher reliance on remote banking	Achieved	There is continuous testing of the bank's IT infrastructure (at least twice a year).
Conduct self-risk assessment of the risks posed by the pandemic to the bank based on critical services being provided	Achieved	The risk assessment was conducted and report shared with CBK in Q2 2020.
Constitution of a multidepartment emergency response team for critical functions should the pandemic escalate	Achieved	The bank BCMT has been enhanced and converted into the Emergency response team for the pandemic
Communicate pandemic preparedness strategy policies and procedures to members of staff and other relevant parties	Achieved	Communication has been done through Circulars. There is also visibility to the pandemic plan which has been uploaded on the intranet. Communication to customers has been done via sms, social media platforms and posters.

54. IMPACT OF COVID-19 PANDEMIC AND MEASURES TAKEN BY THE BANK (Continued)

The Bank extended credit relief to its customers through granting moratoriums on Principal, Interest or both.

The estimated number and value of loans restructured by the bank due to COVID-19 pandemic.

Estimated Loan accounts	Amount KShs (000)
20,000	48,000,000

The value of foregone income due to the emergency measures

Income line	Estimated Impact in 2020 Kshs '000
Loan Restructures Covid-19 - waiver of Restructuring Fees	455,000
Waiver on transactions fees on Mobile money transfer across platforms	900,000
	1,355,000

55. 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.


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