

Co-operative Bank Sustainability Report 2017



‘The Future we want’

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.

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SUSTAINABILITY AT CO-OPERATIVE BANK

Co-op Bank believes in carrying out her business in an open and transparent way. Similarly, our stakeholders expect the bank to publicly declare its social and ecological impact. It is for this reason that the bank has chosen to entrench sustainability in all our operations. We do this by continually engaging with our stakeholders and finding out what more we could do to ensure that our products and services are tailor-made for mutual benefit without infringing on the ecological integrity.

We believe that our most important contribution to sustainable development is to operate an effective, efficient and profitable business. In our day to day activities, we position ourselves to help our customers and stakeholders manage economic, social and environmental challenges and invest for the future, which in turn contributes to the viability and sustainable growth of the economies in which we operate.

To remain a leading financial services organisation in the region, we recognize we must contribute to the long-term viability and success of the communities and countries we operate in by facilitating economic growth, social development and environmental protection. The very nature of our business, strategically positions us to help our customers and stakeholders manage social and environmental challenges and invest for the future, which in turn contributes to the viability and sustainable growth of local markets and national economies. We are committed to having a positive impact without leaving a negative impact.

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

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

1. Kenya Bankers Association Sustainable Finance Initiatives guidelines

2. UN Sustainable Development Goals
3. Kenya's Vision 2030
4. Our Corporate Strategic Plan 2015-2019

About this Sustainability Review

This Sustainability Review augments the 2017 Co-operative Bank of Kenya Integrated Report and offers a detailed view of the bank's sustainability efforts, commitments and achievements in the year under review. It should be read in conjunction with the integrated report that in detail describes our strategy, approach to risk management, transformation, governance and ethics.

In producing this sustainability report, we identified our material issues and from these we developed sustainability goals that we would like to achieve and thereafter engaged in a strategy forum to prioritize them and derive our sustainability approach.

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

BOD Chairman's Remarks

It is with much gratitude that I present to us the fifth edition of our Sustainability report. This report documents the progress we have made in the various sustainability areas. At the Co-operative Bank, Sustainability is key to operating our business in a way that helps our stakeholders succeed financially while creating long-term economic growth and a better quality of life for the communities we serve. It is a vision that guides every decision we make.

To Co-op Bank, sustainability has become more of a norm than exception. It is a sure commitment to credible and transparent reporting. Our continuing financial success is proof that we are meeting the needs of clients, employees, shareholders, investors and society.

In the period under review, our sustainability efforts were directed especially towards operational processes and procedures to improve customer experience, efficiency and

effectiveness of our service delivery and a revamped MSME proposition. Our corporate culture and business model strongly emphasize stable and mutually beneficial relationships with our customers, employees, suppliers and other stakeholders as a whole.

Our network of branches and electronic channels are continually being remodeled to enhance our brand appeal and service delivery to a wide range of clients. The Bank continues to employ various strategies to grow alternative revenue streams, manage operational costs and maintain profitability. The banking sector in Kenya has undergone a great transformation especially towards offering products and services over diverse digital channels. The traditional brick and mortar is slowly losing its pivotal role in the industry. In its place, mobile banking, agency banking and electronic payments are taking the centre stage. The migration to this new 'digital' space will define the bank of the future; on our part we are responding as appropriate with heavy investments in innovative technological capabilities.

We grow our business by creating value for our customers, employees, communities and strengthening the financial system. It is an honour to lead Co-operative Bank into a future that builds upon a tradition of doing business in a safe, environmentally sound and socially responsible manner.

Over the period under review, the bank has made tremendous investment in effective and efficient operations. This will translate into improved cost to income ratios and a major revamp in the customer experience. We have begun rolling the revamped MSME project in the network. The results so far are quite commendable.

Yours faithfully,

John Murugu, OGW

Group Chairman

CEO's Remarks

It is with great pleasure that we present our fifth Sustainability Report. We reiterate our mission is to offer a wide range of innovative financial solutions leveraging on our wide physical footprint and a heavy investment in multi channels distribution network with enhanced focus on exceptional customer experience by our highly motivated and talented team. This will guide the bank into becoming the dominant Bank in Kenya and in the Region, providing innovative financial solutions long into the future.

We at Co-op bank are in a transformational phase to adopt our business operational model to new and sustainable ways of conducting business efficiently. Our priorities, goals, procedures and organizational culture are continually being redefined with an aim to create a better and much more fulfilling future for our business.

Today, Co-op Bank is a 'one stop shop' financial services provider. By focusing on understanding our customers' needs, we have created a comprehensive range of world class products. Our emphasis on operational excellence allows us to present the right product to the right person at the right time. We are committed to executing our business strategy while ensuring the highest levels of ethical standards, professional integrity, corporate governance and regulatory compliance.

The market has continued to express unrelenting belief in our operations and unmated support for our customer experience. The bank's customer base has continued to grow throughout seasons to now stand at over 7.2 million loyal and satisfied customers. We believe these achievements translate to better living standards and improved livelihoods in our communities.

As you will discover in this report, during the period under review, the bank engaged in several initiatives aimed at:- improving sporting activities in the country, health issues, Enriching education, supporting the weak and vulnerable, caring for the environment and facilitating grassroots societies formalise their business for better returns, among others.

The bank has continued to take optimal care of our most important resource - the bank staff. Through our Leadership and Management centre, our staff have continued to receive unparalleled training. Further, we have a robust e-learning platform equipped with some of the best course content as can be found anywhere else in the world. All this is aimed at facilitating self-learning by bringing information right to the office desk to ensure our staff are well equipped to undertake their duties optimally and ensure sustainability of our business.

As we march into the future, we wish to build upon on our existing sustainability measures and in the hope of empowering more lives by taking banking services to doorsteps of people in the farthest corners of the nation. We also hope to create a greater positive impact on the environment and continue being a better, responsible corporate citizen.

We have chosen to take responsibility of shifting our own behaviour so that we can trigger the type of change that is necessary to achieve sustainability for our race on this planet. If we all did this, we change our planet, our environment, our humanity every day, every year, every decade, and every millennia.

We look forward to creating more partnerships in this infallible journey.

Thank you.

Dr. Gideon Muriuki, CBS

Group M.D & CEO

Stakeholder Engagement

Our stakeholders are the individuals and entities that are involved in or affected by our existence either directly or indirectly. Our stakeholders include those with whom we engage from time to time on particular issues or projects; who have an indirect impact on and who may be impacted by our business activities.

The ways in which we engage with our stakeholders, and the frequency with which we do so, vary according to each stakeholder group. Engagement is based on identified issues and areas of concern that may affect the stakeholder. We use a decentralized stakeholder engagement model in which individual business units undertake stakeholder engagement appropriate to their particular areas and are responsible for identifying stakeholder concerns and taking appropriate action.

We classify our stakeholders to include:

- i. Shareholders,
- ii. customers,
- iii. Employees,
- iv. The Co-operative Movement
- v. Regulatory authorities,
- vi. Strategic partners
- vii. Suppliers and
- viii. The community

We proactively engage with stakeholders to inform our business strategy and build trusted relationships in the markets where we operate. It also guides us in coming up with products and services tailor-made for the specific customer segments. We are able to minimize our reputation risk in that we manage and respond to social expectations. This gives us some sizeable influence at the business environment. Our array of channels that we use to engage with our stakeholders include:

Our channels	Our customers
152 Branches	Over 7.1 Million growing direct account holders
Mcoop cash mobile banking (All telco, all products)	Over 3.6 Million Mcoop Cash Customers
Co-op Kwa Jirani-Over 10000 agents	Over 79,218 Internet banking Customers
Over 580 ATMs, leading debit card issuer	Over 1,064,145 Saccolink Customers
CoopNet- Internet Banking (Corporate & Retail)	Over 13201 Diaspora Banking Customers
24 Hour Contact Centre	Over 1.1 million Facebook followers
Self service Kiosks in all our branches	Over 185,000 Twitter followers
Dedicated Diaspora Banking Department	Instagram followers, You Tube subscribers
560 FOSAs	Telegram self service customers
Subsidiaries offering advisory and investment services	
Social Media Banking	

The topics most frequently discussed relate to:

- customer satisfaction
- business ethics,
- environmental and social risk management,
- Eco-efficiency through our own operational footprint and the financing that we provide,
- financial crime prevention and
- talent development

Affiliations and Memberships

The co-operative bank of Kenya is regulated by the central bank of Kenya and it's a member of the Kenya bankers association.

COMPANY PROFILE

Corporate overview

The Co-operative Bank of Kenya Limited ('the Bank') is incorporated in Kenya under the Company's Act and is licensed to do the business of banking under the Banking Act.

The Bank runs 6 subsidiaries, namely:

1. Kingdom Securities Limited
2. Co-opTrust Investment Services Limited
3. Co-op Consultancy and Insurance Services (K) Limited
4. Cooperative Bank of South Sudan
5. Co-op Bank Foundation

Who We Are

Vision, Mission, Values

Vision

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

Mission

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

Values

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

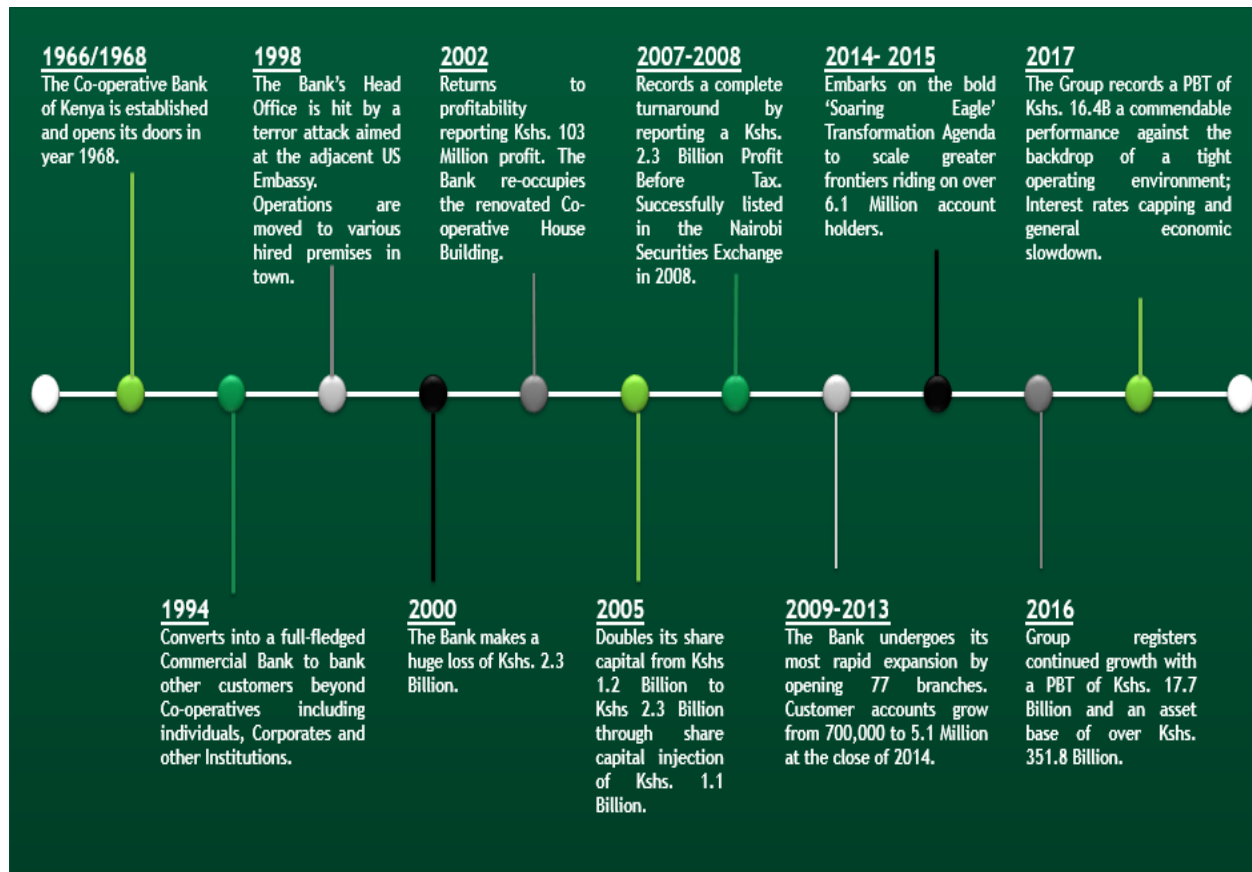
Awards and Recognition

The Kenya Bankers association, in its 2017 Catalyst Awards recognizing catalytic finance that impacts industry, economy and society declared us the **Overall winner** and awarded us;

- 1ST- Client Case Study - Financing Commercial Clients
 - 1ST- Bank Case Study - Bank Operations & Policy
 - 2ND -Best Practice in Sustainable Finance
 - 3RD - Sustainability Through Policy & Governance
 - 3RD- Client Case Study - Financing Micro, Small & Medium-Sized Companies
-
- EMEA Finance African banking Awards 2017 declared us the Best bank in Kenya.



Milestones



OUR APPROACH TO SUSTAINABILITY

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

We enable people, businesses and society to grow in a way that is sustainable in the long-term. Our stakeholders expect the bank to demonstrate its social and ecological impact. We do this by continually engaging our stakeholders and finding out what we

could do to ensure that our operations are tailor-made for mutual benefit without infringing on the ecological integrity.

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

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

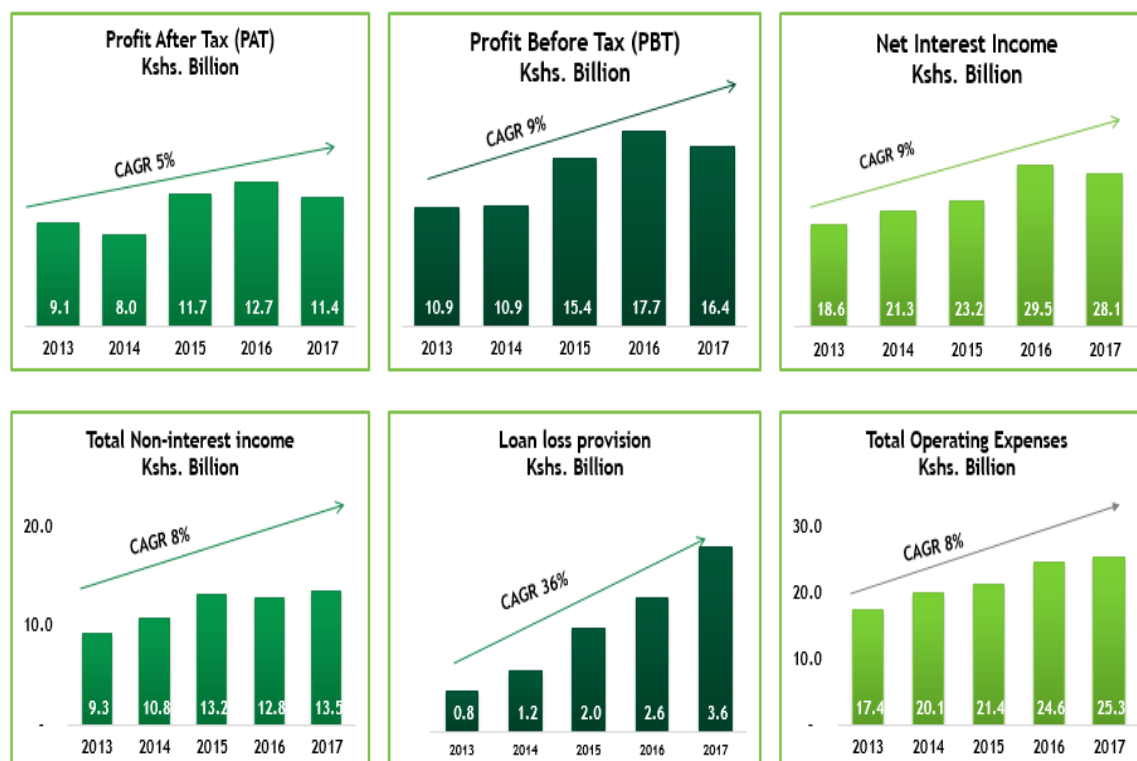
Our sustainability approach aims to balance social, economic and environmental risks and opportunities through the deliberate use of our products and services, collaboration and partnership, and by managing our own impact.



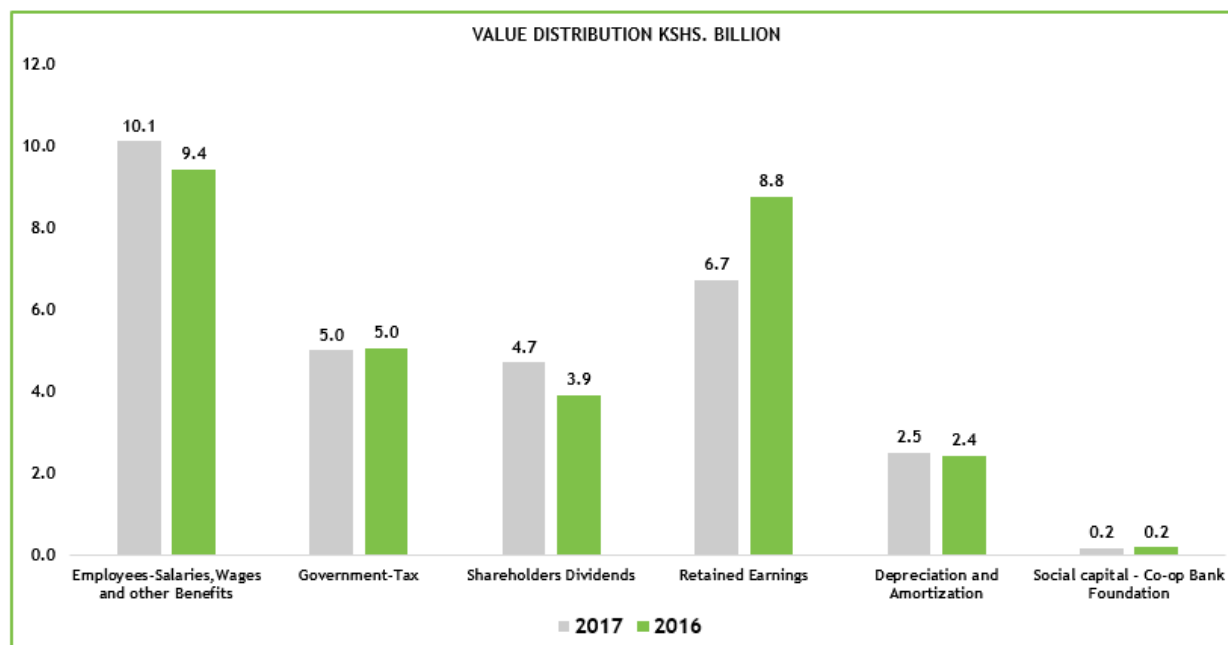
ECONOMIC

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

Key Financial Indicators Trend



Value Distribution



Value Added statement

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

Social capital - Co-op Bank Foundation	159,526	183,001
Wealth Distributed	29,159,469	29,732,791

SOCIO-ECONOMIC

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

Local Economic Impact

- We recognize that for there to be economic growth we have to offer sustainable financial intermediation in the economy by connecting the surplus (Deposits) and the deficit (Loans). We are an agent of economic growth.
- Credit is the fuel of economic engine; over the last 5 years our net loans and advances to customers has grown at an impressive average rate of 16.6%; as at December 2017, Kes.253.9 Billion was outstanding as loans and advances to public and private enterprises.
- The Government also borrows from us in order to realize the achievement of sustainable development projects.
- We have spurred economic growth through our strong balance sheet growth over the years as detailed in the Financial performance review section of this report.
- As one of Kenya's Top corporations, we contribute to the country's economic growth through provision of responsible, innovative banking products and services through our various channels.
- Co-operative Bank today represents the number one point of financial intermediation contact for Kenya's over 13 million member strong Co-operative movement with mobilized savings of over Kshs 250 Billion; equivalent to 30% of national savings.
- Through Partnerships: Development finance is required for long-term investment and economic growth. We had long term borrowing of up to Kshs 21.1 Billion.
- Case Study: Two Rivers Shopping Mall. The Bank has financed the Two Rivers Shopping Mall project to a tune of USD. 80Million resulting in impressive

economic, social and environmental development. Key contributions include Shs.889M taxable income, Use of solar energy, economic growth in the surrounding areas, and over 1000 jobs created most of which are women and the youth.

Taxes

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

Business Ethics

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

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

Through employment

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

SOCIAL SUSTAINABILITY INITIATIVES

Social Investments

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

Co-op bank foundation

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

Co-op Consultancy & Insurance Agency Ltd

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

Since inception, CCIA has successfully conducted over 2300 business advisory mandates. We have also moved to impact the wider Eastern Africa Region at Kilimanjaro Co-

operative Bank in Tanzania as well as partnership with the Government of South Sudan towards setting up of a farmers' co-operative union at Aweil Rice Irrigation Scheme.

Coop bank Staff welfare Teams

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

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

MIB Dept Welfare	Did a donation to Kingeero primary school for upgrade of the special needs class on 11/12/17
Kibera Br Welfare	Visited Children Homes on 16/12/17
Card Business Welfare	Visited Missionary of Charity Children Home langata on 02/12/17

Employee Diversity

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

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

Performance Indicator	2017	2016
Total permanent staff	3405	3252
Total contract staff(Includes Sales Staff)	664	690
Totals	4069	4127
% Female staff members,	44%	43%
% male staff members.	56%	57%
% of our staff who are younger than 40yrs	90%	89%
% of our staff who have a tenure of more than 10 years	17%	14%
% of our staff who have a tenure of more than 5 years	53%	50%

% of our staff who have disabilities	0.47%	0.27%
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100% of the staff in Co-operative bank of Kenya are local. In Co-operative Bank of South Sudan 18.7% of the staff are Kenyans on secondment while the rest are all South Sudan Nationals.

Employee Welfare

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

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

We invest in out-of-office staff activities such as sports events, team-building and CSR activities in reflection of our deep commitment to staff wellbeing. The bank-sponsored league teams have continually promoted the banks image through excellent performance. The basketball league is still ongoing with the Basketball teams already qualified for the semifinals. The volleyball team had impressive run during the season and has been ranked position 4 nationally. One of the team members was recognized by the federation as the best Male spiker in the country. The bank was ranked position 4 overall out of 29 in the 33rd annual KIB inter-banks games for Nairobi region. In the Kisumu and Eldoret Interbank games, we finished in overall second position. During the Inter-Bank Quiz forum, our team managed to scoop the 1st Runners up Award.

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.

Attracting and Retaining Talent

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

Skills Development and Career Progression

- We believe that human capital is the most valuable asset of a great company, hence our commitment to the development and success of our staff through first-class continuous training, leadership-building and skills enrichment.
- There is a clear effort in managing the careers of our employees through coaching and mentoring processes, role specific trainings as well as stretch assignments as part of growing our employees.
- The Bank has a clear and robust Training Policy, which spells out the guidelines around up-skilling of our employees. In addition, there is a Talent Management and Development framework.
- In managing or ending careers, there is a Talent Management and Development framework in place. There is a clear effort in managing the careers of our employees through coaching and mentoring processes, role specific trainings as well as stretch assignments as part of growing our employees. There are also proactive retention initiatives as part of the talent management agenda.
- Our Leadership and Management Centre (LMC) is tasked with up skilling, re-skilling and developing our people. In 2017, 10,622 people underwent training in LMC over a cumulative 671 days.
- We have Premium training and exposure for retention of key critical skills areas and capabilities e.g. Productivity & Engagement Coach programs, Data Analytics exposure visits and training, Digital capabilities exposure & premium training (design thinking and agile methodology)
- Since 2015 we've had in place a robust Key Performance Indicators (KPI) focused performance management process with clear linkages to rewards and better accountability mechanisms. The introduction of fewer KPIs focused on core deliverables, performance dialogues and daily huddles keep staff focused on their performance at all times , ensure that they focus on core deliverables and provide better ways to measure and ultimately reward great performance. The Bank has a detailed performance management policy in place, which guides our

performance management process for all employees as well as guidelines on rewards.

- As a result, in 2017 Staff productivity as measured by staff cost to gross income increased to 19% from 21% in 2014 mainly due to transformative initiatives in Sales Force Effectiveness (SFE), operational efficiencies, proactive retention, re-skilling, up skilling, coaching and clarity of performance expectations. This allows career progression, acceleration and growth opportunities for the young and energetic team with 90% being under 40years. This has further enhanced internal mobility of talent.

Whistle-blowing policy

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

This policy aims to:

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

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

The bank has put in place systems to encourage staff to raise concerns in a structured and protected way. The bank respects the confidentiality of staff raising concerns and

sets out arrangements which include the opportunity to raise concerns outside the management structure.

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

People with Disabilities Policy

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

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.

Labor standards

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

and best practice for enhanced productivity and employee engagement. In 2017, a total of 593 staff took time off to attend to their new-borns, of which 347 were men and 246 women.

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

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

ECO- EFFICIENCY

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

Resource Efficiency

We have a four-way approach towards resource efficiency:

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

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

- Construction or physical improvements related to energy and water performance.
- Improvements of at-risk public lands, forests and waterways and the general cleanup.

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

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

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

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

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

Transformation Project resource efficiency gains;

Less Paper

- Customer Relationship Management (CRM) System for bankers- CRM system with automated diaries for sales Appointments and follow-ups has eliminated the need for hard copy diaries.
- E-Loans- Digitization of credit processing via MCoop Cash E-Flexi and Flexi plus loans eliminating paper use. The e-loan book has grown from 59,000 loans in Q12015 to 694,000 loans in FY2017.
- Proactive Stationery and equipment management- Overproduction waste: Branch printers' settings standardized to hold and back to back enforced to reduce unnecessary printing and usage of excess paper. Identification and

repatriation of all unused /excess stationery and equipment in branch stores for redeployment.

- Service champions driving customer migration to alternative channels- Through experiential marketing; guiding customers to carry out transactions through convenience channels namely MCoop cash, Agency and Internet banking. 87% of transactions are now handled outside the branch, reducing paper previously used for these transactions.
- Email statements and Internet banking has saved on statement printing paper.
- Cash and check drop boxes- Self-service cash and cheque deposit channel uses SMS notification cutting deposit receipts by 50%.
- Customer service phones- Installation of customer service phones with a direct line to the call center- Customers can use phones for balance enquiry, ATM blocking, PIN resets and regeneration etc. reducing stationary used to print statements and requisition forms.
- Q-Matic machines for in-branch marketing-The Q-matic kiosk with TV screens running ads have reduced use of paper marketing fliers.
- Automated Real- time service floor reports have eliminated the need for performance and customer questionnaire survey on paper.
- Business intelligence (BI) reports- Branch daily reports previously printed have now been automated through BI reports cutting paper and printing costs.
- Sales call reports automated for Relationship Managers hence no need to maintain paper documentation.
- Instant Issuing- Inventory waste: Instant card issuing has saved the cost of wasted unclaimed cards which have to be destroyed after 6 months.

Less Electricity

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

Less Fuel

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

Life -cycle analysis

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

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

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

SOCIO-ENVIRONMENTAL

Health, Safety & Wellness Programme

We are guided by a comprehensive Occupational Safety & Health Policy which provides for Health, Safety & Welfare of staff in line with the OSH Act. We value and protect the health and safety of our employees and people who directly or indirectly may be affected by our business activities. A safe and secure working environment is a key priority and our work-spaces are specifically designed with this in mind. Adequate dressing and equipment arrangements are in place for employees whose work necessitates this, thus facilitating high staff productivity. Our processes and procedures

prevent incidents of safety hazards, ill health and occupational diseases. Being proactive on health and safety continues to reduce costs associated with absenteeism and contributes to a high performance culture. As part of our broader wellness programme, we facilitate staff access to professional advisors and counsellors on matters relating to work, health, relationships and general social wellbeing. Further in 2016, the bank launched a Wellness program for all staff aimed at basic health and wellness checkup, body composition analysis and dental and optical screening. We believe this enhances staff productivity and has a direct impact on business performance. In regards to work related injuries there have been none reported in 2017.

Global Climate Change

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

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

Local environment Impact

We seek to establish partnerships with industry members, government agencies, relevant environmental bodies, suppliers, customers and the general public to promote and achieve a high standard of environmental care. Pursuant to this objective, the bank partnered with the Agence Francaise De Development (AFD) towards promoting Renewable Energy and Energy Efficiency investments in the country through a USD 37.1 Million (Euro 30Mn) credit agreement. The Bank has funded various entities undertaking projects in Wind power generation, solar power installation and acquiring/upgrading to

green energy efficient machinery. We also have a long-standing link with the Nairobi City Council to maintain green-gardens around Co-operative House. We have also collaborated with schools and government agencies in tree-planting activities in support of Kenya's effort to increase forest cover to the recommended 10% of area.

ENVIRONMENTAL

Caring for the Environment

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.

Waste Minimization/ resource management

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

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

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

Emissions Reduction

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

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

Regulatory Compliance

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

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

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

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

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

GOVERNANCE, ETHICS AND COMPLIANCE

Corporate Governance

Corporate governance is the system through which corporations are directed, controlled and operated as power is exercised over its assets and resources. Our bank considers corporate governance to be a critical issue towards maintenance of business integrity and stakeholders' trust and is therefore an integral part of our business philosophy. Our

corporate governance values are founded on the pillars of responsibility, accountability, fairness and transparency.

Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya developed by the Centre for Corporate Governance and the Capital Markets Authority (CMA) sets out standards which are part of the broader corporate governance best-practice principles the bank adheres to. The Board is responsible for the bank's corporate governance practices and has in place mechanisms to ensure observance and report on its compliance status on a regular basis including with regard to provisions of the Prudential Guidelines from the Central Bank of Kenya under the Banking Act.

Our high standards of corporate governance are not an exercise in compliance, but a means of driving the performance of the business whilst managing and mitigating risk. The Bank's corporate governance structure has been feted by reputable reviewers, leading to recognition awards. The Board is guided by the Board of Directors Charter which is disclosed on our website.

Board composition

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

Ethics and compliance

The Board has approved a Code of Conduct, which requires that stakeholders assign the utmost value to maintaining trust and abide by all relevant laws and regulations, uphold

high ethical standards and act fairly and sincerely in the best interests of the company. The Code guides activities in dealing with directors, managers, employees, customers, suppliers, competitors, shareholders, regulators, government and the community at large. This code is in addition to compliance with the Central Bank of Kenya Code of Conduct as set out in the Prudential Guidelines. In addition, the Group has a whistle blowing policy that encourages staff and other stakeholders to raise any pertinent issues on the bank.

PRODUCT RESPONSIBILITY

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 marketing and advertisement

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

The bank adheres to these principles both in letter and spirit and we actively seek to conform rather than seek to ingeniously go round code. As a principal all marketing communication the bank does conform to the Marketing Operations Manual approved

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

The 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 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.

SUPPLY CHAIN

Supplier Management

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;

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

Supplier Diversity

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

Facilities management is anchored on the following; Sourcing and Facilities management Manual, Sourcing and Facilities Management Policy, ICT Sourcing Policy.