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Group information for the year ended 31 December 2015

REGISTERED OFFICE AND HEAD OFFICE

Co-operative Bank House,
L.R. No. 209/4290 (IR No. 27596)
Haile Selassie Avenue
P O Box 48231 – 00100
Tel: 020-3276000, 0703 027000
www.co-opbank.co.ke
NAIROBI

SUBSIDIARIES

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

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

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

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

ASSOCIATE COMPANIES

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

COMPANY SECRETARY

Rosemary Majala Githaiga (Mrs)
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

AUDITOR

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

Diaspora Conference

H.E. President Uhuru Kenyatta and the bank's Group Managing Director & CEO, Dr. Gideon Muriuki at the inaugural Diaspora Investment Conference and Exhibition in April 2015. The bank has championed Kenyans living abroad to form Saccos, which are the most effective vehicles not only for building savings and wealth but also for the welfare and safety of Kenyans abroad.

Awarding excellence

Mr. Paul Onyinge (Left) of Kite Sacco, Kisumu County receives an award from the Co-op Bank Group Chairman, Mr. Stanley Muchiri (Centre) and Group Managing Director and CEO, Dr. Gideon Muriuki (Right) for Highest shareholder in Co-opholdings from Nyanza Region at the 2015 Co-opholdings Annual General Meeting.

Group Chairman's Statement

"We also scored highly in the 2015 Financial Times (World Top 1,000 Banks) for having good Tier 1 Capital strength and were ranked highly in Africa in terms of Return on Assets and Return on Capital."

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

Dear Shareholders,
I am delighted to present to you the Annual Report and Audited Financial Statements of the Co-operative Bank Group for the year ended December 31, 2015.

Overview of macro-economic environment in 2015

The first half year was relatively calm with most of the macroeconomic indicators stable and the real economy showing signs of resilience but the second half was marked by significant volatility in most indicators notably exchange rates, interest rates and the deterioration of Kenya's current account deficit.

Kenyan Economy

The productive sectors of the economy recorded mixed performances. Manufacturing, information & Communication and Trade slowed as a result of rising import costs as well as rising cost of financing. Mining declined mainly due to investments cut-back in fuel exploration and mining activities due to falling global prices. Agricultural sector improved due to improved rainfall in the year while electricity supply and transport benefitted from the global decline in fuel costs. The financial services sector grew supported mainly by enhanced use of technology to efficiently service more clients at much lower costs. Construction sector also expanded supported mainly by increased spending in public infrastructure and energy projects. Tourism though still in recession registered signs of recovery.

Group Chairman's Statement (Continued)

The economy remained resilient to record a 5.4% (estimated) GDP growth rate in 2015 and is projected to grow at 5.7% in 2016 according to the World Bank.

Operating Environment

The Kenya shilling weakened steadily against the US dollar from KShs. 90.70 at the start of the year and closed at around 102 mainly due to the strengthening of the dollar. In order to stabilize the shilling and contain pass-through inflationary pressures, the Central Bank raised the Central Bank Rate (CBR) from 8.5% to 10% in June 2015 and again to 11.5% in July 2015. This monetary tightening caused constrained market liquidity and a rise in interest rates in the third quarter of 2015 and they remained elevated for the rest of the year causing some negative impact on the pricing and uptake of loans, and interest margins.

Inflation was stable with year-on-year overhead inflation rate averaging 6.58% supported mainly by declining energy and food costs. Also in the year, the World Bank ranked Kenya, third most-improved nation in business regulatory reforms indicating fruitful efforts towards improving business environment.

Last year's volatility has been contained and we are optimistic of a more stable operating environment in 2016.

Kenyan Banking Sector

Despite the macroeconomic turbulence in the second half of the year, the banking sector remained vibrant and registered improved performance as reported in the quarterly financial results by various banks. Private sector credit grew by 18 per cent from KShs. 1.88 Trillion in 2014 to KShs. 2.22 Trillion in 2015, money supply as indicated by extended broad money (M3) grew by 13.7% to KShs. 2.65 Trillion while the overall liquidity increased by 14.7% from KShs. 2.95 Trillion to KShs. 3.38 Trillion.

Use of technological platforms like mobile, Internet and agency banking enhanced service delivery and penetration of financial services at much lower costs in the country. The regulator drew focus to compliance issues in 2015 by suspending two banks. The attention towards compliance improvement will ultimately enhance the stability and credibility of the banking industry in Kenya.

Group Performance

The Co-operative Bank made a Profit before Tax of KShs. 15.4 Billion for the period ended 31st December 2015, a commendable growth of 41 per cent compared to the KShs. 10.9 Billion posted in 2014. The Balance Sheet continues to expand with Total Assets at over KShs. 342.5 Billion, a 20 per cent growth, supported by a growing customer base now standing at over 5.9 Million account-holders.

Our regional expansion strategy based on the unique banking model i.e. joint venture between Co-operative Bank and the co-operatives is on course, as represented by the successful implementation in the Co-operative Bank of South Sudan that reported a KShs. 850 Million profit before tax in 2015.

I note with great pride and humility that the Bank was recognised with a most notable global award of Bank of the Year 2015 for Financial Inclusion in The Bankers Awards run by the Financial Times of London. The bank beat a stiff challenge from fifty entries from all over the world, re-affirming the Co-operative Model as the most sustainable business model for inclusive growth.

We also scored highly in the 2015 Financial Times (World Top 1,000 Banks) for having good Tier 1 Capital strength and were ranked highly in Africa in terms of Return on Assets and Return on Capital.

In the 2015 World Finance Awards, the bank won the Best Commercial Bank in Kenya.

Dividends

In view of the performance of the Group, the Board of Directors has recommended to the Annual General Meeting (AGM) a dividend of Kes 0.8 per ordinary share held subject to approval by the Capital Markets Authority. This dividend represents a 60% growth from the one given in 2014 and will enable the bank reward shareholders and at the same time reserve funds to fuel growth as we continue with the bank's transformation agenda.

Social Economic Empowerment through Co-op Consultancy

The subsidiary has been playing a key role in supporting the Co-operative Movement, further entrenching our financial deepening model. Co-op Consultancy has dedicated consultants who support co-operative societies with capacity-building and other services and have executed a total of 1,983 consultancy and advisory mandates since inception.

The Group continues to support Kenya Co-operative Coffee Exporters Ltd (KCCE) in helping small-holder coffee farmers maximize returns on their business and take greater control of the coffee value chain.

Co-operative Bank Foundation

The Co-op Foundation is our social investment program vehicle that is fully funded by the bank providing education scholarships for bright but needy students from all regions of Kenya. The sponsorship includes school fees for both secondary and university education, internships and career openings for beneficiaries. Since inception of the program in 2007, a total of 4,243 students have received full sponsorship for secondary (4,086), university (140) and college (17) levels of education. The bank awards scholarships per county and the rest are determined by the bank's regional Sacco delegates.

Partnership with the Co-operative Movement

The Group continues to have a close partnership with the Co-operative Movement supporting the Saccos and FOSAs in extending financial inclusion to the over 13 Million Co-operative Society Members.

The Group appreciates the overwhelming support received from the Co-operative Movement, resulting in over 95% market share in the Co-operative Business.

Acknowledgement

On my own behalf and on behalf of the Board of Directors, I wish to thank the entire team of the Co-op Bank Group most sincerely for their diligent service that has delivered a great performance for the Kingdom Bank. I particularly commend the team for believing in the "Soaring Eagle" transformation project that has enabled the group to report the remarkable results in the year 2015 that we celebrate today and has prepared the group to scale greater heights in the years to come.

I acknowledge and appreciate the immense input and support that I have received from my fellow board members in guiding the business of the Group.

To our shareholders, thank you for being there with us and believing that we can achieve even greater performance together and therefore achieve a higher return on your investment.

Stanley C. Muchiri, EBS,

Group Chairman

Ripoti Ya Mwenyekiti

"Co-operative Bank ilifanya vizuri pia katika tuzo la 2015 la World Top 1000 uwezo wake wa 'Return on Assets' na 'Return on Capital' ulitambuliwa kuwa wa juu zaidi kati ya benki zote Africa."

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

Wapendwa wanahisa,
Nina furaha kuwakabithi Ripoti ya Mwaka ya Co-operative Bank Group ambayo imeambatana na ya Muhasibu juu ya mapato na matumizi ya pesa katika mwaka uliomalizika Desemba 31 2015.

Mazingira ya ki-uchumi 2015

Nusu ya kwanza ya mwaka wa 2015 ilikuwa ni shwari kiuchumi. Sekta muhimu zilionyesha dalili za kujizatiti ili kujistahimili vyema zaidi. Katika nusu ya pili ya mwaka, hali ya kiuchumi ilichafuka kwa kiasi kikubwa na hasa, kwanza, kwa kupungua thamani kwa shilingi ya Kenya ikilinganishwa na sarafu zingine za ulimwenguni na hasa 'dollar' ya Amerika, na pili, kwa kuongezwa kiwango cha riba kilichotozwa benki za kibiashara na Benki Kuu ya Kenya.

Hali ya kiuchumi Kenya

Utendakazi wa sekta muhimu za uzalishaji mali ulikuwa ni wa ki-mseto. Zilionekana kufifia kutokana na kuongezeka kwa gharama za uagizaji mali gafi na za kulipia mikopo ya kufanyia biashara. Sekta ya uchimbaji madini nayo pia ilikuwa haifanyi vizuri kwa sababu ya upungufu wa uwekezaji katika sekta ya mafuta kutokana na kushuka kwa bei za mafuta kwa kiwango kikubwa kote duniani. Sekta ya kilimo iliboreshwa zaidi na kiasi kikubwa cha mvua iliyonyesha mwaka huo.

Sekta za uenezaji stima na usafirishaji mizigo zilifaidika kutokana na bei za chini ya mafuta na petroli. Sekta ya huduma za fedha iliweza kupanuka sana kupitia matumizi ya teknologia ambazo ziliwezesha huduma hizi kupeanwa kwa gharama ya chini zaidi. Sekta ya ujenzi, hali kadhalika, ilipanuka kutokana na ongezeko la miradi ya uma katika ujenzi wa nyumba, barabara na miradi ya kawi. Utalii, kwa muda mrefu, ulionyesha dalili za kuacha kulala na kuamkia kazi.

Ripoti Ya Mwenyekiti (Continued)

Uchumi wa Kenya ulionyesha dalili bora za kuendelea kuimarika kama ilivyothibitishwa na kukua kwa zao lake la nchi (GDP) kwa kiwango kilichotazamiwa mwaka wa 2015 cha asili mia 5.4. Benki Kuu ya Dunia imekadiria kwamba uchumi wa Kenya utakua kwa kiwango cha asili mia 5.7 mwaka wa 2016.

Mazingira ya kibiashara

Huu ulikuwa ni wakati ambao shilingi ya Kenya ilipoteza thamani yake kutoka kiwango cha shilingi 90.70 kwa dollar, mwanzo wa mwaka, hadi shilingi 102 kwa dollar mwisho wa mwaka kutokana na ongezeko la thamani ya dollar. Ili kuepuka mfumuko wa bei, mwezi wa June 2015 Benki Kuu ya Kenya ililazimika kuongeza riba inayotoza benki za kibiashara kutoka asili mia 8.5 hadi asili mia 10. Mwezi wa Julai mwaka huo huo kiwango hicho kilipandishwa tena hadi asili mia 11.5. Katika miezi 3 ya mwisho wa 2015, kulionekana kuweko kwa upungufu wa pesa mifukoni mwa watu na uzito wa kulipia mikopo. Hali hii iliendelea hadi mwisho wa mwaka na ikatatiza sana maamuzi ya bei za bidhaa, huduma na mikopo ya benki.

Kitendo hiki cha Benki Kuu kililenga kuthibiti mfumuko wa bei mwaka wa 2015 ndani ya kiwango kisichozidi asili mia 6.58. Kupungua kwa bei vyakula na mafuta na vyakula pia kulisaidia jambo hili. Pia mwaka huo huo, Benki Kuu ya Dunina iliitambua Kenya kama nchi ambayo imefanya vyema zaidi katika kurekebisha na kuboresha mazingira ya kufanyia biashara.

Hali isiyoeleweka ya mazingira ya kufanyia biashara iliyodhihirika mwaka wa 2015, sasa imekwisha na kuna matumaini makubwa kwamba itaendelea kuwa bora zaidi mwaka huu.

Hali ya Sekta ya Benki nchini Kenya

Hata ingawa kulikuwa na hali chafu ya kiuchumi katika nusu ya pili ya 2015, Sekta ya Benki ilizidi kuimarika vile ilivyodhihirishwa na benki nyingi nchini katika ripoti zao za robo mwaka. Mikopo kwa Sekta ya Ubinafsi iliongezeka kwa kiwango cha asili mia 18 kutoka shilingi Trillion 1.88 mwaka wa 2014 hadi shilingi Trillion 2.22 mwaka wa 2015. Thamani ya mali zote nchini kwa matumizi ya ununuzi wa bidhaa na huduma iliongezeka kwa kiwango cha asili mia 13.7 na kufikia shilingi Trillioni 2.65. Thamani ya pesa na mali iliyoko mkononi kwa kugharamia mahitaji ya nchi ya sasa hivi iliongezeka kwa asili mia 14.7 kutoka shilingi Trillioni 2.95 hadi shilingi Trillioni 3.38

Tekinologia mpya za kutumana na kupokea pesa kwa njia ya simu za rununu, mitandao ya internet na kufunguliwa kwa afisi za ma-ejenti wa benki vijijini kumewezesha mapokezi na matumizi ya huduma za benki kufanyika kwa gharama za chini zaidi. Benki Kuu ya Kenya imeanza kufuatilia sana masharti yanayoeleza jinsi benki zinavyohitajika kuendesha shughuli zao kulingana na sheria zilizowekwa mwaka wa 2015 na benki mbili tayari zilisimamishwa kuendelea kutoa huduma kwa kukosa kufuata masharti hayo. Mwishoni ni wazi kwamba hatua hii iliyochukuliwa na Benki Kuu itaimarisha huduma za benki na kuongeza imani katika Sekta hii kutoka kwa wanaotafuta na kutumia huduma za benki.

Utendakazi wa benki yetu

Faida ya Co-operative Bank katika mwaka uliomalizika Disemba 31, 2015, kabla ya kukatwa kodi, ilikuwa ni shilingi billion 15.4, ongezeko la asili mia 41 ikilinganishwa na faida ya billioni 10.9 mwaka wa 2014. Biashara yetu imeendelea kupanuka na thamani yake sasa zimefikia shilingi billioni 342.5. Ni ongezeko la asili mia 20, na ambalo limeshikiliwa vizuri na wateja wasiopungua Millioni 5.9 wenye 'account' na benki yetu.

Juhudi za kupanua biashara yetu katika kanda hii zinaendelea chini ya mshikamano wa kibiashara kati yetu na vyama vya ushirika vya South Sudan. Kufaulu kwa jambo hili kumethibitishwa na kufaulu kuanzishwa na kuendeshwa kwa Bank of South Sudan ambayo mwaka wa 2015 ilifanya faida ya shilingi 850 Millioni kabla ya kukatwa kodi.

Najivunia kutangaza kwa unyenyekevu mingi kwamba benki yetu ilitunukiwa tunzo linalotambuliwa dunia mzima la Bank of the Year 2015 for Financial Inclusion katika sherehe ya Bankers Awards ya gazeti la Financial Times mjini London. Benki yetu ilishinda benki zingine 250 kutoka kote ulimwenguni ambazo pia zilikuwa zinapigania tuzo hili na imethibitisha kwamba Co-operative ndio mfumo unaodumisha na kukuza biashara kati ya watu wa hali zote.

Co-operative Bank ilifanya vizuri pia katika tuzo la 2015 la World Top 1000 uwezo wake wa 'Return on Assets' na 'Return on Capital' ulitambuliwa kuwa wa juu zaidi kati ya benki zote Africa.

Wakati wa World Finance Banking Awards 2015, benki yetu pia ilitambuliwa kama Commercial Bank bora zaidi nchini Kenya.

Mgawo

Kulingana na vile benki ilivyofanya kibiashara mwaka jana, Halmashauri ya Wakurugenzi imependekeza kwa Mkutano wa Mwaka (AGM) mgawo wa shilingi 0.80 kwa kila hisa, ikiwa Capital Markets Authority itaidhinisha pendekezo hilo. Mgawo huu ni ongezeko la asili mia 60 ukilinganishwa na ule wa 2014, na umewezesha benki yetu kuwatunukia wanahisa na wakati huo huo kubakiza kiwango cha faida ambacho kitatumika kuendeleza shughuli za ajenda yetu ya mageuzi ya kibiashara.

Uwajibikaji wetu kwa jamii

Co-op Consultancy Services imekuwa inaunga mkono shughuli zote za mfumo wa kibiashara wa Co-operatives na kuweza kupenyeza huduma muhimu kwa wanachama wao. Huvipatia vyama vya Co-operative mafunzo na huduma za kujiongezea nguvu za kuendeleza vyama vyao. Na kwamba tangu kampuni ianzishwe, tayari imeandikisha mikataba ya ushauri na zaidi ya washiriki 1983.

Benki yetu bado inaendelea kuisaidia Kenya Co-operative Coffee Exporters Ltd (KCCE) kuwezesha wakulima wadogo wa kahawa kufaidi mapato zaidi kutoka kwa zao lao kwa kujifanyia uzindikaji wa kiwango fulani wenyewe.

Shirika la Co-operative Bank Foundation

Co-op Bank Foundation ndicho chombo chetu cha uwekezaji katika jamii. Shirika hili linafadhiliwa kipesa na Co-operative Bank na limekuwa likiwapa scholarship wanafunzi kutoka sehemu zote za Kenya ambao wana shida za karo na ni wenye bidii masomoni. Msaada huu wa masomo ni pamoja na kulipia karo za Chuo Kikuu, Shule za Upili, mafunzo ya kusomea kazi na taaluma.

Tangu Shirika hili lianzishwe mwaka wa 2007, tayari limewasaidia wanafunzi 4,243 kwa misaada ya karo za Shule za Upili (4086), Chuo Kikuu (140), Colleges (17). Msaada huu unaweza kuwa ni wa kumlipia mwanafunzi karo yote ya Shule ya Upili ama Chuo Kikuu (University). Pia unaweza kuwa ni pamoja na kupewa nafasi ya kufuatilia ama kuongeza mafunzo ya taaluma unayoipenda.

Scholarship huwa zinapeanwa ki-County. Misaada mingine huwa inaachiwa uamuzi wa wawakiliishi wa Co-operatives kutoka mikoa tofauti nchini.

Tumo ndani ya Co-operative movement

Benki yetu bado inaendelea kuwa ndani ya Co-operative movement kwa kushirikiana na SACCO na FOSA ambazo zina uwezo wa kuwasambazia wanachama Million 13 wa Mashirika ya Co-operative huduma za benki. Co-operative Bank Group pia inashukuru sana kwa kuungwa mkono na Vyama vya Ushirika ambako asili mia 95 ya wanachama wao wote ni wateja wa benki yetu.

Shukurani

Kwa niaba ya Halmashauri ya Wakurugenzi na mimi binafsi, ningependa kuwashukuru nyote kwa kutuunga mkono kikweli. Nawashukuru pia washikadau wetu kwa msaada wao katika kufanikisha benki yetu mwaka wa 2015.

Nawashukuru tena sana, mameneja na wafanya kazi wetu wote kwa vile walivyojitolea kuendelea kutekeleza mageuzi tuliyofanya na kuiwezesha benki yetu kuwa na matokeo bora kibiashara kama tulivyoyashuhudia mwaka wa 2015. Ni matokeo ambayo tunayasherekea leo tukiamini kwamba hiki ni kielelezo kinachotutia moyo kwamba tutaweza kufikia upeo wa malengo yetu vile yamewekwa.

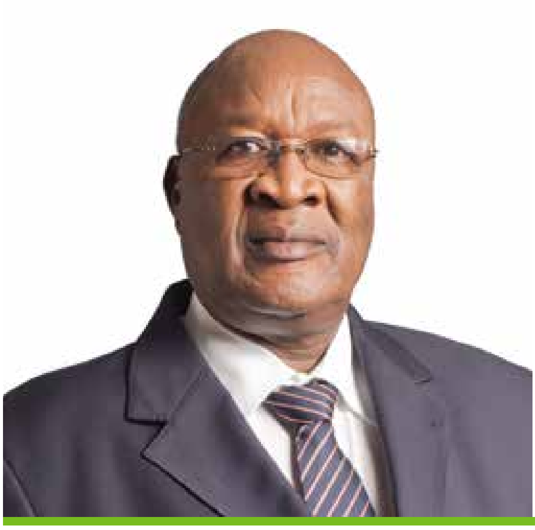
Kwa wenzangu katika Halimashauri ya Wakurugenzi, nautambua msaada mkubwa ambao nimeupokea kutoka kwenu na sana kwa kuniunga mkono katika juhudi za kufanikisha biashara ya benki yetu.

Nawashukuru wanahisa wetu kwa imani yenu kwetu na kwamba pamoja tunaweza kufaulu na kujihakikishia mgawo mkubwa zaidi kwa uwekezaji wenu.

Stanley C. Muchiri, EBS,
Group Chairman

The Board of Directors

All directors are non-executive, except for the Group Managing Director & CEO who is executive.



Stanley C. Muchiri, (70), EBS, Group Chairman

Has served the Board as Director since 1986 and Chairman since 2002. He is the Chairman of Kingdom Securities Limited, Co-op trust Investment Services Limited and Co-op Consultancy & Insurance Agency Ltd, all subsidiaries of the bank. He is also the Chairman of Co-op Holdings Co-operative Society Limited. Holds a Diploma in Co-operative Management from Turin, Italy, a Certificate in Co-operative Administration (CCA), and Banking course from the Co-operative College of Kenya. He has served Kenya's cooperative movement in various capacities for over 30 years. He is Chairman of the Co-operatives Alliance of Kenya (CAK), Vice-President of the International Cooperative Alliance (ICA) and President of the International Co-operative Alliance, Africa. He is a Director, Co-operative Bank of South Sudan, Director CIS (majority strategic shareholder CIC Insurance Ltd) and also the Chairman of the Co-operative Bank Foundation. He was decorated with the award of Elder of the Burning Spear (EBS) in the year 2005 for his outstanding service to the nation.

Julius Riungu, (68), Vice Chairman

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

Dr. Gideon Muriuki, MBS, (51), Group Managing Director & CEO

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 2001, to a profit before tax of KShs. 15.4 billion in 2015. He joined the Bank in 1996 as a Senior Corporate Manager then became Director, Corporate and Institutional Banking in 1999 before his appointment as Managing Director in 2001 with a clear mandate to return the Bank into profitable trading. Holds a Bachelor of Science degree in Mathematics, is a Fellow of the Kenya Institute of Bankers and was awarded an Honorary Doctorate in Business Management in year 2011. He has over 27 years' experience in banking and finance and he was voted CEO of the year Africa 2014 by the International Banker.

He is also the Managing Director of Co-optrust Investment Services Limited and Co-op Consultancy & Insurance Agency Ltd – both subsidiaries of the Bank. He is a Director of Kingdom Securities Limited, Vice-President Africa – International Co-operative Banking Alliance (ICBA), Executive Committee Member of the Kenya Bankers Association and former Chairman, Governing Council of the Africa International University.

He was decorated in 2005 with the award of Order of the Grand Warrior (OGW) and in 2011 with the award of The Moran of the Order of the Burning Spear (MBS) in recognition of his successful turnaround of the Bank and exemplary service to the nation. He is also a recipient of a decoration of Chevalier de L'orde National du Burkina Faso by the President of Burkina Faso in recognition of his outstanding contribution to development of rural finance in Africa and a Lion of Judah award by Evangelical Alliance of Kenya.

The Board of Directors

John Murugu, (65), Director, Independent

Joined the Board of Directors on 27th May 2015. He is a former Government of Kenya Director-Debt Management Department at the National Treasury. He has previously been an alternate director for the Permanent Secretary-Treasury, in Kenya Commercial Bank, Industrial Development Bank, and at Jomo Kenyatta University of Agriculture and Technology. He has over 25 years of banking experience at the Central Bank of Kenya Limited. He holds a Bachelor of Education Degree and Masters of Arts in Economics and is an Associate of Chartered Institute of Bankers (ACIB).

Rose Simani (Mrs), (57), Director, Independent

Joined the Board of Directors on 29th May 2009. She is a Human Resource Consultant in the areas of organizational and leadership development, recruitment, selection and retention, design of performance management tools and competitive reward systems, developing and delivering training programs in the area of performance management, soft skills and culture change management, and is currently the Managing Partner, Simcorp Human Resources Solutions. She has over 30 years of broad experience in human resources management and previously served as the Director of Human Resources at Housing Finance and also with British-American Tobacco (BAT) in senior positions in Manpower and Planning. Currently, she is a committee member of the Kenya National Chamber of Commerce & Industry-Women in Business. She holds a Bachelor of Arts in Social Sciences and is pursuing her post graduate degree in Human Resources. She is a Fellow Member of the Institute of Human Resources and is on the Governing Council of Africa International University.She has attended various local and international trainings. She is a CIC Nairobi Delegate, representing Co-operative Bank of Kenya.

Lawrence Karissa, (60), Director, Independent

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.

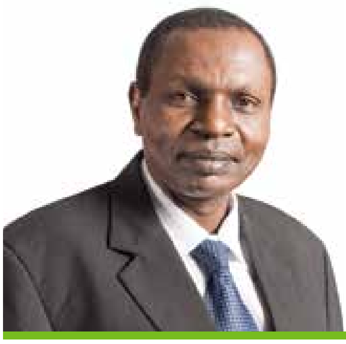
Julius Sitienei, (61), Director

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-op Holdings Co-operative Society Limited. He holds a Bachelor of Business Administration degree in Human Resources Management.

Macloud Malonza, (47), Director

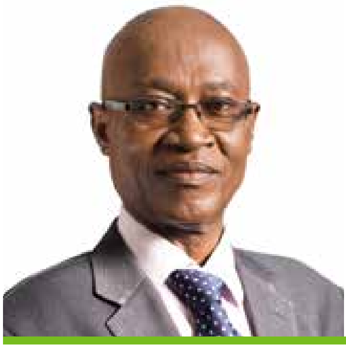
Joined the Board of Directors in 2005. Holds a Bachelor of Arts degree, a Masters in Organizational Change and Development, Master of Business administration, Post-graduate Diploma in Management and Information Systems, Certificate in Strategic Planning and Management and CPS 1. He has also attended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

The Board of Directors



Benedict W. Simiyu, (54), Director

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 Ngarisha Sacco (Former Bungoma Teachers Sacco). He is a Director of Co-op Holdings Co-operative Society Limited.



Richard L. Kimanthi, (59), Director

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, (60), Representing Principal Secretary – National Treasury, Director

He was appointed a Director on 7th August 2013, as the alternate to the Principal Secretary – National Treasury. He is the Deputy Director Economic Affairs in charge of Tax and Administration and private Sector issues and holds a BA (Hons) in Economics and Sociology from the University of Nairobi and an MA in Development Economics from Dalhouse University Canada. He has had a successful career in the Civil service for a period of over 30 years in the Ministry of Foreign Affairs and Ministry of Finance & Planning. He brings on board a wealth of experience in finance and management in the public sectorGovernment departments under the Office of the President.

Wilfred Ongoro, (60), Director

Joined the Board of Directors in 2006. He is an educationist with over 20 years' experience and has served the co-operative movement in various positions. He is currently the Chairman of one of the largest Teachers Sacco's in Kenya. He is a Director of Co-op Holdings Co-operative Society Limited.

Rosemary Majala Githaiga (Mrs), (52), Company Secretary

Has over 26 years' experience as a lawyer and prior to joining Co-op Bank in 1996, worked for Hamilton Harrison & Mathews Advocates. 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. As the Company Secretary of the Co-op Bank Group, she has responsibility for overall provision of legal counsel and company secretarial services, fraud prevention and investigations. She is also the Trust Secretary for the Co-operative Bank Foundation, the corporate social responsibility vehicle of the bank. She is also a Director of CIC Insurance Group Limited.

Board of Directors of Kenya Subsidiary Companies

(Co-optrust Investment Services Limited & Co-op Consultancy & Insurance Agency Limited)

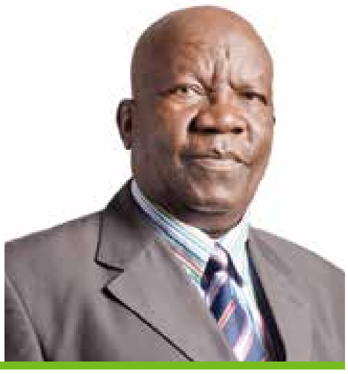
The Group Chairman, Stanley Muchiri, and the Group Managing Director & CEO, Dr. Gideon Muriuki, serve on the boards of the subsidiary companies. The other directors are:

Dr. James M. Kahunyo, (61), Director

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

David Muthigani Muriuki, (47), Director

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



Patrick K. Githendu, (62), Director

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

James N. Njiru, (48), Director

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

Scholastica Odhiambo (Mrs), (56), Director

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 29 years. She holds a Bachelor of Business Administration and a Diploma in Corporate Governance from the KCA University. She is a Director of Co-opholdings Co-operative Society Limited.

Godfrey K. Mburia, (59), Director

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

Phillip Gichuki, (58), Director

Joined the Board of Directors in 2015. Holds a Bachelor of Arts degree in Economics and Government management and a Post Graduate Diploma in International Management. He is currently the Acting Commissioner for Co-operatives and has served in various positions in the Ministry of Co-operatives including Head of Co-operative Extension Advisory and Consultancy, Head Field Services Division and also provincial co-operative officer for Central and Coast province among other positions.

Board of Directors of the Co-operative Bank of South Sudan Limited

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

William Mayar Wol, (53), Chairman

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

Zachary Chianda, (58), Managing Director

He was appointed Managing Director of Co-operative Bank of South Sudan on 23rd June 2014. A career banker with over 32 years' experience in banking and has worked in various senior positions in the Co-operative Bank of Kenya including Director Co-operatives Banking and Director Corporate & Institutional Banking. He holds a Bachelor of Science Degree in Financial Services from the University of Manchester Science and Technology (UMIST) and is an Associate of Chartered Institute of Bankers (ACIB) of UK. He also holds a Diploma in General Management from Jutland Technology Institute Aarhus (Denmark) and a Certificate in Bank Management from Odense Business School (Denmark). He has served in other capacities in the Bank in the past including as a Trustee of the Bank's Pension Fund.

Prof Mathew Gordon Udo, (57), Director

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

Mr. Wani Buyu Dyori, (70), Director

He was appointed a director in Co-op Bank of South Sudan on 23rd August 2012. He is a South Sudan citizen and is currently Under Secretary at the Ministry of Finance and Planning Juba. He is a seasoned finance and planning technocrat with a decorated service on financial matters in South Sudan.

Managing Director & CEO Report

"The future of the Co-operative Bank Group is promising. I take this opportunity to sincerely thank all team members of the Co-operative Bank Group for their commitment and support which has led to the superb performance."

Dr. Gideon Muriuki, MBS
Group Managing Director & CEO

Dear Shareholders,

I am greatly delighted to present to you the Annual Report & Financial Statements of the Co-operative Bank of Kenya Group for the year ended 31st December 2015.

2015 Financial performance

The group delivered a Profit before Tax of KShs. 15.4 Billion for the period ended 31st December 2015, an impressive growth of 41 per cent compared to the KShs. 10.9 Billion reported in 2014. The excellent performance by the group was on the back of the gains from the bold "Soaring Eagle" transformation project that the bank started implementing from September 2014 with critical focus on improving operational efficiencies, optimise operating costs and improved customer delivery platforms. The Group Balance Sheet expanded substantially with total assets standing at over KShs. 342.5 Billion as at the close of 2015, a 20 per cent growth from KShs. 285.4 Billion in 2014.

Customer deposits increased to KShs. 268.8 Billion from KShs. 220.9 Billion, a 22 per cent growth supported by a 16 per cent growth in customer account numbers from 5.1 Million account holders in 2014 to 5.9 Million in 2015. Net Loans and advances grew by KShs. 29.1 billion from KShs. 179.5 billion in 2014 to KShs. 208.6 billion in 2015, underpinned by the Sales Force Effectiveness strategy the bank has been successfully implementing to optimise the business potential of our 5.9 Million customers.

Managing Director & CEO Report (Continued)

Total operating income increased 13 per cent from KShs. 32.1 Billion to KShs. 36.4 Billion. Net interest income increased from KShs. 19.1 Billion to KShs. 19.8 Billion while fees and commissions income grew from KShs. 4.4 Billion to KShs. 7.2 Billion, an impressive 64% increase. Despite the massive business growth, total operating expenses were tightly controlled remaining flat at KShs. 21.4 Billion in 2015. This attests to the successful cost optimisation strategy, a key deliverable of the 'Soaring Eagle' transformation agenda.

I am particularly pleased to note that our subsidiary in South Sudan has now turned around and has made a positive contribution to the Group with a profit before tax of KShs. 850 Million despite the difficult operating environment. Of this profit, KShs. 97 Million was a share of profit from CIC Africa SS ltd in which the Co-operative Bank of South Sudan owns a 31 per cent shareholding.

Bank transformation and business development

The Bank engaged an internationally recognized and global consultancy firm in August 2014 to perform a "growth and efficiency review" of the Group's business. The ensuing transformation project dubbed, "Soaring Eagle" has been successfully implemented, with key benefits being realized and demonstrated by the commendable financial performance of year 2015. The bold transformation riding on the strong 5.9 Million account holder base has opened exciting frontiers in the growth momentum of the bank.

Branch Transformation and Channel Migration have enabled the bank to optimize on our branch network and other alternative delivery channels ensuring enhanced and greater customer experience and growth in transaction volumes and commissions. The ambience of our branches has greatly been enhanced reducing queue times significantly and offering customer convenience.

Implementation of the Sales Force Effectiveness (SFE) that entailed the replacement of a product-centric model with a customer-centric model has enabled the bank to leverage on the well-established and diversified products increasing the number of products per customer due to cross selling while leveraging on our 5.9 Million account holders.

Digitization and Automation of key business processes including loan origination, customer delivery systems and voucher processing among others has significantly enhanced efficiency in the delivery of services and moved staff resources otherwise engaged in back office to frontline to enhance sales effort.

Implementation of an enhanced Credit Management framework has delivered an improved loan origination process and enabled proactive management of the collection process. This has allowed the bank to enjoy a sustained growth in a diversified loan portfolio that is also posting improved repayment performance and thus very good management of the non-performing loans process.

Staff Productivity has improved substantially as a result of the high-performance culture fostered by the Key Performance Indicator (KPI) performance management process that enables clear linkages to rewards and better accountability mechanisms.

The bank continues to pursue Re-engineered Reporting and Analytics by investing in enhanced financial management tools such as MIS, ERP and CRM to enhance lead and sales generation capabilities and also ensure better quality and timely management reporting and decision making.

New frontiers

The Group has an innovative strategy for regional expansion to new frontiers such as Rwanda, Uganda, Ethiopia and Tanzania riding on the unique co-operative model. Our successful joint venture partnership with the Government of South Sudan (Co-op Bank 51% and GOSS 49%) has seen us operate four branches and four non-oil collection centres. The business is profitable and is expected to continue performing well.

Future Outlook

The group has made significant investments in the past few years. With the ongoing "Soaring Eagle" transformation agenda, leveraging on our strong 5.9 Million account holders and growing, multi-channel access and efficient delivery services, the bank is on a growth trajectory and will expand in line with its strategic objectives to perform even better in the coming years. The group has a projected growth in profit before tax of twenty per cent, a growth in loans and advances of nineteen per cent and a growth in customer deposits of twenty five per cent in 2016.

In conclusion

The future of the Co-operative Bank Group is promising. I take this opportunity to sincerely thank all team members of the Co-operative Bank Group for their commitment and support which has led to the superb performance.

I would also like to most sincerely thank all our customers for believing in us, our strategic and related partners for trusting and supporting us, enabling our business to be this successful.

I most sincerely thank the Group Chairman, Mr. Stanley Muchiri and the entire Group Board of Directors for their strong support and guidance to the 'Kingdom Bank' as it soars to new heights.

I thank you once again and may God richly bless you.

Yours faithfully,

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

Ripoti ya Mkurugenzi Mtendaji

"Biashara ya Co-operative Bank miaka ijayo ni ya kutia moyo sana. Nachukua nafasi hii kuishukuru timu yetu ya wafanyakazi ambao ni kwa ushirikano na juhudi zao kumewezesha matokeo ya 2015 kuwa ni ya kuturidhisha kweli."

Dr. Gideon Muriuki, MBS
Group Managing Director & CEO

Wapendwa wanahisa,
Ninayo furaha kutoa Ripoti ya Mwaka ya Co-operative Bank ikiambatana na ile ya Muhasibu ya Mapato na Matumizi ya pesa mwaka uliomalizika tarehe 31 Disemba 2015.

Utendakazi wetu kifedha

Katika mwaka uliomalizikia Disemba 31, 2015, benki yetu ilipata faida ya shilingi billioni 15.4, kabla ya kukatwa kodi. Kiwango hiki cha faida kilikuwa ni cha kutia moyo sana na kilikuwa kimezidi kile cha mwaka wa 2014 cha milioni 10.9 kwa asili mia 41. Kiwango hiki kikubwa cha faida kilitokana na marekebisho ya utendakazi chini ya mrandi wa 'Soaring Eagle' kuanzia September, 2014. Mradi huu ulilenga sana kuondoa aina zote ya ulegevu kazini, kukadirisha gharama za utendakazi na kuweka mbinu za kuwahudumia wateja vyema na kwa gharama ndogo. Biashara yetu iliendelea kupanuka hivi kwamba kufikia mwisho wa 2015, mali ya biashara yetu ilikuwa na thamani inayozidi Shilingi Billioni 342.5, ikipita ya 2014 ya shilingi Billioni 285.4 kwa asili mia 20.

Kiwango cha akiba katika akaunti za wateja kufukia mwisho wa 2015, kiliwa ni shilingi bilioni 268.8, ongezeko la asili mia 22 kwa kile cha mwisho wa 2014 cha shilingi billioni 220.9. Onezeko hili limethibitiwa na ongezeko la idadi ya akaunti za wateja kwa asili mia 16, kutoka akaunti milioni 5.1 mwisho wa mwaka wa 2014 hadi Millioni 5.9 mwaka wa 2015. Mikopo na 'advances' ikikua kwa kiwango cha shilingi billioni 29.1 kutoka shilingi billioni 179.5 mwisho wa 2014 hadi billioni 208.6 mwaka wa 2015. Hii iliwezekana kufanyika kwa kufuatilia kwa karibu mikakati iliyowekwa na benki yetu kukuza uwezo wa kibiashara walio nao wateja wetu milioni 5.9.

Ripoti ya Mkurugenzi Mtendaji (Continued)

Kiwango cha pesa zilizotumika kufanyia biashara kiliongezeka kwa asili mia 13 kutoka shilingi billioni 32.1 hadi shilingi billioni 36.4. Pato la riba, baada ya kuondoa gharama, liliongezeka kutoka shilingi billioni 19.1 hadi shilingi billioni 19.8. Pato kutoka kwa ada zinazotozewa huduma liliongezeka kwa kiwango kikubwa cha asili mia 64, kutoka shilingi billioni 4.4 hadi shilingi billioni 7.2. Ingawa biashara yetu ilikua kwa kiwango kikubwa mwaka wa 2015, gharama za kufanyia biashara hiyo hazikuongezeka hata kidogo ikilinganishwa na 2014. Uthibiti wa gharama hizi uliwezeshwa na mageuzi ya mwenendo wa kibiashara chini wa Mradi wetu wa 'Soaring Eagle'.

Hata ingawa mazingira ya kufanyia biashara yalikuwa ni magumu sana, nina furaha kuona kwamba benki yetu katika nchi ya South Sudan imeimarika na hata kuweza kuchangia faida yetu ya 2015 kwa shilingi Million 850, kabla ya kukatwa kodi. Katika faida hii, shilingi milioni 97 zilikuwa ni mchango wa kampuni yetu ya CIC Africa SS Ltd ambayo inamilikiwa kwa kiwango cha asili mia 31 na Co-operative Bank of South Sudan.

Mabadiliko yenye kukuza biashara

Mwezi wa Agosti 2014, Benki yetu ilipatia kampuni maarufu duniani McKinsey & Company kazi ya kuchunguza ukuaji na utendakazi wa biashara yetu. Mageuzi haya ya kibiashara na ambayo yamekuja kujulikana kama 'The Soaring Eagle' tayari yametekelezwa na manufaa yake yameonekana wazi katika vile benki yetu ilivyofanya vizuri kibiashara mwaka wa 2015. Ni mageuzi ambayo yanalalia msingi imara wa wana-akaunti Millioni 5.9 wa benki yetu na yametufungulia milango na kutupatia mori wa kufanya biashara itakayosaidia benki yetu kuendelea kukua kihali na mali.

Mageuzi muhimu yaliyofanyika katika matawi na ambayo ni pamoja na kupunguza muda mteja anaochukua kupiga foleni, yametuwezesha kuimarisha mtandao wa matawi yetu pamoja na kubuni njia mpya za kupeana na kuboresha huduma ili wateja wetu wafurahishwe na kuridhishwa na vile tunavyowahudumia na waweza kutumia na kulipia huduma zetu bila ya malalamishi. Mageuzi haya yamelenga kuongeza idadi ya wateja walioridhika na pato linalotokana na wao.

Benki yetu sasa ni digitali katika shughuli zake nyingi n a ambazo ni pamoja taratibu za maombi ya mikopo, mawasiliano ya aina fulani na wateja, matayarisho ya vocha na kadhalika. Kuenda digitali kumewezesha benki kuwahamisha wafanyakazi wetu wengine kutoka ofisi zao za vifichoni na kuwaleta sehemu za mbele kuuza huduma zetu za benki.

Matumizi ya Credit Management Framework yameboresha vile mikopo inavyoshughulikiwa kutoka hatua za mwanzo kabisa. Sasa ni rahisi na haraka kujua hali malipo ya mikopo wakati wo wote anapohitajika kufanya hivyo. Huduma hii imetuongezea uwezo wa kushughulikia mikopo mingi ya aina tofauti. Inawezesha pia malipo ya mikopo kufanyika ilivyopangwa na ile inalipika kwa shida kuweza kushughulikiwa mara moja.

Utendakazi wetu umeimarika sana chini ya matumizi ya Key Performance Indicator (KPI) ambayo inasaidia kutambua wafanyakazi wanastahili kupongezwa, kutunukiwa au kukadiriwa vile wanavyojibeba kazini.

Benki yetu inatumia tekinolojia za kurahisha utendakazi kama vile MIS, ERP na CRM ambazo zina uwezo wa kutabiri mauzo ya siku za mbeleni, kutoa reporti za kikazi ili kusaidia katika kufanya maamuzi muhimu na haraka katika shughuli za uendeshaji na usimamizi wa benki yetu.

Soko mpya

Benki yetu tayari iko na mpangilio wa vile ingependa kufanya biashara katika mataifa kama vile Uganda, Tanzania na Ethiopia kupitia kwa Vyama vya Ushirika. Ushirikiano wetu na Serikali ya Sudan (Co-op Bank inashikilia asili mia 51 ya hisa zote na GOSS asili mia 49) umetuwezesha kufungua matawi manne ya benki yetu na Non-Oil Collections Centres nne. Ni biashara ambayo iko na faida na inatarajiwa kuendelea kufanya vizuri kwa miaka mingi ijayo.

Matarajio ya siku za mbeleni

Benki yetu imewekeza kwa kiasi kikubwa miaka michache ya hivi karibuni. Mradi wetu wa 'Soaring Eagle' ambao kufaulu kwa mikakati yake kunategemea idadi kubwa ya wana-akaunti wetu Millioni 5.9 na kuwemo kwa njia mathubuti za kuwahudumia wateja, tayari umeiweka benki yetu katika hali ya kuanzisha mageuzi ya kuwa benki kubwa yenye utendakazi bora zaidi. Tutaendelea kuikuza kutimiza lengo hilo na katika mwaka wa 2016, benki yetu inatarajia faida, kukua kwa ya asili mia 20, kabla ya kukatwa kodi, mikopo na advances kukua kwa asili mia 19 na akaunti za wateja kwa asili mia 25.

Kumalizia

Biashara ya Co-operative Bank miaka ijayo ni ya kutia moyo sana. Nachukua nafasi hii kuishukuru timu yetu ya wafanyakazi ambao ni kwa ushirikano na juhudi zao kumewezesha matokeo ya 2015 kuwa ni ya kuturidhisha kweli.

Hali kadhalika nawashukuru sana wateja na washiriki wetu kibiashara kwa kutuamini na kutuunga mkono na hivyo kutuwezesha kuwa na matokeo bora ya 2015 ambayo sote tunaweza kujivunia.

Namshukuru pia Mwenyekiti wetu Bwana S. C. Muchiri na Halmashauri nzima ya Wakrugenzi kwa ushauri na uongozi wenye maono wakati huu ambako benki yetu inapaa na kupenya mawingu yatakayotuangushia mvua ya biashara.

Nawashukuru tena na kuwajalia nyote baraka za Mwenyezi Mungu.

Yours faithfully,

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

Top Management Team

Dr. Gideon Muriuki, MBS, (51), Group Managing Director & CEO

Appointed Managing Director in 2001. Joined the bank in 1996 as a Senior Corporate Manager then Director, Corporate and Institutional Banking in 1999. 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 27 years' experience in banking and finance. He is also the Managing Director of Co-optrust Investment Services Limited and Co-op Consultancy & Insurance Agency Ltd – both subsidiaries of the Bank. He is a Director of Kingdom Securities Limited, Vice-President Africa – International Co-operative Banking Alliance (ICBA), Executive Committee Member of the Kenya Bankers Association and a former Chairman, Governing Council of the Africa International University. He was voted the CEO OF THE YEAR AFRICA 2014 by the International Banker.

Rosemary Majala Githaiga, (Mrs), (52), Company Secretary

She has over 24 years' experience as a lawyer and prior to joining Co-op Bank in 1996, worked for Hamilton Harrison & Mathews Advocates. 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. As the Company Secretary of the Co-op Bank Group, she has responsibility for overall provision of legal counsel and company secretarial services, fraud prevention and investigations and information security. She is also the Trust Secretary for the Co-operative Bank Foundation, the corporate social responsibility vehicle of the bank. She is also a Director of CIC Insurance Group Limited.

Samuel Birech, (52), Chief Operating Officer

He joined the bank in 2002 and was appointed Chief Operating Officer in December 2014 and is a career banker with over 20 years' experience in local and international banks. He has held various senior positions and was previously the Director, Retail Banking for 8 years where he presided over the transformation of the Retail and SME business at the Bank. He is currently responsible for driving operational efficiency and excellence in shared services to provide frontline teams with seamless delivery systems and processes deriving from his wide experience in overall frontline Business and risk management. He holds a Bachelor of Commerce degree from the University of Nairobi and has attended various local and international courses. He is a Board Member at Pan Africa Christian University.

Anthony Mburu, (50), Director, Credit Management

A career banker with over 22 years of banking experience both in Kenya and the region. Most of these years were spent in the line of Credit and Risk Management. He holds a Bachelors degree in Commerce and has attended various proprietary and international Credit courses. He is also a Director of Kenya Co-operative Coffee Exporters (KCCE) Limited.

Top Management Team (Continued)

Patrick Nyaga, (48), Director, Finance & Strategy Division

Has over 22 years' experience mainly in auditing and banking. Previously served at KPMG (EA), with the main focus being audit and assurance of financial institutions and especially banks in Kenya and the region. He then joined main-line banking where he has worked for over 13 years. He holds an MBA from Strathmore Business School, a Bachelor of Commerce degree in Accounting, is a Certified Public Accountant (K) and a member of ICPAK. He is also a Director of CIC General Insurance Limited and a member of Institute of Directors.

Lydia Rono, (50), Director, Corporate & Institutional Banking Division

She has held many senior positions at the Bank in her 29 years banking experience. She is responsible for crucial business growth in the Corporate & Institutional Banking division providing leadership in the various business units under her. She holds a Bachelors Degree in Commerce and an MBA from University of Nairobi and has attended various courses.

Maurice Matumo, (41), Director, Retail & Business Banking Division

He joined the bank in 2006. He is in charge of Retail and Business Banking Division of the Bank, responsible for network and business growth with special focus on consumer and SME value creation. He is an experienced banker with 17 years' experience in Kenya and abroad with a rich and extensive experience in business development, Human capital management and strategic channel development. He holds a Bachelor of Arts degree in Business Management from Moi University and has attended various local and international courses.

William Ndumia, (42), Director, Transformation

He joined the bank in 2006. He is in Charge of the Transformation office giving leadership to the various transformation initiatives and programs to achieve the bank's growth and efficiency strategies. He has been in the bank for over 10 years previously as Director IT & Innovation, Director Operations and Head Business Change management. He is an experienced banking operations expert having previously worked for international banks in various technical, controls and compliance roles. He holds a Bachelor of Science Degree in Mechanical Engineering and has attended various courses on project management and risk management both locally and internationally. He has overseen execution of various technical projects including the implementation of the core banking system, card management system and a global review of all bank processes among others.

Evelyne Munyoki, (44), Director, Human Resources Division

She drives the bank's Human Resources responsible for the People Agenda with a primary focus on performance, talent and employee engagement. She is an experienced strategic HR partner to the Bank's Business with over 19 years' experience in HR with six of those years in the banking and financial services sector. She is a proven professional in development and execution of Human Capital strategy, HR Business Partnering, talent management, design and implementation of Employee Engagement initiatives. She holds a Masters Degree in International Business Administration (Finance Major) and a Bachelors of Arts in Land Economics. She is a Certified Professional Career Coach and a member of the Institute of Human Resources Management (K).

Top Management Team (Continued)

Vincent Marangu, (36), Head, Co-operatives Banking Division

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

Patrick Ndonye, (37), Managing Director, Kingdom Securities Ltd (A Subsidiary of the Co-operative Bank of Kenya Ltd)

Patrick joined Kingdom Securities as the Managing Director in June 2015. Prior to Joining Kingdom Securities, he was the General Manager, UAP Financial Services Ltd (Uganda). He has over 10 years' experience in the Financial Services Industry in Stock Brokerage, Fund Management and Advisory Services. Patrick holds a Master of Business Administration degree from the United States International University and a Bachelor's Degree in Commerce (Finance) from The Catholic University of Eastern Africa. He is a Certified Public Accountant of Kenya (CPA (K)). Patrick has attended a number of courses in leadership and strategic management.

Robert Morris Aloo, (37), Treasurer

He joined the bank in 2013. He has over 10 years' experience in Treasury management. He is responsible for the banks Treasury management and growth objectives. Prior to joining Co-operative Bank of Kenya, he worked as Head of Treasury in KCB Bank Uganda Ltd. He holds an MBA in Finance from USIU Africa and a Bachelors of Arts Degree in Land Economics from the University of Nairobi. He is a Certified Public Accountant (K) and a member of ICPAK. He is also a member of The Financial Markets Association of Kenya (ACI Kenya).

Charles Washika, (39), Chief Information Officer

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 Co-operative Banks Strategic technological direction, championing the use of Information and communication Technology to meet the Bank's Strategic objectives and providing strategic leadership to align investments in ICT with the Bank's strategy. He has managed the Implementation of Core Banking systems around Africa and Asia including Uganda, South Africa, Cote D Ivoire, Senegal, Zambia, Tanzania, Kenya, India and Sri Lanka. Holds Bachelor of Education Degree, and is currently pursuing a Master of Science degree in Computer Systems. He is a member of the Project Management Institute and has attained various Technology Certifications.

Edgar Mwandawiro, (42), Chief Risk Officer

He joined the Bank in January 2016. He has over 17 years banking experience mainly in risk management and banking operations. He previously worked for Commercial Bank of Africa for 10 years. Prior to joining Co-op bank, he worked at Gulf African Bank for seven years as the Head of Risk. He is a holder of Masters Degree in International Banking and Finance from Birmingham University, England and Bachelor of Commerce degree from University of Nairobi. He has attended various risk management trainings both locally and internationally.

Corporate Banking & SME

Supporting the growth of Kenya's diverse SME sector. The Bank has financed businesses to achieve high capacities and growth.

bizwise sme loan

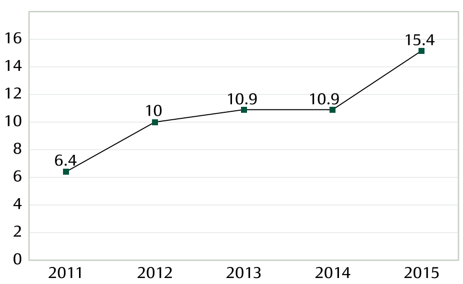
CO BANK | CLUB SPECIAL

Business Review

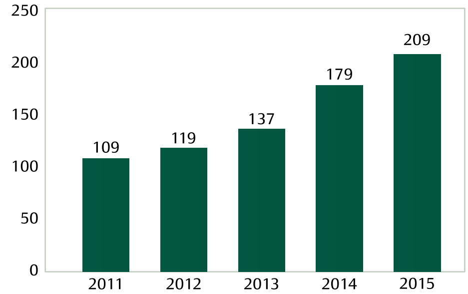
	2011	2012	2013	2014	2015
Statement of Financial Position					
Cash and short term funds	21,616	31,100	30,754	37,146	43,433
Loans & Advances to Customers (gross)	114,101	123,824	141,608	183,942	215,745
Impairment losses on loans & advances	(4,692)	(4,736)	(4,521)	(4,456)	(7,173)
Government & other Securities	22,237	33,391	41,055	47,722	67,194
Property, Equipment and Intangible Assets	9,336	11,133	13,102	11,830	9,663
Other assets	5,714	5,876	9,217	9,212	13,638
Total Assets	**168,312**	**200,588**	**231,215**	**285,396**	**342,500**
Customer Deposits	144,514	163,149	180,887	220,858	268,820
Loans & Borrowings	234	4,572	10,252	18,269	19,271
Other liabilities	2,613	3,500	3,492	3,392	5,106
Total liabilities	**147,360**	**171,221**	**194,631**	**242,519**	**293,197**
Net assets/Shareholders Equity	20,951	29,367	36,584	42,877	49,303
Income Statement					
Net Interest Income	11,885	13,581	15,869	19,135	19,783
Non-Interest Income	6,451	10,200	12,021	12,951	16,607
Operating Expenses	11,417	13,171	16,605	20,265	19,372
Provision for loans impairment	710	999	778	1,176	2,019
Share of profit of associate	158	374	365	271	385
Profit before Tax	6,366	9,984	10,872	10,916	15,383
Profit after tax	5,366	7,724	9,108	8,015	11,706
Earnings per share	1.54	1.84	2.2	1.69	2.31
Dividend per share	0 .4	0.5	0.5	0.50	0.80
KEY RATIOS (%)					
PROFITABILITY					
Return on Average Equity-ROAE (%)	26%	31%	30%	20%	25%
Return on Average Total Assets (%)	3%	4%	5%	3%	4%
EFFICIENCY					
Cost to income (Without Provisions) (%)	62%	56%	60%	59%	53%
Cost to income (With Provisions) (%)	66%	60%	62%	63%	59%
Interest expenses on Interest income (%)	27%	39%	27%	30%	41%
CAPITAL ADEQUACY					
Shareholders equity/Total assets (%)	12%	15%	16%	15%	14%
Capital funds/Total assets (%)	5%	4%	3%	3%	2%
ASSET QUALITY					
Impairment provisions/ Gross loans & advances (%)	1%	1%	1%	1%	1%
Non-performing loans (NPLs) to Gross loans (%)	4%	4%	4%	4%	3%
Loan loss provisions to Non-performing loans (NPLs) (%)	90%	76%	74%	92%	85%
Loan loss provisions to Shareholders equity (%)	22%	16%	12%	10%	12%
LIQUIDITY					
Gross Loans to Deposit Ratio in %	79%	76%	78%	83%	80%
Borrowed funds/Total deposits (%)	0.20%	2.80%	5.70%	8.30%	7.20%
Borrowed funds/Gross Loans (%)	0.20%	3.70%	7.00%	9.90%	8.70%

Business Review (Continued)

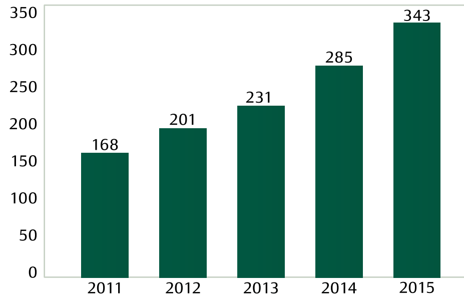
Profit Before Tax (KShs. Billion)



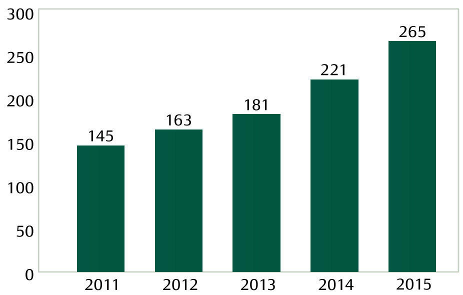
Loans & Advances to Customers (KShs. Billions)



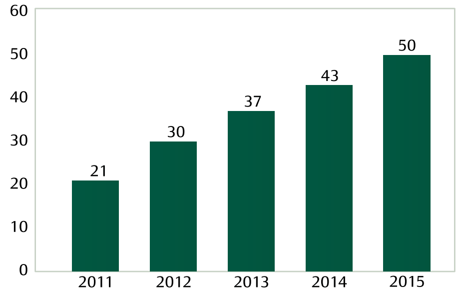
Total Assets (KShs. Billions)



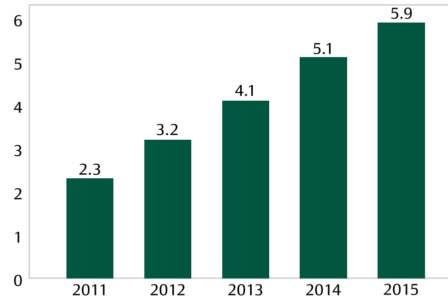
Customer Deposit (KShs. Billions)



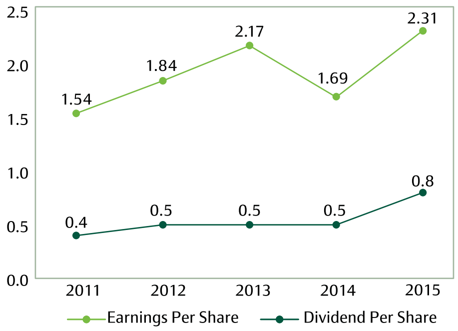
Total Shareholders Funds (KShs. Billions)



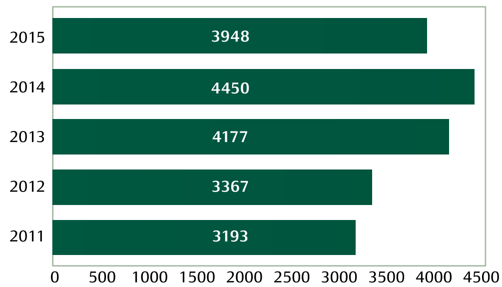
Customer Numbers (Millions)



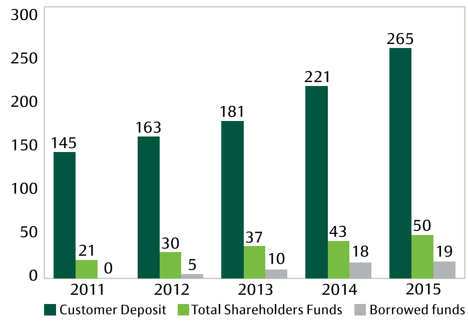
Dividend Per Share & Earnings Per Share



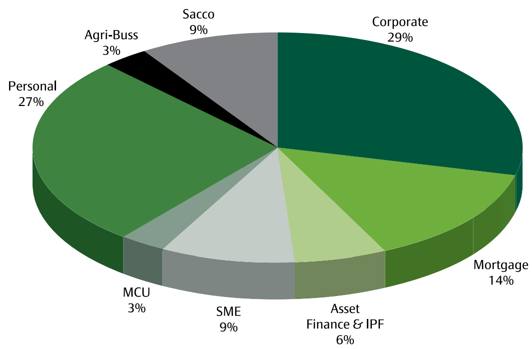
Staff Numbers



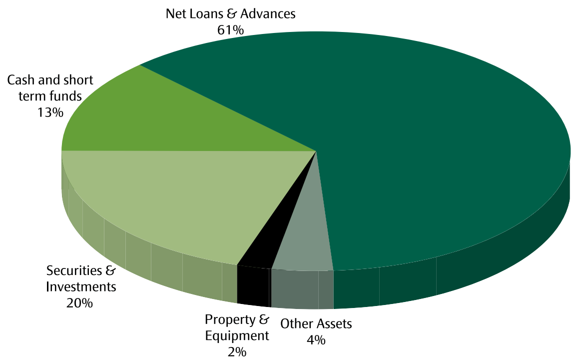
Funding Distribution (KShs. Billions)



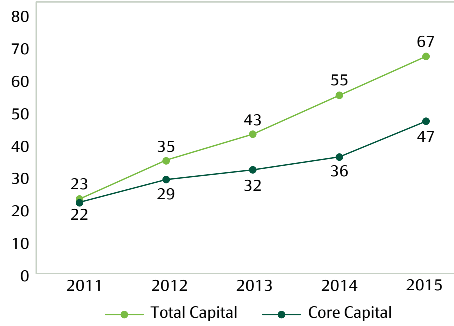
Loan Book Distribution



Balance Sheet: Assets Distribution



Capital Strength (KShs. Billions)



Sustainability Review

"Co-op Bank believes in carrying out her business in an open and transparent way… our stakeholders expect the bank to declare its social and ecological impact to all… It is for this reason that the bank has chosen to entrench sustainability in all our operations…. by continually engaging with our stakeholders and finding out what we could do better to ensure that our operations are tailor-made for mutual benefit."

The Co-operative Bank was founded in 1965 shortly after the country gained independence, by the local co-operative societies and unions well versed with the difficulties of accessing credit from the then existing banks, which were all too eager to accept deposits but unwilling to advance indigenous Kenyans credit. Despite viability doubts then, the Co-operative Bank today represents the number one point of contact for Kenya's over 13 Million-member strong Co-operative movement with mobilized savings of over KShs. 265 Billion or 30% of National Savings. The founder's dreams still live in us through a core part of our vision which is to economically empower Kenyans and alleviate poverty primarily by supporting the Co-operative movement and its member's access to financial resources targeted at sustainable development. The Bank has placed itself in step with Kenya's diverse needs and fulfilling this key responsibility has required the balanced creation of value to customers and the market, shareholders, the environment, employees and society as a whole.

As a testament to the success of our model in deepening financial inclusion in the country, our bank was awarded the Global Winner for 'Financial Inclusion Award' by the Financial Times of London in 2015.

Our bank is guided by a vision, mission and core values as follows:

Our Vision:

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

Our Mission:

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

Our core values:

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

We are a one stop shop universal bank:

As a group, we have positioned ourselves as a 'one-stop-shop' financial services provider under one roof. In all our branches, services offered over and above the traditional banking services include, insurance, securities management, custody and trust services, stock brokerage, investments management and consultancy.

Enhancing Financial Inclusion with a Full Basket of Highly Innovative Products and Channels:

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 world class 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.

Sustainability Review (Continued)

Our Channels

MCo-op Cash:

MCo-op Cash is our all-telco, all products mobile banking service which enables customers to enjoy access to a variety of banking services, money transfer and payment services. It is a virtual account with a simple menu where the customer's cell phone number acts as the account number and can be opened and operated end to end from the phone without having to visit the branch. Mco-op cash has continued to reach many customers who would have remained unbanked. In 2015 the service had over 2.7 Million registered users and supported over 12.5 Million transactions. Over 183,000 loans were disbursed through it.

Agency Banking & Point of Sale (POS) Terminus

The Bank is at the forefront in implementation of agency banking model, currently working with over 8,765 agents countrywide. Our agents who include co-operative societies, supermarkets, ordinary shops, petrol stations among other outlets enable customers' access to banking services including making withdrawals and deposits beyond official banking hours. Due to the greater geographical area covered by agents, customers also enjoy better convenience as services come closer to their most accessible location.

Sacco-Link & FOSA Partnerships

The Bank in partnership with various Saccos offers retail banking and related products through front-office service points (FOSAs) located at Sacco's premises and to date 180 licenced Saccos have over 450 FOSA branches in operation. The bank has also invested in the SaccoLink Switch which has integrated the bank's and Saccos' systems, thereby enabling Sacco members access to ATMs, mobile banking, point of sale (POS) channels and internet banking. In this partnership, we offer wholesale banking services to co-operative societies which then provide to their members retail services complete with full technological capabilities. To date, over 164 Saccos are enlisted in this partnership and over 566,000 ATM cards have been issued to co-operative members.

Internet Banking:

This is the bank's internet-banking solution, Co-opNet. With its high Internet speeds and enhanced security features, it has contributed to growth in customer base especially for Kenyans in the Diaspora and already serves over 53,000 clients. CoopNet enables customers to do full end-to-end banking through a web-based channel. Services accessible via Co-opNet include:

1. Real-Time account balance enquiry
2. Monthly accounts statements - View, Download or Print
3. Funds Transfers both
    - Co-op Bank to Co-op Bank - Effected immediately
    - Co-op Bank to other Banks in Kenya - EFT & RTGS
4. Utilities Payment
    - KPLC Post-paid only
    - Nairobi Water Company
5. Secure E-Mail - Send instructions to the Bank securely

Our 144-Branch Network and 570 ATMs:

This is our footprint across the region boosting of 144 branches. In our branches our customers can access much more than banking services including those offered by our subsidiaries. In Kenya we have 140 branches spread in over 40 counties while 4 are in South Sudan.

We also have 570 ATMS supporting our channels and distributed all over the country. Services accessed by customers in our ATM includes cash withdrawals and deposits (in some), Balance inquiry, utility bill payment and Mco-opcash registration and withdrawal.

Sustainability Review (Continued)

Our Group's Members

Co-operative Bank of South Sudan (COBSS)

The bank adopts a unique model of partnering with local Co-operatives in entering new markets to ensure inclusive growth and long-term sustainability. Such a joint venture with Government of South Sudan (Co-op Bank 51% and GOSS 49%) has seen a successful establishment of the Co-operative bank of South Sudan which made a pre-tax profit of KShs. 849.72 Million in 2015 despite the difficult operating environment in the year. Co-operative bank of South Sudan is currently operating 4 branches in Juba and 4 non-oil collection centers. Also extending our partnership with CIC Group Ltd, Co-operative Bank of South Sudan acquired a 31% stake of CIC Africa South Sudan Ltd. CIC Africa SS Ltd contributed KShs. 97 Million to the KShs. 849.72 Million reported by COBSS. The bank is in the process of expanding operations in Rwanda, Uganda, Tanzania and Ethiopia in partnership with co-operative movements in those countries.

Co-op Consultancy & Insurance Agency Ltd (CCIA): 'Capacity-Building for Co-operatives'

CCIA Limited is a wholly owned subsidiary of the Cooperative Bank of Kenya offering business and financial advisory services to the co-operative societies in Kenya who in turn extend financial inclusion to Millions of our people.

Following many years of working with the Co-operative movement, Co-operative Bank appreciates the invaluable experience and expertise gained in matters that are of interest to Co-operative Societies. Co-op Consultancy & Insurance Agency Limited (CCIA) was formed in 2002 as a specialist subsidiary of the Bank to provide financial advisory services to mostly the Co-operative movement and other selected sectors of the economy.

CCIA's key objective is to enhance efficiency and profitability of the Co-operative movement through the provision of affordable capacity-building solutions. The services are offered at very concessionary terms, which is offered as a direct subsidy by Co-operative Bank.

In 2015, CCIA successfully conducted 145 business advisory mandates, of which 37 were first time co-operatives brought on board. 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 set up of a farmers' co-operative union at Aweil Rice Irrigation Scheme.

To safeguard and ensure sustainable growth to the co-operative movement, CCIA offers the following advisory services:

1. Strengthening corporate governance through development of a governance charter, training of board of directors, appraisal of directors etc.;
2. Development of operational manuals and policies - We develop and customize operating policies and manuals for co-operative societies in to assist them operate in an efficient and standard manner.
3. Strategic planning - We assist co-operative societies and other corporate organizations to develop their strategic plans. The methodology involves a study of the organization to establish the strategic imperatives followed by facilitation of consultative workshop to develop a strategic plan for the Society.
4. Business Process Improvement - This is a future oriented, systematic evaluation of the activities of the business operations in a bid to improve the organization's efficiency, competitiveness and profitability through improvement in the performance of management functions. We conduct operations reviews for existing co-operative societies with an aim of identifying the challenges affecting them and the opportunities available to them.
5. ICT Evaluation and Software Procurement Services - For organizations having challenges with effective utilization of their software, the company assists with evaluating the areas of improvement and making recommendations. CCIA also assists organizations procure relevant software for their businesses.
6. Carrying out of Feasibility Studies and preparing business plans
7. Restructuring and reorganization
8. Conducting Market research and product development
9. Human Resources Management
10. Forensic Audit
11. Data Clean-up and Reconciliation

CCIA partners with Donor/Development agencies targeting the co-operative movement. In the recent past, we have been engaged in the training of over 30,000 smallholder farmers in corporate governance and financial management. The smallholder farmers were profiled into Community Based Organisations and Co-operatives which will have a huge impact in embedding financial inclusion and improvement of their livelihood.

Sustainability Review (Continued)

In addition CCIA is also licensed by the Insurance Regulatory Authority to sell insurance products (Bancassurance) on behalf of insurance companies for a commission hence availing insurance services to our customers through our entire branch network. Thus the Co-operative Bank has now become a financial supermarket where all services can be received.

Co-op Trust Investment Services Ltd:

Co-op Trust Investment Services Ltd is the largest locally-owned fund management and investment services provider in Kenya and is a key part of the one-stop-shop financial services model. Among its clients include pension funds, corporates and high net worth individuals.

Kingdom Securities:

Kingdom Securities has taken stock brokerage services across the whole country, including members of the co-operative movement through over 160 institutional agents who include FOSAs and the entire bank's branch network.

CIC Group

CIC is the largest Co-operative insurer in Africa with innovative products tailored to meet the unique needs of the co-operative movement. The company though, offers insurance services not only to co-operatives but also to the general public in both life and general categories. The bank owns 26% of CIC Kenya and as noted earlier, the Co-operative Bank of South Sudan has acquired a 31% stake in CIC Africa Ltd-South Sudan.

CO-OPERATIVE BANK FOUNDATION: Investing in our Future

The welfare of the people, communities, organisations and the environment in which they operate are interlinked to the extent that true prosperity is acknowledged only when there is collective success. 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. We felt our role goes beyond profit-making to include promoting the long-term economic prosperity and quality of life for everyone in our communities.

Education and Training

Inequality in education opportunities continues to represent a major barrier to the realization of people's potential in our country. Good education is critical to improve income, employment and enterprise opportunities.

Kenya has made some progress over the past few decades in making higher education more accessible, however disparities still persist in student access to colleges and universities. These disparities limit the workforce opportunities, democratic participation and life chances of poor needy students. Co-op foundation is contributing toward this end by supporting the government 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.

Number of beneficiaries

The secondary scholarship program was initiated in the year 2007 and has grown from an initial sponsorship of 30 students per region, to 60 students per region and 5 students per county for the 47 counties in Kenya. To date, the foundation has supported 4086 students in secondary school education, 140 at university level and 17 at college levels.

During the last financial year, the foundation invested a total of KShs. 138.7 Million towards this worthy course. This brings the total amounts donated for the above course through the foundation since inception to KShs. 570.4 Million.

Leadership & Management Centre (L&MC)

LMC is our centre of excellence that coordinates all learning and education activities for staff in the bank and its subsidiaries. This starts from identifying learning needs and skills gap of staff members, developing the content both internally or through external outsourcing and organizing for delivery. LMC manages the bank library and resource centre helps equip staff with information to help them better their performance. The library is tasked with acquiring and preserving, providing and facilitating access to relevant information materials either physically or via our online e-learning platform.

LMC additionally conducts training to the co-operative movement as part of its commitment to enhance competencies and equip Sacco boards and management teams with skills. Advanced courses offered include board seminars on corporate governance, Central Management Committee (CMC) workshops, co-operatives management & compliance, delegates training, credit administration, customer service, FOSA operations, frauds & forgeries, strategic planning, business process re-engineering, marketing, performance management, supervisory skills, office administration and team-building exercises. In 2015, the Management Centre carried out 69 training mandates in which over 797 Saccos and 6,945 participants were impacted.

Sustainability Review (Continued)

OUR STAKEHOLDER ENGAGEMENT

We Create Value for all our stakeholders:

We maintain ongoing dialogue with our stakeholders to inform our business strategy, identify new opportunities and manage risks. We engage with our clients to ensure that the products and services we offer meet their personal and business needs. Net Promoter Score (NPS) surveys across our markets measure clients satisfaction with our products and services. We additionally engage with investors and analysts on our business strategy through one-on-one meetings and round tables. We also work with regulators and government to promote the development of financial markets, products and services. In all these processes we deliver value for our shareholders, provide an esteemed workplace for our employees and we support the entire society through growth, job creation and innovative financial products.

With our Community, We stand in Solidarity:

We work with all community agents towards providing solutions to the social, economic and environmental concerns. In 2015 & 2016 we joined our fellow Kenyans in the supporting The First lady Marathon by contributing KShs. 27 Million. Together with our staff we raised KShs. 3.76 Million towards the Classic 105 FM led "Be a Hero to a Little Hero" initiative which was geared towards raising KShs. 10 Million in only 24 hours for purchase of Cancer equipment for the Children's cancer ward at Kenyatta National Hospital, the only hospital in Kenya with a children cancer facility. Various other initiatives supported in 2015 include Annual county leadership day, Eddah hope cancer foundation, Heart to Heart foundation, Evangelical Alliance of Kenya, Diabetes Charity Golf Tournament etc. Overall, in 2015 the bank supported over 72 initiatives with over KShs. 35.6 Million.

Our Customers 'We Are You':

We Ensure Excellent Customer Experience

In 2015 we universally re-oriented our strategy towards being more customer-centric as we strive to become the most customer-focused bank in the region. Most of our branches have transformed with modern queue management system, comfortable seating arrangement for customers and customer champions to guide customers in the banking halls. We have introduced self-service zones, cheque/cash drop boxes, free call centre lines at the branch, ATMs in branches and internet booths for ease of access. These initiatives has seen queue and service time drop by 74% to below 8 minutes. Our system uptime was 98% in the year ensuring ready availability to our customers 24/7. Loan origination process was also considerably automated making TAT on credit processing considerably short. Our on-going effort to migrate our customer transactions to alternative channels are aimed at ensuring faster, efficient and superb customer experience. The number of transactions happening in branches have now declined by over 33% while Mco-op cash, Agent and internet banking transactions have increased by 65%, 46% and 297% respectively. We have adequate internal policy and procedures to make sure that customer complaints are identified and resolved quickly. Employees make the ambitions of our customers and the Co-operative bank come true. Thus our policy is aimed at inspiring our staff to see the world from our clients' perspective in order to deliver high impact service. We will continue to undergo fundamental transformation in terms of our working methods, culture, attitudes and conduct in response to the changing needs of our customers since we believe this is where our strength and distinctiveness lies.

Growing Human Capital, Our Most Valuable Resource

Employer of Choice

Our Bank has made it a priority to continue to build our leadership position as an employer of choice with a strong employer and people brand to consistently ensure our Bank has the right skills to leading all our market segments. We have done this by primarily attracting and retaining the best talent in the market. We continue to deploy innovative tactics in talent retention as well as strengthening our Employer Value Proposition for this market and beyond. Our values and core behaviours continually enable us to drive a high performance culture to ensure enhanced staff productivity across the Bank as well as continually reward outstanding performance. Our human capital investment in competitive remuneration packages and total employer value proposition stimulates superior performance and rewards high achievers for their contribution.

As an employer brand we respect employee individuality within practices of our corporate culture and brand image as a means of enhancing personal fulfilment. We continue to practice the virtuous value of mindfulness in appreciating the need for work-life integration for our staff and we have created an inclusive and conducive environment to cater for different requirements. Further in this regard 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 partnership to ensure that staff interests are addressed timeously.

As an Employer of Choice we continue on the journey of continually creating an inspiring experience for our people by improving the employee engagement incrementally to guarantee the Bank's success and performance. This is a key success factor to great business results as well as staff productivity.

Sustainability Review (Continued)

A high performance culture and rewarding exceptional performance:

In 2015 the bank introduced a robust Key Performance Indicators (KPI) focused performance management process with clear linkages to rewards and better accountability mechanisms. The introduction of fewer 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 2015 increased by 38% 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 90% being under 40 years. This has further enhanced internal mobility of talent.

Strength in 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. 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.

Staff Profile:

	Year 2015		Year 2014	
No. of employees:	**3,948**		**4,450**	
Male	2,264	57%	2,570	58%
Female	1,684	43%	1,880	42%
No. of employees of age 35 or under:	**3,036**		**3,662**	
Male	1,751	58%	2,131	58%
Female	1,285	42%	1,531	42%
No. of senior management positions:	**62**		**56**	
Male	42	68%	39	70%
Female	20	32%	17	30%
Average years of service:	**5.8**		**4.8**	
Male	5.4		5.2	
Female	6.3		4.5	
Employees taking leave for child-rearing:	**630**		**694**	
Male	353	56%	394	57%
Female	277	44%	300	43%

Building Pride & Passion

We have developed an environment to create passion and individual team-member responsibility towards making us a market leader. We promote innovation for generation of new ideas and approaches to business with the assurance that staff views are recognised, insights acted upon and innovation is rewarded. Talent management and succession planning continue to be critical to future proofing our business for seamless execution of our corporate strategy, long term sustainability and profitable growth in the years to come. As such, we are developing world-class leaders and managers of our business through deepening their experiences and also providing the right exposure and learning interventions to have scalable capabilities for the future of the bank. This has enhanced business continuity as well as seamless transitions over the years as the team grows

As a learning organization and as organization practices evolve, we have deliberately embarked on further investing in and developing significant internal coaching capabilities for all our leaders as well as embedding coaching as a way of working within the Bank. This is a great enabler for better employee engagement as well as enhanced staff productivity. We are investing significantly in impactful learning interventions critical in building the technical and behavioural competencies of our teams as well as in emerging skills for the future, for instance Data Analytics and Sales Force Effectiveness.

Our people-management processes operate under open-door policy where information to and from employees flows freely, thus creating an environment of confidence, satisfaction and security.

Sustainability Review (Continued)

Empowering Our Staff

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 training, leadership-building and skills enrichment. To understand the needs of our staff, in 2015 we launched an online survey to help us identify the training needs of our staff and thus help us develop a relevant training curriculum that will have maximum impact to our employees' skills and their productivity. We have also invested in an e-learning portal and engaged the best in class as our Learning Partners and top of the range self-paced training programmes for our staff. We encourage our people to commit themselves to lifelong learning in both their professional and personal endeavours. Towards this objective, the bank offers interest-free education loans to employees to pursue their preferred program.

Continuous Staff Development

Our Leadership and Management Centre (LMC) is already providing leadership in upskilling, re-skilling and developing our people. E-learning and blended learning techniques will continue to be employed in all our learning programs to ensure maximum impact and effective applicability of learning interventions by our staff. We have also implemented a full academy approach for wider reach in the bank network and as cost containment measure to deliver training more efficiently. In 2015 we made significant investments in learning interventions designed at fully supporting and enabling our staff to accelerate the achievement of their goals as well as primarily to provide much needed knowledge and skills for our Bank Transformation program. The result has been greater traction in performance but also a people brand in terms of skills that is unrivalled especially on the sales force of the Bank. Our other learning programs comprise of different technical and business skills' courses as well induction and on-boarding programs for new staff or staff taking up new roles.

We are proud of our internal mobility capabilities and where our staff are encouraged to chart and grow their own careers through personal initiative by providing them with opportunities to take up internally advertised roles. This significantly improved our internal mobility and career progression rates for 2015 and with a positive impact on business results as well as boosting motivation and personal development drive for our staff. The Bank's robust recruitment and internal deployment process has been effective in ensuring we have the right talent, optimal numbers and where it is needed to ensure business success across the Bank.

Employee Welfare & Sports Activity

As a bank, we view each other as part of one big family and each member's welfare is our collective responsibility. We continue to invest in out-of-office staff activities such as sports events and team-building in reflection of our deep commitment to staff welfare. Our men and women's' basketball teams are formidable competitors in the respective National Leagues with the ladies' team finishing 2nd runners up in 2014 and 2015. Our team at the Inter-bank sports tournament and also at the Interbank quiz and essay competition emerged 3rd overall. The bank also supports a volleyball team for men in the Premier League.

Health, Safety & Wellness Programme

A safe and secure working environment is a key priority and 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. 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. This enhances staff productivity and has a direct impact on business performance.

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. Additionally, the bank does not 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.

People with Disabilities Policy

The Bank is committed to equal opportunity and access for people with disabilities. In compliance with Persons with Disabilities Act, 2003, 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.

Sustainability Review (Continued)

CARING FOR THE ENVIRONMENT: Safeguarding the Future

Sustainable Consumption & Reducing Environmental Impact

Our sustainability agenda has been integrated into our corporate strategy and is aimed at enhancing our financial, economic, social and environmental growth in line with our corporate values. Our bank's environmental policy is aimed at conducting business in a responsible manner through conservation, optimal use of resources, energy saving mechanisms and reduction of waste. We believe in 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.

Green Projects Financing & Partnerships

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 30 Million) credit agreement. The Bank has so far on-lend USD 36.2 Million to various entities undertaking projects in Wind power generation, solar power installation and acquiring or 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.

Staff Community Activities

With bank support, our staff are involved in at least one community development program each year. Prioritised projects include those focusing on education, environment, child-welfare and poverty alleviation initiatives among others. Staff have the liberty to identify, own and drive projects as they volunteer time and resources. Across the country, our staff made a positive impact to HIV/AIDS groups, children centres, schools, medical funds, sports events, youth groups, education days, charities, environmental clean-up events, hospitals, prisons, self-help groups and facilities for the physically challenged.

National Projects and Economic Development

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

Capital Adequacy Policy:

In our effort to ensure business sustainability and continuity we have developed an Internal Capital Adequacy Assessment Process (ICAAP) document that is comprehensive and adequate to the nature of risks posed by our business activities and the operating environment. Our ICAAP is based on Basel II accord and operates under three pillars;

1. Minimum capital requirements pillar

- Deals with maintenance of regulatory capital calculated for three major components of risk that a bank faces: credit risk, operational risk, and market risk. Other risks are not considered fully quantifiable at this stage.

2. Supervisory Review pillar

- This is a regulatory response to the first pillar, giving regulators better 'tools' over those previously available. It also provides a framework for dealing with systemic risk, pension risk, concentration risk, strategic risk, reputational risk, liquidity risk and legal risk, which the accord combines under the title of residual risk. The Internal Capital Adequacy Assessment Process (ICAAP) is a result of Pillar 2 of Basel II accord.

3. Market Discipline pillar

- This pillar aims to complement the minimum capital requirements and supervisory review process by developing a set of disclosure requirements which will allow the market participants to gauge the capital adequacy of an institution.

Sustainability Review (Continued)

SAFEGUARDING FINANCIAL SYSTEMS SECURITY

Raising Anti-Money Laundering and Fraud Awareness among Staff

It is prudent to focus more efforts on prevention and frustration of financial crimes than on investigation albeit both being important. Branch and front-line staff are our first line of defence and have been adequately equipped for this role through regular training and refresher courses. The training is based on Know Your Customer (KYC) principles to ensure bank processes capture adequate customer information that facilitates positive customer identification during transactions and protection of customer details. This training includes updates on bank processes specifically designed to prevent fraud. Through these measures and high level of vigilance, our personnel have frustrated many high-value attempts of fraud. Staff have also been equipped with skills to prevent, detect and report transactions suspected to be money laundering in nature. This alertness is a key component of our systems, processes and procedures in line with the Banks business ethics, Code of Conduct as well as Central Bank guidelines.

Whistle-Blowing Program

The bank has in place a whistle-blowing program through which staff can report cases of fraud or suspected fraud and any other potential risk. The program includes procedures to pass information to relevant authorities for action in a secure manner that protects their identity. There is a dedicated email address set up to receive anonymous e-messages from staff.

Customer Awareness

The security and privacy of customers' financial information is a bank's important responsibility. While we have invested in world-class and sophisticated Information Communication Technology (ICT) infrastructure, the customer is in custody of key documents that could facilitate fraudulent activity if accessed by those with criminal intent. We are committed to raise customer awareness on protection of confidential personal information and documents such as cheque books, debit and credit cards. In an effort to help clients protect themselves against financial crime, customers are encouraged to routinely review their credit card and bank statements and make enquiries on them. Through in-house training and tailor-made courses at our Management Centre, the bank trains customers with high-value and large-volume transactions on operational strategies to tackle financial fraud. We reiterate to customers that the bank does not request for sensitive personal information through email or mobile phone communication. We enlighten clients that legitimate online transactions can only be accessed through our official website and if in doubt, reference should be made using official telephone contacts including our Call Centre.

Co-op Foundation

Ms. Lydia Mwikali (Left), a Kenyatta University Bio Chemistry student, attends to Ms. Ester Mutili Peter at Sengani Dispensary inTala. Ms. Mwikali is a recipient of the Co-operative Bank Foundation University Scholarship which is awarded to bright but needy students. Beneficiaries of the programme volunteer for community service during vacation. The Foundation has so far educated 4,243 students since its inception in 2007.

Co-op Foundation

We are committed to nurturing future generations through the education of bright and needy students. We also support the sustenance of the environment through various conservation initiatives.

Corporate Governance

Statement on Corporate Governance

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

Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya developed by the Centre for Corporate Governance and the Capital Markets Authority (CMA) set 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 fêted by reputable reviewers, leading to recognition awards.

Code of Conduct

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

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

THE BOARD

Board composition

The bank is governed by a Board of Directors appointed by shareholders. The Board consists of thirteen directors who are non-executive except for the Managing Director who is executive. Notably, seven members of the Board are elected from the co-operative movement and represent the strategic and majority shareholder in the bank - Co-opholdings Cooperative Society Limited. In accordance with the company's Articles of Association, the Board should include 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 co-ordinating the Board's agenda and papers.

Appointments and induction to the Board

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

Board responsibilities

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

- Setting the strategic direction of the bank and putting in place appropriate policies, systems and structures for their successful implementation;
- 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 at least six times a year and special meetings may be convened when need arises. Boards of subsidiaries of the bank meet on a quarterly basis. Guidelines are in place concerning the content, presentation and delivery of papers for each Board meeting to ensure that directors have adequate information and sufficient time for appropriate briefing ahead of each meeting. The Board is in charge of overall strategic direction and regularly sets targets as well as approves business plans which form the basis of performance assessment. On a regular basis, the Board receives reports and presentations from the Group Managing Director & CEO on the macroeconomic environment and the impact on banking business, a review of the broader financial services industry as well as the regulatory environment.

Corporate Governance (Continued)

Board Chairman and Managing Director

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

Board Performance Evaluation

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

Directors' remuneration

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

Internal control and Audit

The Board has collective responsibility for establishment and management of appropriate systems of internal control and for reviewing their effectiveness. The system of internal control in place has defined procedures with operational and financial controls to ensure that assets are safeguarded, transactions authorised and recorded properly, and that material errors and irregularities are either prevented or detected within a reasonable period of time. The business performance of the Bank is reported regularly to its management and the Board through performance trends, forecasts and actual performance analysis against budgets and prior periods for close monitoring.

The Board reviews effectiveness of internal control systems in place by taking into account results of work carried out to audit and review activities of the Group by both external and internal assurance providers. Internal assurance is carried out by an independent Internal Audit Department that reports to the Board Audit and Risk Committee and provides confirmation that the bank's business standards, policies and procedures as set by the Board are being complied with.

The Board has reviewed the Group's system of internal control and is satisfied that the system is effective. However, the Board recognises that any system of internal control can provide only reasonable and not absolute assurance against material misstatement or loss.

Risk Management and Compliance

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board's Audit and Risk Committee is responsible for developing and monitoring Group risk management policies established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board's Credit Committee oversees the overall lending policy of the bank by directing, monitoring, reviewing and considering all issues that may materially impact on the present and future quality of the Bank's credit risk management. The Committee also ensures that the credit policy and risk lending limits are reviewed at least on an annual basis and as and when the environment so dictates.

The Board has also set up a Compliance Department which directly reports to its Audit and Risk 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 bank may result in a conflict of interest, the director is obliged to declare the same and exclude themselves from any discussion or vote over the matter in question. Directors also have a duty to avoid situations of appointment to positions or acquisition of significant interest in businesses competing with the Group. Business transactions with directors and related parties are disclosed in notes to the financial statements.

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

These committees have formally determined terms of reference with defined scope of authority, set by the Board of Directors which are from time to time refreshed to synchronise them with new developments and requirements of Central Bank (CBK) Prudential Guidelines.

Corporate Governance (Continued)

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. Rose Simani – Chairperson
- Mr. Lawrence Karissa
- Mr. Julius Riungu
- Mr. Wanyambura Mwambia – PS Treasury appointee

The Committee meets at least once every 3 months and at least twice in a year with the external and internal auditors without management being present. Meetings are normally attended by resources from the Departments 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 Bank's and its subsidiaries 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 bank, 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.

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. Lawrence Karissa – Chairman
- Mrs. Rose Simani
- Mr. Julius Riungu
- Mr. Wanyambura Mwambia – PS Treasury appointee

The Committee meets at least once every 3 months and at least twice in a year. 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.

Staff and Nomination Committee

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

- Mr. S. C. Muchiri, MBS – Chairman
- Mr. J. Riungu – Vice-Chairman
- Mr. Lawrence Karissa
- Mr. Julius Sitienei
- Mr. Benedict W. Simiyu
- Dr. Gideon Muriuki, EBS – Group Managing Director & CEO

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

Board Credit Committee

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

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

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

Corporate Governance (Continued)

Management Committees

The Board has put in place key Management Committees with defined terms of reference and scope of authority and reporting structure. The current Management Committees are as follows;

The Board of Management – This is the Executive Committee constituted to assist the 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 Managing Director and includes Division Directors and other senior managers co-opted from time to time.

The Credit Board of Management – Its mandate is to receive, review and consider material, high-value and sensitive credit cases and matters. It currently has membership of all Division Directors.

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

Business Support Committee (BUSCO) - This is the Operational Risk Committee of the Bank that has the responsibility of overall monitoring and control of Operating, Regulatory and Market Risks facing the Bank.

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 Resources Development and makes recommendations to the Chief Executive as is appropriate.

Beyond Zero 2015

H.E Margaret Kenyatta accepts a cheque for KShs. 12,000,000 from Co-operative Bank for the 2015 Beyond Zero, First Lady Half Marathon. Dr. Gideon Muriuki CEO & GMD Co-op Bank presented the cheque for the third consecutive year. Thus far the Bank has contributed to the purchase of 3 mobile clinics to reach mothers and children in far flung areas.

Corporate Governance (Continued)

Schedule of attendance of Board meetings during the period:

Directors	**Co-operative Bank Group**				**Co-operative Bank of Kenya Ltd Board Sub-committees**		
	Co-operative Bank of Kenya Ltd	**Co-op Bank South Sudan**	**Co-op Consultancy & Insurance Agency Ltd**	**Co-optrust Investment Services Ltd**	**Audit Committee**	**Staff and Nomination Committee**	**Credit Committee**
Schedule of meetings:							
S. C. Muchiri, EBS – Group Chairman	8		6	6		2	
J. Riungu – Vice Chairman	8				4	2	
Dr. G. Muriuki, MBS – Group Managing Director & CEO	8		6	6		2	3
D. Kibera – Retired on 27.05.2015	4						
L.C. Karissa – Appointed 27.05.2015	3				3	1	
J.K. Murugu – Appointed 27.05.2015	4						3
R. Simani (Mrs)	8				4		
W. Ongoro, HSC	8						3
W. J. Mwambia – Representing PS Ministry of Finance	8				4		
J. Sitienei	8					2	
R. L. Kimanthi	7						2
M. Malonza	6						2
S. Odhiambo (Mrs)			6	6			
Dr. J. Kahunyo			6	6			
P. K. Githendu			6	6			
G. K. Mburia			6	6			
B.W Simiyu	8					2	
J.N. Njiru			6	6			
D.M. Muthigani			6	6			
P. M. Musyimi, HSC – Retired 27.05.2015	4		1	1		1	
Co-op Bank South Sudan							
		Full BOD	**Audit**	**Risk & Finance**			
Schedule of meetings:							
S. C. Muchiri, EBS – Group Chairman		5	2				
J. Riungu – Vice Chairman		5					
Dr. G. Muriuki, MBS – Group Managing Director & CEO		5	2	1			
Dr. Suzana Donato Deng – Chairperson							
Zachary Chianda – Managing Director		5	2	1			
Prof. Mathew Gordon Udo		5	2				
Wani Buyu Dyori		5		1			
Rosemary Githaiga		5	2	1			

Attendance is shown only where director is a member of a particular board or committee.
All directors are non-executive, except for the Managing Director who is executive.

Corporate Governance (Continued)

Communication with Shareholders

Extensive information about the bank and its activities is provided in the audited Annual Report and Financial Statements which is available to all shareholders. The bank's results are published in daily newspapers every quarter in line with the requirements of the Central Bank of Kenya (CBK) and are also available on the company's website: www.co-opbank.co.ke.

Shareholders have direct access to the Company Secretary. There is regular dialogue with individual and institutional investors on matters relating to their shareholding and activities of the business. Enquiries are welcome and are dealt with in an informative and timely manner. The Bank has engaged the services of a professional Registrar to facilitate appropriate responses to shareholder queries and smooth transfer of shares.

Shareholders are encouraged to attend the Annual General Meeting (AGM) to discuss the progress of their bank and utilise the opportunity to ask questions as well as meet directors informally after the meeting. To safeguard the interests of minority shareholders, they may nominate directors for election into the bank's Board in line with the Company's Articles and Memorandum of Association.

Shareholding Information:

The top 10 shareholders, based on the Bank's share register as at 31st December were as follows:

2015			
	NAME	NO OF SHARES	%
1	CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED	3,156,429,504	64.56
2	DR. GIDEON MAINA MURIUKI	100,069,750	2.05
3	NIC CUSTODIAL SERVICES A/C 077	26,764,853	0.55
4	CFC STANBIC NOMINEES LTD A/C NR1030682	26,554,728	0.54
5	STANDARD CHARTERED NOMINEES A/C 9230	25,519,137	0.52
6	STANDARD CHARTERED NOMINEE ACCOUNT KE17605	24,144,330	0.49
7	KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 915B	20,258,866	0.41
8	STANDARD CHARTERED NOMINEES NON-RESD. A/C KE10516	19,605,687	0.40
9	KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 771A	16,612,933	0.34
10	CO-OPERATIVE BANK CO-OPERATIVE SAVINGS & CREDIT SOCIETY LTD	15,103,667	0.31
	TOTAL	**3,431,063,455**	**70.17**

Co-opholdings Co-operative Society Limited is the strategic and majority shareholder in the bank representing the block strategic shareholding by the Kenyan Co-operative Movement with 3,835 (2014-3,824) Co-operative Societies covering Millions of Kenyans.

The top ten (10) shareholders of Co-opholdings Co-operative Society Limited as at 31 December were as follows:

2015			
	NAME	Balance	%
1	HARAMBEE COOPERATIVE SAVINGS & CREDIT SOCIETY LTD	120,714,860	3.82
2	H & M COOPERATIVE SAVINGS & CREDIT SOCIETY LTD	104,372,893	3.31
3	KENYA POLICE SACCO SOCIETY LTD	99,904,355	3.17
4	AFYA COOPERATIVE SAVINGS & CREDIT SOCIETY LTD	92,829,660	2.94
5	MASAKU TEACHERS COOP SAVINGS & CREDIT SOCIETY LTD	91,697,527	2.91
6	KIPSIGIS TEACHERS COOP SAVINGS & CREDIT SOCIETY LTD	84,579,600	2.68
7	TELEPOST CO-OPERATIVE SAVINGS & CREDIT SOCIETY LIMITED	75,638,570	2.40
8	K-UNITY SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED	73,187,640	2.32
9	CO-OPERATIVE BANK COOP SAVINGS & CREDIT SOCIETY LTD	62,598,760	1.98
10	NAWIRI SAVINGS AND CREDITCO-OPERATIVE SOCIETY LTD	57,877,680	1.83
	TOTAL	**863,401,545**	**27.35**

Corporate Governance (Continued)

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

	2015	
DIRECTOR	**NO. OF SHARES**	**%**
S. C. Muchiri, EBS – Chairman	6,253,333	0.13
Julius M Riungu – Vice Chairman	5,037,333	0.10
Dr. G. Muriuki, MBS – Managing Director	100,069,750	2.05
M. Malonza	4,300,000	0.09
S. Odhiambo (Mrs)	1,261,170	0.03
P. K. Githendu	272,013	0.01
G. Mburia	2,400,000	0.05
J. N. Njiru	1,400	0.00
D. M. Muthigani	-	0.00
J. Sitienei	5,252,533	0.11
L. C. Karissa	3,217	0.00
P. M. Musyimi, HSC – Ag. Commissioner of Co-operative Development	7,000	0.00
R. L. Kimanthi	67	0.00
B. W. Simiyu	2,800	0.00
W. Ongoro	76,970	0.02
J. K. Murugu	179,200	0.01
R. Simani (Mrs)	-	0.00
W. J. Mwambia – Representing PS National Treasury	-	0.00
R. Githaiga (Mrs) – Company Secretary	1,802,080	0.04
TOTAL	**127,718,866**	**2.64**

Corporate Governance (Continued)

Shareholding distribution Schedule:

	2015		
Category	**No. of shareholders**	**No. of shares**	**%**
1–500 shares	10,976	2,159,241	0.04
501–5,000 shares	39,358	76,036,524	1.53
5,001–10,000 shares	31,346	223,703,535	4.56
10,001–100,000 shares	13,727	277,745,212	5.67
100,001–1,000,000 shares	662	192,213,601	3.99
1,000,001 shares and over	213	4,117,458,182	84.21
TOTAL	**96,282**	**4,889,316,295**	**100.00**

Shareholders' profile:

	2015		
Category	**No. of shareholders**	**No. of shares**	**%**
Kenyan individual investors	94,291	804,258,085	16.46
Kenyan institutional investors	1,803	3,864,632,493	79.04
East African individual investors	3	2,333	0.00
East African institutional investors	53	2,366,700	0.05
Foreign individual investors	65	26,273,060	0.53
Foreign institutional investors	67	191,783,624	3.92
TOTAL	**96,282**	**4,889,316,295**	**100.00**

Report of the Directors

For the Year ended 31 December 2015

The directors submit their report together with the audited financial statements for the year ended 31 December 2015, which show the state of the Group's and the Bank's affairs. This is in accordance with Section 22 of the Banking Act (Cap 488) and Section 157 of the Kenyan Companies Act (Cap 486).

1. PRINCIPAL ACTIVITIES

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

2. GROUP OPERATIONS

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

3. RESULTS

The results of the Group for the year are set out from page 46.

4. DIVIDEND

The directors recommend payment of a first and final dividend of KShs. 0.80 (2014 - KShs. 0.50) for every ordinary share of KShs. 1. The dividends will be paid on or about 29 June 2016 to the shareholders registered on the Bank's register at the close of business on 30 May 2016. The register will remain closed for one day on 31 May 2016 for the preparation of dividend warrants.

5. RESERVES

The movement in the Group's reserves is shown on page 52 of these financial statements.

6. GROUP DIRECTORS

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

Co-operative Bank of Kenya and subsidiaries:-

S. C. Muchiri, EBS	- Group Chairman
J. M. Riungu	- Vice Chairman
Dr. G. Muriuki, MBS	- Group Managing Director & CEO
D. Kibera	- Retired 27 May 2015
L. C. Karissa	- Appointed 27 May 2015 (Chairman, Board Risk Committee)
J. K. Murugu	- Appointed 27 May 2015 (Chairman, Board Credit Sub Committee)

R. Simani (Mrs) – Chairperson, Board Audit Committee
W. Ongoro, HSC
Wanyambura Mwambia – Representing PS, National Treasury
J. Sitienei
R. L. Kimanthi
M. Malonza
S. Odhiambo (Mrs)
Dr. J. Kahunyo
P. K. Githendu
G. K. Mburia
B.W. Simiyu
J. N. Njiru
D. M. Muthigani
Patrick Musyimi, HSC – Retired 27 May 2015
D. Gichuki – Appointed 2 November 2015

Co-operative Bank of South Sudan:-

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

7. AUDITORS

The auditors, Ernst & Young LLP, have expressed their willingness to continue in office in accordance with Section 159 (2) of the Kenyan Companies Act and subject to section 24 (1) of the Banking Act.

8. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 16 March 2016.

By order of the Board

....

Group Managing Director & CEO

Statement of Directors' Responsibilities

For the Year ended 31 December 2015

The Kenyan Companies Act require the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and the Bank as at the end of the financial year and of its operating results for that year. They also require the directors to ensure the Group and the Bank keep proper accounting records which disclose with reasonable accuracy, the financial position of the Group and the Bank. They are also responsible for safeguarding the assets of the Group and the Bank.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and the Bank and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the Group and the Bank will not remain a going concern for at least the next twelve months from the date of this statement.

....
GROUP CHAIRMAN

....
VICE CHAIRMAN

....
GROUP MANAGING DIRECTOR & CEO

....
COMPANY SECRETARY

16 March 2016

Rewarding Exceptional Service

Co-op Bank Group Chairman, Mr. Stanley C. Muchiri presents a recognition certificate to bid farewell to Director Mr. Donald K. Kibera who retired in 2015. Retired Director, Mr. Kibera joined the Board of Directors in 2009. Looking on is Co-op Bank Vice Chairman Mr. Julius Riungu and Mrs. Kibera.

Report of the Independent Auditors

TO THE MEMBERS OF THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated and bank's financial statements of The Co-operative Bank of Kenya Limited and its subsidiaries, which comprise the statements of financial position as at 31 December, 2015 and the income statement, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 46 to 131.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and for such internal controls as the directors determine is necessary to enable the preparation of consolidated and bank's financial statements that are free of material misstatements, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated and bank's financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated and bank's financial statements present fairly, in all material respects, the consolidated and bank's financial position of The Co-operative Bank of Kenya Limited and subsidiaries as at 31 December, 2015 and its consolidated and bank's financial performance and its consolidated and bank's cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

REPORT ON OTHER LEGAL REQUIREMENTS

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

i. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii. In our opinion, proper books of account have been kept by the group and the bank, so far as appears from our examination of those books;

iii. The group's and the bank's statements of financial position, the income statement and statements of comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Joseph K Cheboror Practicing Certificate No. 1145.

Ernst & Young

Nairobi

31 March 2016

In support of the Papal Visit

John Cardinal Njue, Archbishop of Nairobi, accepts a cheque of KShs. 10 Million from Group Managing Director & CEO of Co-op Bank for fundraising for the 2015 visit of His Holiness Pope Francis and the Legacy Projects in his honour in Kenya.

Financial Inclusion

James Kaburu, Head Investor Relations and Strategy receiving the Bank of the Year Financial Inclusion Global Award 2015 in London. To present the Award on behalf of The Financial Times of London were Michael Buerk (left), formerly of British Broadcasting Corporation (BBC) and Brian Caplen (right), Editor, The Banker.

Consolidated Statement of Financial Position

As at 31 December 2015

	Note	2015 KShs'000	2014 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	7	29,455,691	24,335,332
Deposits and balances due from banks	8	13,977,237	12,810,858
Held-for-trading investments	9	206	559
Available-for-sale investments	10	28,771,869	21,170,478
Derivative financial instruments	11	621,737	191,549
Loans and advances to customers	12 (a)	208,571,920	179,486,355
Other assets	13	12,130,498	8,401,889
Held-to-maturity investments	14	36,154,555	24,643,526
Investment in associate	16	2,267,230	1,907,722
Intangible assets	17 (a)	1,605,069	1,712,902
Prepaid lease rentals	18	36,964	37,570
Property and equipment	19	8,020,778	10,078,698
Deferred tax asset	20	886,055	618,629
TOTAL ASSETS		**342,499,809**	**285,396,067**
LIABILITIES			
Deposits and balances due to banks	21	3,421,219	3,159,444
Customer deposits	22 (a)	265,398,587	217,698,323
Loans and borrowings	23	19,271,212	18,269,487
Tax payable	24 (b)	171,328	149,821
Provisions	25	110,191	93,570
Other liabilities	26	4,306,703	2,612,511
Government grants	27	517,317	535,792
TOTAL LIABILITIES		**293,196,557**	**242,518,948**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT			
Share capital	28	4,889,317	4,889,317
Share premium	29	2,889,789	2,889,789
Revaluation reserve	30 (a)	459,414	408,074
Retained earnings	30 (b)	39,574,445	32,206,653
Available-for-sale reserve	30 (c)	(1,870,841)	(793,356)
Statutory reserve	30 (d)	784,381	718,421
Foreign currency translation reserve	30 (e)	(948,210)	31,444
Proposed dividends	31	3,911,453	2,444,658
		49,689,748	**42,795,000**
Non-controlling interest	32	(386,496)	82,119
TOTAL EQUITY		**49,303,252**	**42,877,119**
TOTAL LIABILITIES & EQUITY		**342,499,809**	**285,396,067**

The financial statements were approved by the Board of Directors on16 March 2016 and signed on its behalf by: -

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

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

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

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

Consolidated Income Statement

For the Year ended 31 December 2015

	Note	2015 KShs'000	2014 KShs'000
Interest income	33	33,370,039	27,210,668
Interest expense	34	(13,586,911)	(8,076,153)
NET INTEREST INCOME		**19,783,128**	**19,134,515**
Fees and commission income	35	9,501,834	8,714,867
Fees and commission expense	35	(57,944)	(136,782)
NET FEES AND COMMISSION INCOME		**9,443,890**	**8,578,085**
Net trading income	36	5,412,502	3,585,374
Amortisation of government grants	27	18,475	18,478
Other operating income	37	1,731,784	769,312
TOTAL OTHER INCOME		**7,162,761**	**4,373,164**
OPERATING INCOME		**36,389,779**	**32,085,764**
Net impairment losses on loans and advances	12 (c)	(2,019,295)	(1,175,598)
Amortisation of intangible assets	17 (a)	(399,950)	(341,817)
Amortisation of leasehold land	18	(606)	(610)
Depreciation of property and equipment	19 (a)	(1,825,444)	(1,953,664)
Employee costs	38	(8,927,128)	(9,780,667)
Other operating expenses	39	(8,219,255)	(8,188,173)
OPERATING EXPENSES		**(21,391,678)**	**(21,440,529)**
OPERATING PROFIT		**14,998,101**	**10,645,235**
Share of profit of an associate	16	384,991	270,976
PROFIT BEFORE TAX		**15,383,092**	**10,916,211**
INCOME TAX EXPENSE	24 (a)	(3,677,533)	(2,901,214)
PROFIT FOR THE YEAR		**11,705,559**	**8,014,997**
Attributable to:			
Equity holders of the parent		11,288,769	8,265,370
Non-controlling interest		416,790	(250,373)
		11,705,559	**8,014,997**
Basic earnings per share (KShs)	40	2.31	1.69
Diluted earnings per share (KShs)	40	2.31	1.69

Consolidated Statement of Comprehensive Income

For the Year ended 31 December 2015

	Note	2015 KShs'000	2014 KShs'000
PROFIT FOR THE YEAR		**11,705,559**	**8,014,997**
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net movement on available-for-sale investments	41	(1,026,494)	449,865
Exchange differences on translation of a foreign operation		(1,890,682)	30,384
Other comprehensive income of associates		(40,270)	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Other comprehensive income of associates		54,042	-
OTHER COMPREHENSIVE INCOME, NET OF TAX		**(2,903,404)**	**480,249**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF INCOME TAX		**8,802,155**	**8,495,246**
Attributable to:-			
Equity holders of the parent		9,288,411	8,702,569
Non-controlling interest		(486,256)	(207,323)
		8,802,155	**8,495,246**

Bank Statement of Financial Position

As at 31 December 2015

	Note	2015 KShs'000	2014 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	7	27,173,645	22,924,932
Deposits and balances due from banks	8	13,869,273	12,814,862
Held-for-trading investments	9	149	501
Available-for-sale investments	10	28,641,531	21,062,453
Derivative financial instruments	11	621,737	191,549
Loans and advances to customers	12 (a)	208,074,513	178,978,586
Other assets	13	12,018,596	8,430,687
Held-to-maturity investments	14	35,999,971	24,460,192
Investment in subsidiaries	15	2,207,370	1,806,449
Investment in associate	16	755,118	755,118
Intangible assets	17 (b)	1,461,590	1,363,210
Prepaid lease rentals	18	36,964	37,570
Property and equipment	19	7,812,740	9,253,832
Deferred tax asset	20	876,614	609,156
TOTAL ASSETS		**339,549,811**	**282,689,097**
LIABILITIES			
Deposits and balances due to banks	21	2,905,405	3,241,726
Customer deposits	22 (a)	263,709,415	216,174,313
Loans and borrowings	23	19,271,212	18,269,487
Tax payable	24 (b)	157,596	129,171
Provisions	25	110,190	92,840
Other liabilities	26	4,085,215	2,430,440
Government grants	27	517,317	535,792
TOTAL LIABILITIES		**290,756,350**	**240,873,769**
EQUITY			
Share capital	28	4,889,317	4,889,317
Share premium	29	2,889,789	2,889,789
Revaluation reserve	30 (a)	397,059	403,408
Retained earnings	30 (b)	37,830,868	31,264,374
Available-for-sale reserves	30 (c)	(1,842,869)	(794,062)
Statutory reserve	30 (d)	717,844	717,844
Proposed dividends	31	3,911,453	2,444,658
TOTAL EQUITY		**48,793,461**	**41,815,328**
TOTAL LIABILITIES & EQUITY		**339,549,811**	**282,689,097**

The financial statements were approved by the Board of Directors on 16 March 2016 and signed on its behalf by:-

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

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

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

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

Bank Income Statement

For the Year ended 31 December 2015

	Note	2015 KShs'000	2014 KShs'000
Interest income	33	33,098,293	27,126,063
Interest expense	34	(13,564,779)	(8,066,583)
NET INTEREST INCOME		**19,533,514**	**19,059,480**
Fees and commission income	35	8,647,735	8,082,819
Fees and commission expense	35	(57,944)	(136,782)
NET FEES AND COMMISSION INCOME		**8,589,791**	**7,946,037**
Net trading income	36	4,100,649	3,369,421
Amortisation of government grants	27	18,475	18,478
Other operating income	37	1,785,689	989,483
TOTAL OTHER INCOME		**5,904,813**	**4,377,382**
OPERATING INCOME		**34,028,118**	**31,382,899**
Net impairment losses on loans and advances	12 (c)	(2,007,357)	(1,133,519)
Amortization of intangible assets	17 (b)	(377,563)	(303,558)
Amortisation of leasehold land	18	(606)	(610)
Depreciation of property and equipment	19 (b)	(1,795,458)	(1,840,607)
Employee costs	38	(8,410,131)	(9,402,605)
Other operating expenses	39	(7,365,545)	(7,529,778)
OPERATING EXPENSES		**(19,956,660)**	**(20,210,677)**
PROFIT BEFORE TAX		**14,071,458**	**11,172,222**
INCOME TAX EXPENSE	24 (a)	(3,599,860)	(2,820,894)
PROFIT FOR THE YEAR		**10,471,598**	**8,351,328**
Basic earnings per share (KShs)	40	2.14	1.71
Diluted earnings per share (KShs)	40	2.14	1.71

Bank Statement of Comprehensive Income

For the Year ended 31 December 2015

	Note	2015 KShs'000	2014 KShs'000
PROFIT FOR THE YEAR		**10,471,598**	**8,351,328**
OTHER COMPREHENSIVE INCOME:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net loss on available-for-sale investments	41	(1,048,807)	461,645
OTHER COMPREHENSIVE INCOME, NET OF TAX		**(1,048,807)**	**461,645**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		**9,422,791**	**8,812,973**

Consolidated Statement of Changes in Equity

For the Year ended 31 December 2015

	Attributable to the equity holders of the parent										
	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Statutory reserve KShs'000	Available-for-sale 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
As at 1 January 2014	**4,190,844**	**3,588,262**	**429,704**	**718,026**	**(1,243,221)**	**1,060**	**2,095,422**	**26,439,285**	**36,219,382**	**364,609**	**36,583,991**
Profit / (loss) for the year	-	-	-	-	-	-	-	8,265,370	**8,265,370**	(250,373)	**8,014,997**
Other comprehensive income	-	-	-	-	449,865	30,384	-	-	**480,249**	-	480,249
Total comprehensive income	**-**	**-**	**-**	**-**	**449,865**	**30,384**	**-**	**8,265,370**	**8,745,619**	**(250,373)**	**8,495,246**
Realisation of revaluation surplus			(9,071)					9,071	**-**	-	-
Deferred tax on realisation of revaluation surplus			2,722					(2,722)	**-**	-	-
Deferred tax on realisation of revaluation surplus- prior year			2,722					(2,722)	**-**	-	-
Transfers to statutory reserve				395				(395)	**-**	-	-
Issue of bonus shares (note 29)	698,473	(698,473)							**-**	-	-
Reversal of Kingdom Securities NSE seat value (note 17)	-	-	(18,003)	-	-	-	-	(56,576)	**(74,579)**	(32,117)	(106,696)
2013- Dividends paid							(2,095,422)		**(2,095,422)**	-	(2,095,422)
Proposed dividends							2,444,658	(2,444,658)	**-**	-	-
At 31 December 2014	**4,889,317**	**2,889,789**	**408,074**	**718,421**	**(793,356)**	**31,444**	**2,444,658**	**32,206,653**	**42,795,000**	**82,119**	**42,877,119**
As at 1 January 2015	**4,889,317**	**2,889,789**	**408,074**	**718,421**	**(793,356)**	**31,444**	**2,444,658**	**32,206,653**	**42,795,000**	**82,119**	**42,877,119**
Profit / (loss) for the year	-	-	-	-	-	-	-	11,288,660	**11,288,660**	416,899	**11,705,559**
Other comprehensive income	-		39,689	-	(1,075,690)	(964,248)	-	-	**(2,000,249)**	(903,155)	**(2,903,404)**
Total comprehensive income	**-**	**-**	**-**	**-**	**(1,075,690)**	**(964,248)**	**-**	**11,288,660**	**9,288,411**	**(486,256)**	**8,802,155**
Realisation of revaluation surplus	-		(9,071)	-			-	9,071	**-**	-	**-**
Deferred tax on realisation of revaluation surplus-			2,722	-			-	(2,722)	**-**	-	-
Transfers to statutory reserve			-	65,960	-	-	-	(65,960)	**-**	-	-
Reclassification from / (to) non-controlling interest	-	-	18,001	-	(1,795)	(15,406)	-	50,196	**50,996**	17,641	68,636
2014- Dividends paid							(2,444,658)		**(2,444,658)**	-	(2,444,658)
Proposed dividends							3,911,453	**(3,911,453)**		-	
At 31 December 2015	**4,889,317**	**2,889,789**	**459,414**	**784,381**	**(1,870,841)**	**(948,210)**	**3,911,453**	**39,574,445**	**49,689,749**	**(386,496)**	**49,303,252**

Bank Statement of Changes in Equity

For the Year ended 31 December 2015

	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Statutory reserve KShs'000	Available-for-sale reserve KShs'000	Proposed dividends KShs'000	Retained earnings KShs'000	Total KShs'000
As at 1 January 2014	**4,190,844**	**3,588,262**	**407,035**	**717,844**	**(1,255,707)**	**2,095,422**	**25,354,077**	**35,097,777**
Profit for the year	-	-	-	-	-	-	8,351,328	8,351,328
Other comprehensive income	-	-	-	-	461,645	-		461,645
Total comprehensive income	**-**	**-**	**-**	**-**	**461,645**	**-**	**8,351,328**	**8,812,973**
Issue of bonus shares (note 29)	698,473	(698,473)	-	-	-	-	-	-
Realisation of revaluation surplus			(9,071)				9,071	-
Deferred tax on realisation of revaluation surplus	-	-	2,722	-	-	-	(2,722)	-
Deferred tax on realisation of revaluation surplus- prior year	-	-	2,722	-	-	-	(2,722)	-
2013- Dividends paid						(2,095,422)		(2,095,422)
Proposed dividends						2,444,658	(2,444,658)	-
At 31 December 2014	**4,889,317**	**2,889,789**	**403,408**	**717,844**	**(794,062)**	**2,444,658**	**31,264,374**	**41,815,328**
As at 1 January 2015	**4,889,317**	**2,889,789**	**403,408**	**717,844**	**(794,062)**	**2,444,658**	**31,264,374**	**41,815,328**
Profit for the year	-	-	-	-	-	-	10,471,598	10,471,598
Other comprehensive income	-	-	-	-	(1,048,807)	-		(1,048,807)
Total comprehensive income	**-**	**-**	**-**	**-**	**(1,048,807)**	**-**	**10,471,598**	**9,422,791**
Realisation of revaluation surplus	-	-	(9,071)	-	-	-	9,071	-
Deferred tax on realisation of revaluation surplus	-	-	2,722	-	-	-	(2,722)	-
2014- Dividends paid	-	-	-	-	-	(2,444,658)		(2,444,658)
Proposed dividends	-	-	-	-	-	3,911,453	(3,911,453)	-
At 31 December 2015	**4,889,317**	**2,889,789**	**397,059**	**717,844**	**(1,842,869)**	**3,911,453**	**37,830,868**	**48,793,461**

Consolidated Statement of Cash Flows

For the Year ended 31 December 2015

	Note	2015 KShs'000	2014 KShs'000
Cash generated from operating activities	42	23,558,606	13,559,297
Tax paid	24 (b)	(3,923,452)	(3,206,418)
Net cash flows generated from operating activities		**19,635,154**	**10,352,879**
INVESTING ACTIVITIES:-			
Purchase of property and equipment	19 (a)	(631,099)	(782,612)
Purchase of intangible assets	17 (a)	(338,689)	(469,087)
Proceeds from disposal of property and equipment		2,400	8,797
Purchase of held-to-maturity investments	14	(10,846,820)	(13,661,079)
Maturity of held-to-maturity investments	14	(664,209)	3,045,946
Investment in an associate		(30,152)	-
Dividends from an associate	16	69,407	52,142
Net cash flows used in investing activities:-		**(12,439,162)**	**(11,805,893)**
FINANCING ACTIVITIES:-			
Proceeds from borrowings	23	1,086,700	8,156,960
Repayment of borrowings	23	(1,820,787)	(293,995)
Dividends paid to equity holders of the parent		(2,444,658)	(2,095,422)
Net cash flows used in financing activities		**(3,178,745)**	**5,767,543**
Net movement in cash and cash equivalents		4,017,247	4,314,529
Effect of foreign exchange differences		(927,345)	(54,776)
Cash and cash equivalents at the beginning of the year		26,278,531	22,018,778
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	42	**29,368,433**	**26,278,531**

Bank Statement of Cash Flows

For the Year ended 31 December 2015

	Note	2015 KShs'000	2014 KShs'000
OPERATING ACTIVITIES:-			
Cash generated from operating activities	42	22,570,482	13,552,772
Tax paid	24 (b)	(3,838,892)	(3,145,135)
Net cash flows from operating activities		**18,731,590**	**10,407,637**
INVESTING ACTIVITIES:-			
Purchase of property and equipment	19 (b)	(583,755)	(650,220)
Purchase of software	17 (b)	(310,803)	(377,372)
Additional capital to a subsidiary		(400,922)	(57,955)
Proceeds from disposal of property and equipment		-	8,495
Purchase of held-to-maturity investments	14	(10,846,820)	(13,477,745)
Maturity of held-to-maturity investments	14	(692,959)	2,838,035
Net cash flows used in investing activities		**(12,835,259)**	**(11,716,762)**
FINANCING ACTIVITIES:-			
Proceeds from borrowings	23	1,086,700	8,156,960
Repayment of borrowings	23	(1,820,787)	(293,995)
Dividends paid		(2,444,658)	(2,095,422)
Net cash flows from financing activities		**(3,178,745)**	**5,767,543**
Net movement in cash and cash equivalents		2,717,586	4,458,418
Net foreign exchange differences		-	(204,260)
Cash and cash equivalents at the beginning of the year		24,872,134	20,617,976
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	42	**27,589,720**	**24,872,134**

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2015

1. GENERAL INFORMATION

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

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

2. ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

For the Kenyan Companies Act reporting purposes, in these financial statements the balance sheet is represented by/is equivalent to the statement of financial position and the profit and loss account is presented in the statement of profit or loss and 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 associate as at 31 December 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls 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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

(c) Changes in accounting policies and disclosures

New and amended standards and interpretations

The following standards and amendments were effective for annual periods beginning on or after 1 January 2015. The nature and the impact of each new standard or amendment is described below:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Bank, since none of the entities within the Bank has defined benefit plans with contributions from employees or third parties.

Annual Improvements 2010-2012 Cycle

With the exception of the improvement relating to IFRS 2 Share-based Payment applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. They include:-

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. The Group has no share based payment and the amendments are not relevant to the Group.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. The Group has no contingent consideration arrangements classified as liabilities (or assets).

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities

The Group has not applied the aggregation criteria in IFRS 8.12. The Group has not presented the reconciliation of segment assets to total assets in previous periods as this is not reported to the chief operating decision maker for the purpose of decision making.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact to the revaluation adjustments recorded in the Group during the current period.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

Annual Improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The Bank is not a joint arrangement, and thus this amendment is not relevant for the Group.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Group does not apply the portfolio exception in IFRS 13.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. The Group has no investment property and thus the standard has no impact to 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 Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group plans to adopt the new standard on the required effective date.

a) Classification and measurement

The Group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Debt securities are expected to be measured at fair value through OCI under IFRS 9 as the Bank expects not only to hold the assets to collect contractual cash flows but also to sell a significant amount on a relatively frequent basis. The Group expects to apply the option to present fair value changes in OCI, and, therefore, believes the application of IFRS 9 would not have a significant impact. Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all loans and trade receivables. The Group expects a significant impact on its equity due to unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Bank plans to adopt the new standard on the required effective date using the full retrospective method. During 2015, the Bank performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments.

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

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

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

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's financial statements as it applies equity method on the consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement (s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

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

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

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

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

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

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

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

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

IAS 19 Employee Benefits

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

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively. These amendments are not expected to have any impact on the Group.

(d) Significant accounting estimates and assumptions

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

Estimates and assumptions

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

Going concern

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

Fair value of financial instruments

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

Impairment losses on loans and advances

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

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

Impairment of available–for–sale investments

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

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

Deferred tax assets

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

(e) Recognition of income and expenses

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

i) Interest and similar income and expenses

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

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

ii) Fee and commission income

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

iii) Dividend income

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

iv) Rental income

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

v) Net trading income

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

(f) Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non–restricted current accounts with central banks and amounts due from banks on demand or with an original maturity of three months or less.

(g) Property and equipment

Recognition and measurement

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

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

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

Depreciation

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

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

Leasehold land is depreciated over the remaining period of the lease. Buildings on leasehold land are depreciated over the remaining period of the lease subject to a maximum of forty years. Buildings on freehold land are depreciated over forty years. Freehold land is not depreciated. The asset's residual values, useful lives and methods of depreciation are reviewed, and prospectively adjusted as a change in estimate if appropriate, at each financial year end.

(h) Business combinations and goodwill

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

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

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

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

(i) Intangible assets

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

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

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

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

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

(a) Computer software licences

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

(b) Other intangible assets

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

Effective September 2014 and upon demutualization of Nairobi Securities Exchange (NSE), the NSE Seat initially valued at KShs. 251 Million was replaced with a trading right which gave participants a right to trade at NSE. The trading right serves the same function as the Seat. The trading right was attached a value of KShs. 25 Million by NSE Board which has been taken as its fair value. Therefore, the revaluation reserve on NSE seat in the statement of changes in equity was reduced by KShs. 226 Million, being the difference between the carrying amount of the NSE seat and the fair value on the trading right. The trading right is carried as an intangible asset with an indefinite useful life at the value of KShs. 25 Million, less any subsequent accumulated impairment losses. Management tests the trading right for impairment by comparing its recoverable amount with its carrying amount annually and whenever there is an indication that the right may be impaired. Any impairment losses are accounted for through profit or loss.

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

(j) Investment in an associate

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

The Group's investment in its associate is accounted for using the equity method and at cost in the separate financial statements.

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

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

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

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

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

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

(k) Finance and operating leases

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

i) Operating leases:
Where:-

- Group is the lessee

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

- Group is the lessor

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

ii) Finance leases:

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

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

(l) Financial assets

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

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

(a) Financial assets at fair value through profit or loss

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

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

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

Notes to the Consolidated Financial Statements (Continued)

Held-to-maturity financial assets

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

Loans and receivables

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

Available-for-sale financial assets

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

Amortised cost

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

(m) Fair value

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

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

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

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

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

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

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

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

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

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

External valuers are involved for valuation of significant assets, such as properties.

(n) Derivative financial instruments

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

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

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

The Bank uses the following derivative instruments:

Currency Forwards

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

Swaps

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

(o) Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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

(1) Financial assets carried at amortised cost

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

For loans and advance impairment losses are computed based on:

i) Central Bank of Kenya Prudential Guidelines

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

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

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

ii) International Accounting Standard (IAS) 39

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

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

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

In order to estimate the required allowance for impairment, assumptions are made to define inherent losses model and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance for impairment made depends on how well estimates are made for future cash flows for specific allowances for impairment and the model assumptions and parameters used in determining collective allowances for impairment. While this necessarily involves judgment, directors believe that their impairment allowances are reasonable and supportable.

ii) International Accounting Standard (IAS) 39

If impairment charges computed under International Accounting Standard (IAS) 39 are lower than allowances required under CBK Prudential Guidelines, the excess allowances are treated as appropriations of retained earnings and not expenses in determining profit and loss. Similarly any credits resulting from the reduction of such amounts results in an increase in retained earnings and are not included in the determination of profits or loss. Where the impairment charges computed under IAS 39 are higher than allowances required under this guideline, the impairment charges are considered adequate as per Prudential Guidelines.

(2) Financial assets classified as available-for-sale

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from the available-for-sale reserve and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss but recognised as other comprehensive income and accumulated in the available-for-sale reserve (a separate component of equity). If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

(3) Renegotiated loans

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

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

(4) Derecognition of financial assets

A financial asset is derecognised when:

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

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

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

(p) Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial liabilities at amortised cost

(a) Customer deposits

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

(b) Deposits from/ to other banks

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

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

(c) Other borrowed funds and borrowing costs

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

(d) Financial guarantee contracts

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

(q) Provisions

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

(r) Offsetting

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

(s) Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within 'Non-current assets held for sale'. The bank did not have repossessed assets in the current year (2014: nil).

(t) Foreign currency

i) Transactions

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

ii) Group companies

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

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

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

(u) Employee benefits

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

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For the Year ended 31 December 2015

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

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

(v) Taxes

Current tax

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

Deferred income tax

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

(i) where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

(ii) or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(iii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Value Added Tax

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

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

(w) Grants

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

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

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

(x) Cash and cash equivalents

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

(y) Dividends

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

(z) Fiduciary assets

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

(aa) Impairment of non-financial assets

The carrying amounts of the group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In determining fair value less costs of disposal, an appropriate valuation model is used.

Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for a property previously re-valued where the valuation was taken to other comprehensive income. In this case, the impairment loss is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets other than goodwill an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased.

If such indication exists, the group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. Impairment losses on goodwill are not reversed.

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

(ab) Current versus non-current classification

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

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

Or

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

All other assets are classified as non-current.

A liability is current when:

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

Or

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

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

3. FINANCIAL RISK MANAGEMENT

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk & Finance Committee, which is responsible for developing and monitoring Group risk management policies in their specified areas. All Board committees, with exception of Board Audit Committee have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board Audit Committee is responsible for monitoring compliance with the Group's risk policies and procedures, and for reviewing their adequacy. The Board Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk controls and procedures, the results of which are reported to the Board Audit committee.

The Group has exposure to the following risks from its use of financial instruments:

(a) Credit risk

(b) Liquidity risk

(c) Market risks

(d) Operational risks

Below is the information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. There is no significant difference between the Group and Bank balances in assessment of the various risks facing the Group.

a. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Board's Risk and Finance Committee. A separate Credit Risk Department, reporting to the Board's Risk and Finance Committee, is responsible for oversight of the Group's credit risk, including:

(1) Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

(2) Establishing the authorisation structure for the approval and renewal of credit facilities.

(3) Reviewing and assessing credit risk.

(4) Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks.

(5) Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

(6) Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Each business unit is required to implement Group credit policies and procedures, with credit approval authorities delegated from the Board's Risk and Finance Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

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

		Group		Bank	
	Note	**2015**	**2014**	**2015**	**2014**
		KShs. '000	**KShs. '000**	**KShs. '000**	**KShs. '000**
Carrying amount (note 12 (a)		**220,556,598**	**187,171,625**	**220,054,537**	**186,621,777**
Staff loans amortization	13	(4,811,635)	(3,228,529)	(4,811,635)	(3,228,529)
Individually assessed for impairment:					
Grade 5: Loss category		695,943	763,158	695,943	763,158
Grade 4: Doubtful category		4,188,409	3,836,963	4,188,409	3,836,963
Gross amount		4,884,352	4,600,121	4,884,352	4,600,121
Allowance for impairment		(2,855,436)	(1,765,845)	(2,855,436)	(1,765,845)
Carrying amount		**2,028,916**	**2,834,276**	**2,028,916**	**2,834,276**
Collectively assessed for impairment:					
Grade 1: Normal		193,010,260	166,821,341	192,512,853	166,821,341
Grade 2: Watch list		19,352,492	11,818,391	19,352,492	11,818,391
Gross amount		212,362,752	178,639,732	211,865,345	178,639,732
Allowance for impairment		(2,532,335)	(2,022,765)	(2,532,335)	(2,022,765)
Carrying amount		**209,830,417**	**176,616,967**	**209,333,010**	**176,616,967**
Past due loans (Grade 3 - Substandard):					
Past due up to 30 days		2,113,557	2,162,854	2,113,557	2,162,854
Past due 31-60 days		672,254	687,934	672,254	687,934
Past due 61-90 days		383,855	392,808	383,855	392,808
Past due 91-150 days		135,175	138,328	135,175	138,328
Gross amount		**3,304,841**	**3,381,924**	**3,304,841**	**3,381,924**
Allowance for impairment		(1,780,619)	(491,361)	(1,780,619)	(491,361)
Carrying amount		**1,524,222**	**2,890,563**	**1,524,222**	**2,890,563**
Net carrying amount	12 (a)	**208,571,920**	**179,486,355**	**208,074,513**	**178,978,586**

Maximum exposure to credit risk before collateral held:

	Group		Bank	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
Items recognised in the statement of financial position:				
Items in the course of collection	384,161	557,806	384,161	557,806
Deposits and balances due from banking institutions	13,977,237	12,810,858	13,869,273	12,814,862
Financial assets:				
-Derivatives	621,737	191,549	621,737	191,549
-Held-to-maturity	36,154,555	24,643,526	35,999,971	24,460,192
-Held-for-trading	206	30,568	149	30,510
-Available-for-sale	28,771,869	21,140,469	28,641,531	21,032,444
Interest receivable	2,565,663	1,895,590	2,565,663	1,895,590
Loans and advances to customers	208,571,920	179,486,355	208,074,513	178,978,586
	291,047,348	**240,756,721**	**290,156,998**	**239,961,539**
Items not recognised in the statement of financial position (note 46)	12,509,752	14,110,553	12,509,752	14,110,553
	303,557,100	**254,867,274**	**302,666,750**	**254,072,092**

Maximum exposure to credit risk before collateral held represents the worst-case scenario of credit risk exposure without taking account of any collateral held or any other credit enhancements attached. While collateral is an important means to mitigate against credit risk, the Group's primary policy is to issue loans after establishing capacity of the customer to repay. Unsecured facilities amount to KShs. 52,228 Million (2014- KShs. 51,154 Million). All other facilities are secured by collateral in the form of charges over cash, land and buildings, marketable securities, plant and machinery among others.

Impaired loans

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

Past due but not impaired loans

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

Loans with renegotiated terms

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

The carrying amount of renegotiated financial assets that would otherwise be past due or impaired is as follows:

	2015 KShs'000	2014 KShs'000
Commercial loans	11,922,194	512,655
	11,922,194	512,655

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and collectively homogeneous assets. The second component is in respect of losses that have been incurred but have not been identified in relation to the loan portfolio that is not specifically impaired.

Write-off policy

The Bank writes off a loan balance as and when Board of directors determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Collateral on loans and advances

The Bank holds collateral against loans and advances to customers in the form of cash, mortgage interests over residential, commercial and industrial properties, other registered securities over assets, motor vehicles, plant and machinery, marketable securities, bank guarantees and letters of credit. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral is generally not held over loans and advances to banks and against investment securities. It is the bank's policy to dispose of repossessed properties in an orderly manner. The proceeds are used to reduce or repay the outstanding claim and the Bank does not occupy repossessed properties for business use.

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

	Group and Bank	
	2015 **KShs'000**	**2014** **KShs'000**
(i) Categorised by loans & advances:		
Doubtful & loss categories	4,596,134	5,848,241
Past due but not impaired (Sub-standard) category	2,493,842	2,391,943
Normal & watch categories	245,779,535	231,537,643
	252,869,511	**239,777,827**
(ii) Categorised by nature of collateral:		
Land & buildings	119,866,272	122,392,322
Cash & other pledges	2,133,614	4,829,422
Motor vehicles	42,082,098	33,924,987
Hypothecation of stock	835,479	2,117,814
Debentures & guarantees	67,753,830	62,335,433
Other chattels	20,198,218	14,177,849
	252,869,511	**239,777,827**

For the Year ended 31 December 2015

Concentration of Risk

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

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

Loans and advances:-	**Group**		**Bank**	
	2015	**2014**	**2015**	**2014**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
(i) Concentration by sector:				
Agriculture	8,593,414	7,634,993	8,593,414	7,634,993
Manufacturing, energy & water	24,264,230	17,370,109	24,264,230	17,370,109
Financial services	24,743,324	27,536,496	24,743,324	27,536,496
Tourism & hospitality	1,434,270	1,513,466	1,434,270	1,513,466
Wholesale and retail trade	34,952,226	30,228,752	34,952,226	30,228,752
Transport and communication	14,964,629	10,176,957	14,964,629	10,176,957
Real Estate, building & construction	34,620,191	22,907,987	34,118,130	22,358,139
Consumer & household	76,984,314	69,802,865	76,984,314	69,802,865
	220,556,598	**187,171,625**	**220,054,537**	**186,621,777**
Less: staff loans amortisation	(4,811,635)	(3,228,529)	(4,811,635)	(3,228,529)
	215,744,963	**183,943,096**	**215,242,902**	**183,393,248**
(ii) Concentration by business:				
Corporate	86,801,346	64,054,732	86,801,346	64,054,732
Mortgage & Asset Finance	32,898,823	27,601,694	32,898,823	27,601,694
Small, Medium and Microenterprises	18,496,123	23,015,069	18,496,123	23,015,069
Retail	76,772,604	67,276,451	76,270,543	66,726,603
Agribusiness	5,587,702	5,223,679	5,587,702	5,223,679
	220,556,598	**187,171,625**	**220,054,537**	**186,621,777**
Less: staff loans amortisation	(4,811,635)	(3,228,529)	(4,811,635)	(3,228,529)
	215,744,963	**183,943,096**	**215,242,902**	**183,393,248**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

Settlement Risk

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

	Group		Bank	
Customer deposits:-	**2015**	**2014**	**2015**	**2014**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Private enterprises	81,788,307	55,727,629	81,788,307	55,727,629
Non-profit institutions	23,680,982	17,255,006	23,680,982	17,255,006
Individuals	81,832,784	67,748,605	81,832,784	67,748,605
Others	78,096,514	76,967,083	76,407,342	75,443,073
	265,398,587	**217,698,323**	**263,709,415**	**216,174,313**

b. Liquidity risk

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

Management of liquidity risk

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

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

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

For the Year ended 31 December 2015

Exposure to liquidity risk

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

31 December 2015	Available immediately and up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
FINANCIAL ASSETS	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cash and balances with Central Bank of Kenya	29,455,691	-	-	-	-	**29,455,691**
Deposits and balances due from banks	13,697,692	-	-	-	-	**13,697,692**
Investment in financial instruments	4,600,186	689,425	4,102,338	27,147,260	24,778,043	**61,317,252**
Loans and advances to customers	34,465,356	5,157,525	21,264,977	81,279,016	63,833,662	**206,000,536**
Total undiscounted financial assets	**82,218,925**	**5,846,950**	**25,367,315**	**108,426,276**	**88,611,705**	**310,471,171**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	675,049	1,965,565	763,499	-	-	**3,404,113**
Customers' deposits	168,687,635	8,492,311	1,251,905	84,266,736	-	**262,698,587**
Loans	-	-	-	19,033,565	30,000	**19,063,565**
Total undiscounted financial liabilities	**169,362,684**	**10,457,876**	**2,015,404**	**103,300,301**	**30,000**	**285,166,265**
Net liquidity gap at 31 December 2015	**(87,143,758)**	**(4,610,926)**	**23,351,911**	**5,125,975**	**88,581,705**	**25,304,906**
Liabilities not recognised in statement of financial position (note 46)	-	5,203,629	7,019,953	286,170	-	**12,509,752**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

31 December 2014	**Available immediately and up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
FINANCIAL ASSETS	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cash and balances with Central Bank of Kenya	24,335,332	-	-	-	-	**24,335,332**
Deposits and balances due from banks	12,783,679	-	27,179	-	-	**12,810,858**
Investment in financial instruments	501,618	4,992,114	3,301,564	23,166,472	14,853,668	**46,815,436**
Loans and advances to customers	22,954,080	3,295,803	22,724,409	79,505,166	52,512,935	**180,992,393**
Total undiscounted financial assets	**60,574,709**	**8,287,917**	**26,053,152**	**102,671,638**	**67,366,603**	**264,954,019**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	2,459,444	700,000	-	-	-	**3,159,444**
Customers' deposits	175,026,131	29,087,532	13,584,260	400	-	**217,698,323**
Loans	-	100,000	-	10,126,701	8,042,786	**18,269,487**
Total undiscounted financial liabilities	**177,485,575**	**29,887,532**	**13,584,260**	**10,127,101**	**8,042,786**	**239,127,254**
Net liquidity gap at 31 December 2014	**(116,910,866)**	**(21,599,615)**	**12,468,892**	**92,544,537**	**59,323,817**	**25,826,765**
Liabilities not recognised in statement of financial position (note 46)	1,586,695	3,056,482	8,230,385	1,236,992	-	14,110,553

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:

	2015	**2014**
	%	**%**
At 31 December	37.6	33.8
Average for the year	35.3	31.9
Maximum for the year	39.7	33.8
Minimum for the year	29.4	30.5
Statutory minimum ratio	20.0	20.0

c. Market risk

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

Management of market risk

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

Exposure to market risk – trading portfolios

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

Exposure to interest rate risk – *non- trading portfolios*

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

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

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For the Year ended 31 December 2015

c. Market risk (continued)

(i) Exposure to interest rate risk

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

c. Market risk (continued)

(i) Exposure to interest rate risk (Continued)

31 December 2014	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
ASSETS	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cash and balances with Central Bank of Kenya	-	-	-	-	-	24,335,332	**24,335,332**
Deposits and balances due from banks	12,783,679	-	27,179	-	-	-	**12,810,858**
Investment in financial instruments	497,443	4,950,575	3,274,092	22,973,704	14,730,071	-	**46,425,885**
Loans and advances to customers	22,763,079	3,268,377	22,535,320	78,843,604	52,075,975	-	**179,486,355**
Other assets	-	-	-	-	-	22,337,637	**22,337,637**
Total assets	**36,044,201**	**8,218,952**	**25,836,591**	**101,817,308**	**66,806,046**	**46,672,969**	**285,396,067**
LIABILITIES							
Deposits and balances due to banks	3,159,444	-	-	-	-	-	**3,159,444**
Customers' deposits	175,026,131	29,087,532	13,584,260	400	-	-	**217,698,323**
Loans	-	100,000	-	10,126,701	8,042,786	-	**18,269,487**
Other financial liabilities	-	-	-	-	-	46,268,813	**46,268,813**
Total liabilities	**178,185,575**	**29,187,532**	**13,584,260**	**10,127,101**	**8,042,786**	**46,268,813**	**285,396,067**
Interest sensitivity gap	**(142,141,374)**	**(20,968,580)**	**12,252,331**	**91,690,207**	**58,763,260**	**404,156**	**-**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

c. Market risk (continued)

(i) Exposure to interest rate risk (Continued)

Interest rate risk sensitivity analysis

With all other variables held constant, the effect of 1% increase or decrease in interest rates on financial assets and liabilities on the group profit before tax and equity would be as follows:

ASSETS	2015 Carrying amount KShs'000	1% increase	1% decrease	2014 Carrying amount KShs'000	1% increase	1% decrease
Deposits and balances due from banks	**13,977,237**	139,772	(139,772)	**12,810,858**	128,109	(128,109)
Held -for- trading investments	**206**	2	(2)	**30,568**	306	(306)
Held to maturity investments	**36,154,555**	361,546	(361,546)	**24,643,526**	246,435	(246,435)
Available for sale investments	**28,771,869**	287,719	(287,719)	**21,140,469**	211,405	(211,405)
Loans and advances to customers	**208,571,920**	2,085,719	(2,085,719)	**179,486,355**	1,794,864	(1,794,864)
		2,874,758	**(2,874,758)**		**2,381,119**	**(2,381,119)**
LIABILITIES & EQUITY						
Deposits and balances due to banks	**3,421,219**	(34,212)	34,212	**3,159,444**	(31,594)	31,594
Customers' deposits	**265,398,587**	(2,653,986)	2,653,986	**217,698,323**	(2,176,983)	2,176,983
Loans and borrowings	**19,271,212**	(192,712)	192,712	**18,269,487**	(182,695)	182,695
		(2,880,910)	**2,880,910**		**(2,391,272)**	**2,391,272**
Effect on profit before tax		**(6,152)**	**6,152**		**(10,155)**	**10,155**
As percentage of profit before tax (%)		**0.04%**	**(0.04%)**		**(0.09%)**	**0.09%**
Effect on equity		**(4,306)**	**4,306**		**(7,109)**	**7,109**
As percentage of equity (%)		**0%**	**0%**		**0%**	**0%**

(c) Market risk (Continued)

(ii) Exposure to currency risk

Currency risk is the potential for losses as a result of adverse exchange rate movements during a period in which it has an open position, either spot or forward, or a combination of the two, in an individual foreign currency. Currently, the Bank 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 Bank 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 Bank as at close of period.

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

(c) Market risk (Continued)

(ii) Exposure to currency risk (Continued)

Currency risk is the potential for losses as a result of adverse exchange rate movements during a period in which it has an open position, either spot or forward, or a combination of the two, in an individual foreign currency. Currently, the Bank 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 Bank 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 Bank as at close of period.

CURRENCY TYPE	**USD**	**GBP**	**EURO**	**JPY**	**CHF**	**ZAR**	**OTHERS**	**TOTAL**
EXCHANGE RATE	86	142	119	1	97	8		
31 December 2014	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**	**KShs`000**
Foreign Currency Assets:								
Cash and balances with banks abroad	12,211,538	94,362	2,659,769	3,837	60,409	2,478	60,933	15,093,326
Loan and advances	20,095,044	24,620	3,738	-	-	-	-	20,123,402
Other foreign assets	751,587	9,170	4,609	1	-	5	1,397	766,769
Total statement of financial position items	**33,058,169**	**128,152**	**2,668,116**	**3,838**	**60,409**	**2,483**	**62,330**	**35,983,497**
Items not recognised in statement of financial position	12,116,479	92,252	3,994,901	14,931	-	1,168	23,953	16,243,684
Total Foreign Assets	**45,174,648**	**220,404**	**6,663,017**	**18,769**	**60,409**	**3,651**	**86,283**	**52,227,181**
Foreign Currency Liabilities:								
Balances due to banks abroad	-	-	-	-	-	-	-	-
Deposits	10,414,269	102,845	2,564,492	9,112	1,558	576	900	13,093,751
Loan and advances	12,954,484	-	-	-	-	-	-	12,954,484
Other foreign liabilities	2,435,374	13,256	19,668	11	35	26	1,122	2,469,493
Total statement of financial position items	**25,804,127**	**116,101**	**2,584,160**	**9,123**	**1,593**	**602**	**2,022**	**28,517,728**
Items not recognised in statement of financial position	16,772,510	92,252	3,388,961	14,931	22,607	27,128	29,669	20,348,058
Total Foreign liabilities	**42,576,637**	**208,353**	**5,973,121**	**24,054**	**24,200**	**27,730**	**31,691**	**48,865,786**
Net Exposure at 31 December 2014	**2,598,011**	**12,051**	**689,896**	**(5,285)**	**36,209**	**(24,079)**	**54,592**	**3,361,395**

(c) Market risk (Continued)

(ii) Exposure to currency risk (Continued)

Currency risk sensitivity analysis

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

	2015 Carrying amount KShs'000	10% appreciation	10% depreciation	2014 Carrying amount KShs'000	10% appreciation	10% depreciation
Foreign Currency Assets:						
USD	**41,211,148**	(4,121,115)	4,121,115	**33,058,170**	(3,305,817)	3,305,817
GBP	**259,681**	(25,968)	25,968	**128,152**	(12,815)	12,815
EURO	**1,297,578**	(129,758)	129,758	**2,668,116**	(266,812)	266,812
JPY	**77,539**	(7,754)	7,754	**3,828**	(384)	384
CHF	**55,917**	(5,592)	5,592	**60,409**	(6,041)	6,041
ZAR	**22,270**	(2,227)	2,227	**2,483**	(248)	248
Other currencies	**59,317**	(5,931)	5,931	**62,330**	(6,233)	6,233
		(4,298,345)	**4,298,345**		**(3,598,350)**	**3,598,350**
Foreign Currency Liabilities:						
USD	**30,209,449**	3,020,945	(3,020,945)	**25,804,124**	2,580,413	(2,580,413)
GBP	**173,378**	17,338	(17,338)	**116,101**	11,610	(11,610)
EURO	**1,149,993**	115,000	(115,000)	**2,584,160**	258,417	(258,417)
JPY	**77,113**	7,711	(7,711)	**9,123**	912	(912)
CHF	**3,410**	341	(341)	**1,593**	159	(159)
ZAR	**1,164**	116	(116)	**602**	60	(60)
Other currencies	**9,945**	994	(994)	**2,022**	202	(202)
		3,162,445	**(3,162,445)**		**2,851,773**	**(2,851,773)**
Effect on profit before tax		**(1,135,900)**	**1,135,900**		**(746,577)**	**746,577**
As percentage (%) of profit before tax		**(8.18%)**	**(8.18%)**		**(6.87%)**	**6.87%**
Effect on equity		**(795,130)**	**795,130**		**(522,604)**	**522,604**
As percentage (%) of equity		**(1.6%)**	**1.6%**		**(1.2%)**	**1.2%**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

(d) Operational risk

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

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

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

(i) requirements for appropriate segregation of duties, including the independent authorisation of transactions

(ii) requirements for the reconciliation and monitoring of transactions

(iii) compliance with regulatory and other legal requirements

(iv) documentation of controls and procedures

(v) requirements for the yearly assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified

(vi) requirements for the reporting of operational losses and proposed remedial action

(vii) development of contingency plans

(viii) training and professional development

(ix) ethical and business standards

(x) risk mitigation, including insurance where this is effective

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

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

4. CAPITAL MANAGEMENT

Regulatory capital

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

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

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

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

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

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

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

	2015	2014
Tier I Capital:	**KShs'000**	**KShs'000**
Ordinary share capital	4,889,317	4,889,317
Share premium	2,889,789	2,889,789
Retained earnings (current year profits - 50%)	37,830,867	31,264,373
Other reserves	517,317	535,792
Less: Investments in equity of other institutions & deferred tax	(2,843,985)	(2,117,651)
Core Capital	**43,283,305**	**37,461,620**
Tier II Capital:		
Revaluation reserves (25%)	99,264	100,852
Term subordinated debt	19,271,211	17,254,143
Loan loss provisions	717,845	717,845
Supplementary capital	**20,088,320**	**18,072,840**
Total regulatory capital	**63,371,625**	**55,534,460**
Total risk weighted assets	**298,137,367**	**256,510,900**
Capital ratios:		
Core capital to Total deposit liabilities (CBK minimum 10.5%)	16.2%	17.1%
Core capital to Total risk weighted assets (CBK minimum 10.5%)	14.5%	14.6%
Total capital to Total risk weighted assets (CBK minimum 14.5%)	21.3%	21.6%

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

Capital Allocation

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

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

5. SEGMENT REPORTING

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

(a) Retail Banking: Includes loans deposits and other transactions and balances with retail customers;

(a) Wholesale Banking: Includes loans deposits and other transactions and balances with corporate and institutional customers

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

The Group's segment operations are all financial with a majority of revenues deriving from interest. The management relies primarily on net interest revenue to assess the performance of the segment. Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not gross income and expenses. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2015 or 2014.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

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

Profit or loss for the year ended 31 December 2014	Wholesale Banking	Retail banking	Un-allocated	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Net interest income	7,436,047	11,698,468	-	19,134,515
Non-funded income	907,191	7,248,462	4,795,596	12,951,249
Operating income	8,343,238	18,946,930	4,795,596	32,085,764
Depreciation	(549,688)	(1,103,373)	(300,596)	(1,953,657)
Amortisation	(143,642)	(96,512)	(102,291)	(342,445)
Other operating expenses	(5,218,112)	(11,856,224)	(2,070,091)	(19,144,427)
Share of profit in associate	-	-	270,976	270,976
Profit before tax	**2,431,796**	**5,890,821**	**2,593,594**	**10,916,211**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

5. SEGMENT REPORTING (Continued)

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

Statement of financial position as at 31 December 2014	**Wholesale banking KShs'000**	**Retail banking KShs'000**	**Un-allocated KShs'000**	**Total KShs'000**
Assets:				
Segment assets	76,011,616	126,919,495	-	**202,931,111**
Unallocated assets	-	-	82,464,956	**82,464,956**
Total assets	**76,011,616**	**126,919,495**	**82,464,956**	**285,396,067**
Liabilities and equity:				
Segment liabilities	105,247,352	163,670,677	-	**268,918,029**
Unallocated liabilities	-	-	16,478,038	**16,478,038**
Inter-segment lending	(29,235,736)	(36,751,182)	65,986,918	**-**
Total liabilities and equity	**76,011,616**	**126,919,495**	**82,464,956**	**285,396,067**
Other disclosures				
Capital expenditure	**340,033**	**567,765**	**368,901**	**1,276,699**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

5. SEGMENT REPORTING (Continued)

Geographical information

The Group's operations are within the two geographical segments of Kenya and South Sudan (operations commenced in 2013). The table below contains segmental information provided to the Board of Management for the year ended 31 December 2015.

Profit or loss for the year ended 31 December 2015	**Kenya KShs'000**	**South Sudan KShs'000**	**Total KShs'000**
Net interest income	23,161,923	171,914	23,333,837
Non-funded income	11,385,834	1,670,108	13,055,942
Operating income	34,547,757	1,842,022	36,389,779
Depreciation	(1,798,815)	(124,794)	(1,923,609)
Amortization	(392,047)	(41,363)	(433,410)
Other operating expenses	(18,111,731)	(922,928)	(19,034,659)
Operating profit	14,245,164	752,937	14,998,101
Share of profit in associate	288,208	96,783	384,991
Profit before tax	**14,533,372**	**849,720**	**15,383,092**
Statement of financial position as at 31 December 2015			
Segment assets			
Non-current assets	40,437,744	411,213	40,848,957
Current assets	298,706,938	2,943,914	301,650,852
	339,144,682	**3,355,127**	**342,499,809**
Segment liabilities	290,445,795	2,750,762	**293,196,557**
Equity	48,698,887	604,365	**49,303,252**
Profit or loss for the year ended 31 December 2014			
Net interest income	21,527,195	43,075	21,570,270
Non-funded income	10,154,125	361,369	10,515,494
Operating income	31,681,320	404,444	32,085,764
Depreciation	(1,844,142)	(109,515)	(1,953,657)
Amortisation	(306,636)	(35,808)	(342,444)
Other operating expenses	(18,198,079)	(946,348)	(19,144,427)
Operating profit	11,332,463	(687,227)	10,645,236
Share of profit in associate	270,976	-	270,976
Profit before tax	**11,603,439**	**(687,227)**	**10,916,212**
Statement of financial position as at 31 December 2014			
Segment assets			
Non-current assets	37,928,557	1,070,490	38,999,047
Current assets	244,313,165	2,083,855	246,397,020
	282,241,722	**3,154,345**	**285,396,067**
Segment liabilities	240,513,535	2,005,413	**242,518,948**
Equity	41,728,187	1,148,932	**42,877,119**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Determination of fair value and fair value hierarchy

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

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

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

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

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

As at 31 December 2015	**Level 1 KShs'000**	**Level 2 KShs'000**	**Level 3 KShs'000**	**Total KShs'000**
Assets measured at fair value:				
Free hold land and building	**-**		1,387,097	**1,387,097**
Held-for-trading investments:				
Treasury bonds	149	-	-	**149**
Available-for-sale investment				
Treasury bonds	23,824,739	-	-	**23,824,739**
Corporate bonds	4,786,783	-	-	**4,786,783**
Derivatives	-	621,737	-	**621,737**
Loans and advances				
Directors and staff loans	-	4,811,635	-	**4,811,635**
Assets for which fair values are disclosed (note 6b)				
Held-to-maturity				
Treasury bonds	26,142,167			**26,142,167**
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	2,344,567	-	**2,344,567**
As at 31 December 2014				
Assets measured at fair value:				
Free hold land and building	**-**		1,387,097	**1,387,097**
Held-for-trading investments:				
Treasury bonds	559	-	-	**559**
Available-for-sale investment				
Treasury bonds	16,067,708	-	-	**16,067,708**
Corporate bonds	5,072,761	-	-	**5,072,761**
Derivatives	-	191,549	-	**191,549**
Loans and advances				
Directors and staff loans	-	3,607,109	-	**3,607,109**
Assets for which fair values are disclosed (note 6b)				
Held-to-maturity				
Treasury bonds	19,499,748			**19,499,748**
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	1,404,801	-	**1,404,801**

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

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

	2015		2014	
Financial assets:	**Carrying amount KShs'000**	**Fair value KShs'000**	**Carrying amount KShs'000**	**Fair value KShs'000**
Held-to-maturity investments				
Treasury bonds and bills	26,081,820	26,142,167	19,534,037	19,499,748
	26,081,820	**26,142,167**	**19,534,037**	**19,499,748**
Financial liabilities:				
Loans and borrowings				
Fixed-rates borrowings	3,707,009	2,344,567	2,221,139	1,404,801
	3,707,009	**2,344,567**	**2,221,139**	**1,404,801**

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

(i) Assets for which fair value approximates carrying value

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

(ii) Loans and advances to customers

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

(iii) Long term fixed rate financial instruments

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

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

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

	Valuation Techique	**Significant unobservable inputs**	**Range (Weighted Average)**
Free hold land and building	DCF	Estimated rental value per s.q.m. per month	KShs. 30
		Rent growth p.a.	3%
		Long-term vacancy rate	5%
		Discount rate	5%

Type of Financial Instrument	**Fair value**	**Valuation technique**	**Significant inputs**
Directors and staff loans	KShs. 4.811 M	Discounted cash flows	Market interest rate
Loans and borrowings	KShs. 2,344 M	Discounted cash flows	Market interest rate

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

7. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	Group		Bank	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
Cash on hand	9,057,746	9,455,086	8,880,989	8,970,240
Central Bank of Kenya:				
Restricted balances (Cash Reserve Ratio)	13,837,359	11,425,465	13,837,359	11,425,465
Unrestricted balances available for use by the Group	4,455,297	2,529,227	4,455,297	2,529,227
Central Bank of South Sudan	2,105,289	925,554	-	-
	29,455,691	**24,335,332**	**27,173,645**	**22,924,932**

The Cash Reserve Ratio is non-interest earning and is based on the value of deposits as adjusted by Central Bank of Kenya requirements. At 31 December 2015, the Cash Reserve Ratio requirement was 5.25% (2014 – 5.25%) on all deposits. These funds are not available for use by the Group in its day to day operations.

8. DEPOSITS AND BALANCES DUE FROM BANKS

	Group		Bank	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
Local banks	9,878,261	7,847,333	9,770,382	7,845,769
Foreign banks	4,098,976	4,963,525	4,098,891	4,969,093
	13,977,237	**12,810,858**	**13,869,273**	**12,814,862**

The weighted average effective interest rate on deposits and balances due from banks as at 31 December 2015 was 3.14% (2014-2.40%)

9. HELD-FOR-TRADING INVESTMENTS

	Group		Bank	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
(a) Treasury bonds				
Maturing within 91 days of reporting date			-	-
Maturing after 91 days of reporting date	206	559	149	501
	206	**559**	**149**	**501**

The weighted average effective interest rate on government and other securities held-for-trading at 31 December 2015 was 10.75% (2014 - 11.63%).

Notes to the Consolidated Financial Statements (Continued)

10. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Bank	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
Government treasury bonds:				
Maturing after 91 days of the reporting date	23,824,739	15,960,083	23,824,739	15,960,083
Corporate bonds: Maturing after 91 days of the reporting date	4,786,783	5,072,761	4,786,783	5,072,361
Quoted equity Investments:- Nairobi Securities Exchange:- 5,250,000 shares of KShs. 20.50 each (note 17 (a))	130,338	107,625	-	-
Unquoted equity Investments:-				
Consolidated Bank of Kenya Ltd:-				
135,000 ordinary shares of KShs. 20 each	2,700	2700	2,700	2700
580,000 4% non-cumulative preference shares of KShs. 20 each	11,600	11,600	11,600	11,600
Kenya National Federation of Co-operatives Ltd:- 82 shares of KShs100 each	8	8	8	8
Kenya National Housing Co-operative Union Ltd:-				
1 share of KShs. 1,000	1	1	1	1
Menno Plaza Limited:-				
9,340 ordinary shares representing 12.39% ownership	30,000	30,000	30,000	30,000
	28,786,169	**21,184,778**	**28,655,831**	**21,076,753**
Less: Provision for diminution in value of investment in Consolidated Bank of Kenya Ltd	(14,300)	(14,300)	(14,300)	(14,300)
	28,771,869	**21,170,478**	**28,641,531**	**21,062,453**
Movement in the year:				
At January 1	**21,170,478**	**25,336,922**	**21,062,453**	**25,336,922**
Additions	11,664,730	4,973,366	11,664,730	4,853,561
Disposals and maturities	(2,985,854)	(9,749,406)	(3,036,845)	(9,749,406)
Change in fair value recognized in other comprehensive income	(1,077,485)	449,865	(1,048,807)	461,645
Amortization of premiums and discounts	-	159,731	-	159,731
At December 31	**28,771,869**	**21,170,478**	**28,641,531**	**21,062,453**

The unquoted equity investments previously classified as held-for-trading have been reclassified to available-for-sale category as they are carried at cost due to lack of comparable investments which could have been used as a basis for the determination of fair value

The weighted average effective interest rate on available for sale investments as at 31 December 2015 was 11.4% (2014- 10.93%).

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

11. DERIVATIVE FINANCIAL INSTRUMENT

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			
	2015		2014	
	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	3,383,150	83,132	1,656,405	65,871
Swaps	11,272,425	538,605	4,158,996	125,678
	14,655,575	**621,737**	**5,815,401**	**191,549**

12. LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
	2015	2014	2015	2014
(a) Net loans and advances	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Overdrafts	11,885,932	14,898,344	11,885,932	14,898,344
Commercial loans	200,873,160	165,240,970	200,371,099	164,691,122
Government/Donor funded loan schemes	2,054,503	2,209,225	2,054,503	2,209,225
Credit card balances	782,120	599,774	782,120	599,774
Micro enterprises & SME	4,960,883	4,223,312	4,960,883	4,223,312
Gross loans and advances	**220,556,598**	**187,171,625**	**220,054,537**	**186,621,777**
Staff loans amortisation (note 13)	(4,811,635)	(3,228,529)	(4,811,635)	(3,228,529)
	215,744,963	183,943,096	215,242,902	183,393,248
Impairment losses on loans and advances (note 12 c)	(7,173,043)	(4,456,741)	(7,168,389)	(4,414,662)
Net loans and advances	**208,571,920**	**179,486,355**	**208,074,513**	**178,978,586**

	Group and Bank	
(b) The weighted average effective interest rate at 31 December was:-	**2015**	**2014**
	%	**%**
Overdrafts	16.4	6.1
Commercial loans	14.3	15.6
Government/Donor funded loan schemes	13.7	4.2
Credit card balances	20.0	18.3

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

12. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Impairment losses on loans and advances:

Group	Specific impairment losses KShs'000	Collective impairment losses KShs'000	Total KShs'000
Balance at 1 January 2015	**2,433,976**	**2,022,765**	**4,456,741**
Impairment losses recognised during the year through profit or loss	1,509,726	509,569	**2,019,295**
Interest on impaired loans not recognised as income	875,914	-	**875,914**
Impaired losses written off during the year	-	-	**-**
Amounts released to income – unused provision reversed	(178,907)	-	**(178,907)**
Balance at 31 December 2015	**4,640,709**	**2,532,334**	**7,173,043**
Balance at 1 January 2014	**2,970,212**	**1,550,775**	**4,520,987**
Impairment losses recognised during the year through profit or loss	703,608	471,990	1,175,598
Interest on impaired loans not recognised as income	2,209	-	2,209
Impaired losses written off during the year	(947,640)	-	(947,640)
Amounts released to income – unused provision reversed	(294,413)	-	(294,413)
Balance at 31 December 2014	**2,433,976**	**2,022,765**	**4,456,741**

Bank	Specific impairment losses KShs'000	Collective impairment losses KShs'000	Total KShs'000
Balance at 1 January 2015	**2,391,897**	**2,022,765**	**4,414,662**
Impairment losses recognised during the year through profit or loss	1,497,788	509,569	**2,007,357**
Interest on impaired loans not recognised as income	875,914	-	**875,914**
Impaired losses written off during the year	-	-	**-**
Amounts released to income – unused provision reversed	(129,544)	-	**(129,544)**
Balance at 31 December 2015	**4,636,055**	**2,532,334**	**7,168,389**
Balance at 1 January 2014	**2,970,212**	**1,550,775**	**4,520,987**
Impairment losses recognised during the year through profit or loss	661,529	471,990	1,133,519
Interest on impaired loans not recognised as income	2,209	-	2,209
Impaired losses written off during the year	(947,640)	-	(947,640)
Amounts released to income – unused provision reversed	(294,413)	-	(294,413)
Balance at 31 December 2014	**2,391,897**	**2,022,765**	**4,414,662**

d) The Bank continues to carry classified impaired and delinquent accounts on its books even after making allowances for impairment in accordance with IAS 39. Interest is accrued on these accounts for contractual/ litigation purposes only and accordingly not taken to income. The carrying amount of such loans at year end was KShs. 8.1 billion (2014 – KShs. 7.9 billion).

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

13. OTHER ASSETS

	Group		Bank	
	2015	**2014**	**2015**	**2014**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Interest receivable	2,565,663	1,895,590	2,565,663	1,895,590
Items in the course of collection from other banks	384,161	557,806	384,161	557,806
Deposits with defaulting financial Institutions	43,052	43,052	43,052	43,052
Prepaid expenses	-	347,724	-	347,725
Sundry debtors and prepayments	4,369,039	2,372,240	4,257,137	2,401,037
Staff loan amortisation	4,811,635	3,228,529	4,811,635	3,228,529
	12,173,550	**8,444,941**	**12,061,648**	**8,473,739**
Impairment losses on deposits with default financial institutions	(43,052)	(43,052)	(43,052)	(43,052)
	12,130,498	**8,401,889**	**12,018,596**	**8,430,687**

No provision on impairment losses has been made for staff loans as all staff are active and recoveries are made directly through payroll. Interest receivable relates to accrued interest on treasury bonds and accrued interest on impaired loans whose interest income is suspended as required by CBK prudential guidelines.

14. HELD-TO-MATURITY INVESTMENTS

	Group		Bank	
	2015	**2014**	**2015**	**2014**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Government treasury bills:				
Maturing within 91 days of the reporting date	4,633,693	3,447,429	4,633,693	3,447,429
Maturing after 91 days of the reporting date	5,378,695	1,662,060	5,224,111	1,662,060
Treasury bonds:				
Maturing within 91 days of the reporting date	250,168	2,000,588	250,168	2,000,588
Maturing after 91 days of the reporting date	25,891,999	17,517,605	25,891,999	17,350,115
Corporate bonds:				
Maturing within 91 days of the reporting date	-	15,844	-	-
Maturing after 91 days of the reporting date	-	-	-	-
	36,154,555	**24,643,526**	**35,999,971**	**24,460,192**
Movement in the year:				
At 1 January	24,643,526	14,028,393	24,460,192	13,820,482
Additions	10,846,820	13,661,079	10,846,820	13,477,745
Amortization of premiums and discounts	4,164,209	354,054	4,192,959	561,965
Maturities	(3,500,000)	(3,400,000)	(3,500,000)	(3,400,000)
At December 31	**36,154,555**	**24,643,526**	**35,999,971**	**24,460,192**

The weighted average effective interest rate on held-to-maturity investments as at 31 December 2015 was 12.1% (2014 – 11.49%).

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

15. INVESTMENT IN SUBSIDIARIES

The following subsidiaries are owned by the Bank:-

Bank	Ownership	Principal activity	2015 KShs'000	2014 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	1,967,370	1,566,449
			2,207,370	**1,806,449**

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 2015 show that the company made a profit after tax of KShs. 121,604,207 (2014- KShs. 82,748,514).

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 2015 show that the company made a profit after tax of KShs. 42,496,500 (2014- KShs. 66,092,708).

Kingdom Securities Limited (previously named Bob Mathews Stockbrokers Limited) was acquired by Co-operative Bank Limited through purchase of 60% shareholding in 2009. The company offers brokerage services and is a registered broker with the Nairobi Securities Exchange. The audited financial statements for the year ended 31 December 2015 show that the company made a profit after tax of KShs. 1,340,034 (2014 – KShs. 37,899,936). Refer to note 32 for financial statements summaries.

Co-operative Bank of South Sudan was registered in 2013 with the partnership of Government of South Sudan which holds 49% of the ordinary shares. As at year end, Co-operative Bank of Kenya Limited had contributed 85% of the total share capital with the Government of South Sudan contributing 15%. The Subsidiary is based in South Sudan and commenced operation in September 2013. The audited financial statements for the year ended 31 December 2015 show that the company made a profit of KShs. 849,720,191 (2014-Loss of KShs. 541,903,962). Refer to note 32 for financial statements summaries.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

16. INVESTMENT IN ASSOCIATE

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

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

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

	Group		Bank	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January	**1,907,722**	**1,688,888**	**755,118**	**755,118**
Share of profit	384,991	270,976	-	-
Additional Shares - CIC South Sudan	30,152	-	-	-
Other comprehensive income	13,773	-	-	-
Dividends received	(69,407)	(52,142)	-	-
As at 31 December	**2,267,230**	**1,907,722**	**755,118**	**755,118**

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

	Co-operative Insurance Society Limited		CIC South Sudan Limited	
	2015	2014	2015	2014
Share of the associate's statement of financial position:	KShs'000	KShs'000	KShs'000	KShs'000
Non-current assets	2,905,942	2,176,659	88,756	-
Current assets	6,078,224	6,277,208	82,561	-
	8,984,166	8,453,867	171,317	-
Current liabilities	(6,193,402)	(5,886,060)	(15,086)	-
Equity	**2,790,764**	**2,567,807**	**156,231**	**-**
Share of the associate's revenue and profit:				
Revenue	4,919,301	5,185,047	111,451	-
Profit before tax	496,481	342,589	96,783	-
Profit after tax	288,208	270,976	96,783	-

17. INTANGIBLE ASSETS

(a) GROUP	Computer software KShs'000	Joint venture development KShs'000	Other intangible assets KShs'000	Work-in-progress KShs'000	Total KShs'000
COST					
At 1 January 2015	**2,362,983**	**124,940**	**25,000**	**239,601**	**2,752,524**
Additions	58,109	-	-	280,580	338,689
Transfers	319,353	-	-	(319,353)	-
Reclassification from property and equipment	-	-	-	165,141	165,141
Exchange difference on translation	(39,187)	(96,781)	-	(105,720)	(241,689)
At 31 December 2015	**2,701,258**	**28,159**	**25,000**	**260,249**	**3,014,665**
AMORTISATION					
At 1 January 2015	**1,013,215**	**26,407**	**-**	**-**	**1,039,622**
Amortisation for the year	394,318	5,632	-	-	**399,950**
Exchange difference on translation	(9,226)	(20,750)	-	-	**(29,976)**
At 31 December 2015	**1,398,307**	**11,289**	**-**	**-**	**1,409,596**
NET CARRYING AMOUNT					
At 31 December 2015	**1,302,951**	**16,870**	**25,000**	**260,249**	**1,605,069**
COST					
At 1 January 2014	**1,837,931**	**124,940**	**251,000**	**317,756**	**2,531,627**
Additions	92,571	-	-	376,516	469,087
Transfers	432,481	-	-	(432,481)	-
Reclassification to property and equipment	-	-	-	(22,190)	(22,190)
Reversal of revaluation on NSE Seat	-	-	(226,000)	-	(226,000)
At 31 December 2014	**2,362,983**	**124,940**	**25,000**	**239,601**	**2,752,524**
AMORTISATION					
At 1 January 2014	**697,805**	**-**	**-**	**-**	**697,805**
Amortisation for the year	315,410	26,407	-	-	341,817
At 31 December 2014	**1,013,215**	**26,407**	**-**	**-**	**1,039,622**
NET CARRYING AMOUNT					
At 31 December 2014	**1,349,768**	**98,533**	**25,000**	**239,601**	**1,712,902**

Other intangible assets consist of the Nairobi Securities Exchange (NSE) seat held by Kingdom Securities Limited.

Following the demutualization and self-listing of NSE in 2014, the value of NSE seat, which gave rights to participate in trading, was reduced from KShs. 251 Million to KShs. 25 Million hence the reversal of revaluation reserve. In addition, 5,250,000 NSE shares with a par value of KShs. 4 each were allotted to each broker who were then participating in trading at NSE. These shares are held as available-for-sale investments.

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

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

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.

Notes to the Consolidated Financial Statements (Continued)

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17. INTANGIBLE ASSETS (Continued)

(b) BANK	Computer Software KShs'000	Work –in progress KShs'000	Total KShs'000
COST			
At 1 January 2015	**2,235,600**	**103,625**	**2,339,225**
Additions	31,560	279,243	310,803
Transfers	319,353	(319,353)	-
Reclassification from Property and equipment	-	165,141	165,141
Cost at 31 December 2015	**2,586,513**	**228,656**	**2,815,169**
AMORTISATION			
At 1 January 2015	**976,016**	**-**	**976,016**
Amortisation for the year	377,563	-	377,563
At 31 December 2015	**1,353,579**	**-**	**1,353,579**
NET CARRYING AMOUNT			
At 31 December 2015	**1,232,934**	**228,656**	**1,461,590**
COST			
At 1 January 2014	**1,766,974**	**217,070**	**1,984,044**
Additions	36,146	341,226	377,372
Transfers	432,481	(432,481)	-
Reclassification to Property and equipment	-	(22,190)	(22,190)
Cost at 31 December 2014	**2,235,601**	**103,625**	**2,339,226**
AMORTISATION			
At 1 January 2014	**672,478**	**-**	**672,478**
Amortisation for the year	303,538	-	303,538
At 31 December 2014	**976,016**	**-**	**976,016**
NET CARRYING AMOUNT			
At 31 December 2014	**1,259,585**	**103,625**	**1,363,210**

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. 585,852,349 (2014 - KShs. 443,364,954), 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. 117,170,470 (2014 –KShs. 88,672,990).

18. PREPAID LEASE RENTALS

	Group and Bank	
	2015	2014
	KShs'000	KShs'000
COST		
At 1 January	**54,413**	**54,413**
At 31 December	**54,413**	**54,413**
Amortisation:		
At 1 January	**16,843**	**16,233**
Charge for the year	606	610
At 31 December	**17,449**	**16,843**
NET CARRYING AMOUNT		
At 31 December	**36,964**	**37,570**

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

19. (a) PROPERTY AND EQUIPMENT - GROUP

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

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

(ii) Land and Buildings were revalued on open market value basis by professional valuers (Manclem Valuers) as at 31 December 2012. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs. 1,269,516 (2014: KShs. 1,372,016).

(iii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs. 35,496,498 (2014- KShs. 35,496,498) against which no depreciation has been charged, as these are pieces of land.

(iv) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 4,119,728,390 (2014- KShs. 3,101,893,806), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs. 760,549,466 (2014- KShs. 594,835,351).

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

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

19. (a) PROPERTY AND EQUIPMENT - GROUP

	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery, furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
COST/VALUATION							
At 1 January 2014	**1,387,097**	**2,361,217**	**7,100,726**	**1,480,340**	**188,580**	**5,255,877**	**17,773,837**
Additions	-	618,429	15,504	73,699	-	74,980	**782,612**
Disposals	-	-	(5,265)	(2,253)	(5,587)	(8,796)	**(21,901)**
Transfers	-	(1,374,238)	508,865	502,822	-	362,551	**-**
Reclassification from intangible assets (note 17 (a))	-	22,190	-	-	-	-	**22,190**
At 31 December 2014	**1,387,097**	**1,627,598**	**7,619,830**	**2,054,608**	**182,993**	**5,684,612**	**18,556,738**
DEPRECIATION							
At 1 January 2014	**51,500**	**-**	**2,686,264**	**908,947**	**90,348**	**2,806,399**	**6,543,458**
Charge for the year	51,500	-	874,902	248,667	28,242	750,353	**1,953,664**
Disposals	-	-	(2,653)	(2,211)	(5,574)	(8,644)	**(19,082)**
At 31 December 2014	**103,000**	**-**	**3,558,513**	**1,155,403**	**113,016**	**3,548,108**	**8,478,040**
NET CARRYING AMOUNT							
At 31 December 2014	**1,284,097**	**1,627,598**	**4,061,317**	**899,205**	**69,977**	**2,136,504**	**10,078,698**

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

(ii) Land and Buildings were revalued on open market value basis by professional valuers (Manclem Valuers) as at 31 December 2012. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs. 1,321,016 (2013: KShs. 1,424,016).

(iii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs. 35,496,498 (2013- KShs. 35,496,498) against which no depreciation has been charged, as these are pieces of land.

(iv) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 3,101,893,807 (2013- KShs. 2,267,428,588), 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. 428,832,128 (2013- KShs. 594,835,351).

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

19. (b) PROPERTY AND EQUIPMENT - BANK

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

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

(ii) Land and Buildings were revalued on open market value basis by professional valuers (Manclem Valuers) as at 31 December 2012. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs. 1,269,516 (2014: KShs. 1,321,016).

(iii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs. 35,496,498 (2014- KShs. 35,496,498) against which no depreciation has been charged, as these are pieces of land.

(iv) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 4,119,728,390 (2014- KShs. 3,101,893,807), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs. 760,549,466 (2014 - KShs. 594,835,351).

19. (b) PROPERTY AND EQUIPMENT - BANK

	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery, furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
COST/VALUATION							
At 1 January 2014	**1,387,097**	**1,811,759**	**7,100,089**	**1,369,501**	**148,500**	**5,123,221**	**16,940,167**
Additions	-	497,613	15,504	71,476	-	65,627	**650,220**
Disposals	-	-	(5,265)	(2,253)	(5,587)	(8,796)	**(21,901)**
Transfer from WIP	-	(871,416)	508,865	-	-	362,551	**-**
Reclassification from intangible assets (note 17 (b))	-	22,190	-	-	-	-	**22,190**
At 31 December 2014	**1,387,097**	**1,460,146**	**7,619,193**	**1,438,724**	**142,913**	**5,542,603**	**17,590,676**
DEPRECIATION							
At 1 January 2014	**51,500**	**-**	**2,685,290**	**897,204**	**88,846**	**2,792,493**	**6,515,333**
Charge for the year	51,500	-	874,902	171,975	19,804	722,426	**1,840,607**
Disposals	-	-	(2,653)	(2,211)	(5,588)	(8,644)	**(19,096)**
At 31 December 2014	**103,000**	**-**	**3,557,539**	**1,066,968**	**103,062**	**3,506,275**	**8,336,844**
NET CARRYING AMOUNT							
At 31 December 2014	**1,284,097**	**1,460,146**	**4,061,654**	**371,756**	**39,851**	**2,036,328**	**9,253,832**

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

(ii) Land and Buildings were revalued on open market value basis by professional valuers (Manclem Valuers) as at 31 December 2012. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs. 1,321,016 (2013: KShs. 1,372,516).

(iii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs. 35,496,498 (2013- KShs. 35,496,498) against which no depreciation has been charged, as these are pieces of land.

(iv) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 3,101,893,807 (2013- KShs. 2,267,428,588), 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. 594,835,351 (2013- KShs. 428,832,128).

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

20. DEFERRED TAX

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

GROUP	2015 Deferred tax assets KShs'000	2015 Profit or loss KShs'000	2014 Deferred tax assets KShs'000	2014 Profit or loss KShs'000
Collective allowance for impairment disallowed for tax purposes	(770,180)	(152,871)	(617,309)	(143,447)
Revaluation surplus	89,340	(2,721)	92,061	(2,721)
Excess of tax wear and tear allowance over depreciation	(735,771)	(310,276)	(425,495)	(327,558)
Unrealised exchange gains	564,185	203,663	360,522	(72,573)
Other temporary differences	(33,707)	(5,221)	(28,486)	(5,698)
Tax loss available for future tax relief	78	-	78	(78)
	(886,055)	**(267,426)**	**(618,629)**	**(552,075)**

BANK	2015 Deferred tax assets KShs'000	2015 Profit or loss KShs'000	2014 Deferred tax assets KShs'000	2014 Profit or loss KShs'000
Collective allowance for impairment disallowed for tax purposes	(759,701)	(152,871)	**(606,830)**	(141,597)
Revaluation surplus	89,340	(2,721)	**92,061**	(2,721)
Excess of tax wear and tear allowance over depreciation	(737,333)	(310,276)	**(427,057)**	(330,152)
Unrealised exchange gains	564,185	203,663	**360,522**	(72,573)
Other temporary differences	(33,105)	(5,253)	**(27,852)**	(6,000)
	(876,614)	**(267,457)**	**(609,156)**	**(553,043)**

21. DEPOSITS AND BALANCES DUE TO BANKS

	Group		Bank	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Local banks	2,914,082	3,159,444	2,863,659	3,159,444
Foreign banks	507,137	-	41,746	82,282
	3,421,219	**3,159,444**	**2,905,405**	**3,241,726**

The weighted average effective interest rate on deposits from other banks at 31 December 2015 was 21% (2014- 6.37%).

22. CUSTOMER DEPOSITS

		Group		Bank	
		2015	2014	2015	2014
(a)	**Deposit category**	KShs'000	KShs'000	KShs'000	KShs'000
	Call deposits	13,491,629	23,594,183	13,491,629	23,594,183
	Fixed deposits	86,074,584	51,878,767	86,074,584	51,878,767
	Transaction accounts	72,027,838	63,768,846	72,006,389	63,768,846
	Savings accounts	6,431,065	5,387,089	6,431,065	5,387,089
	Current accounts	68,454,688	39,976,734	68,454,688	39,976,734
	Foreign currency deposits	18,918,783	33,092,704	17,251,060	31,568,694
		265,398,587	**217,698,323**	**263,709,415**	**216,174,313**
(b)	**From government and parastatals:-**				
	Payable on demand	19,148,678	14,007,213	19,148,678	14,007,213
	Payable within 30 days	4,606,595	7,554,570	4,606,595	7,554,570
	Payable after 30 days but within 1 year	20,350,884	17,473,196	20,350,884	17,473,196
		44,106,157	**39,034,979**	**44,106,157**	**39,034,979**
(c)	**From private sector and individuals:-**				
	Payable on demand	131,832,348	120,392,125	131,826,650	118,868,115
	Payable within 30 days	13,485,247	10,866,209	11,808,730	10,866,209
	Payable after 30 days but within 1 year	75,974,835	47,405,010	75,967,878	47,405,010
		221,292,430	**178,663,344**	**219,603,258**	**177,139,334**
		265,398,587	**217,698,323**	**263,709,415**	**216,174,313**

Included in customers' deposits is an amount of KShs. 6,897 Million (2014- KShs. 5,225 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 5.05% (2014 – 3.97%).

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

23. LOANS AND BORROWINGS

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

	Group and Bank	
	2015	**2014**
Balances at 31 December	**KShs'000**	**KShs'000**
IFAD	37,736	30,167
GoK (Informal Sector Enterprises)	255,437	251,208
DEG	5,401,669	4,785,862
International Finance Corporation (IFC)	4,472,558	4,971,126
European Investment Bank	5,434,539	4,863,210
AFD Microfinance & line of credit	3,669,273	3,246,496
Soros Economic Development Fund	-	21,257
Women Enterprise Fund	-	100,161
	19,271,212	**18,269,487**
Movement in the year:		
At 1 January	18,269,487	10,252,392
Additional loan disbursement	1,086,700	8,156,960
Accrued interest	207,650	154,130
Loan Repayment	(1,820,787)	(293,995)
Foreign exchange difference	1,552,035	-
Reversal of Soros Fund	(23,873)	-
At 31 December	**19,271,212**	**18,269,487**

International Fund for Agricultural Development (IFAD)

The loan agreement was entered into in 2003 between the Government of Kenya-Ministry of Agriculture and The Co-operative Bank of Kenya Limited for a loan of KShs. 30 Million under the Eastern Produce Horticultural and Traditional Food Crops Project. The loan amount and interest shall be repaid to the government in one lump sum when the project comes to an end. The loan attracts a fixed interest of 3% p.a.

GoK (Informal Sector Enterprises)

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

European Investment Bank

Two loan agreements for Euros 20 Million and Euros 50 Million were entered into in April 2012 between the European Investment Bank and The Co-operative Bank of Kenya Limited. The loans are to be disbursed upon request for onward lending to micro and small enterprises including self-employed entrepreneurs and sole proprietorships in income generating activities and productive sectors such as trade, retail, agro industries, fishing, food processing, manufacturing, construction transport, tourism. The interest on the first loan of Euros 20 Million is equal to 1.56% plus a currency risk premium of 6.00% and the second loan of Euros 50 Million is equal to 2.43% plus a currency risk premium determined over a period of time. As at end of 2015, Euros 55 Million had been disbursed to the bank. The loans are to be repaid over a period of 10 years.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

23. LOANS AND BORROWINGS (Continued)

Soros Economic Development Fund

The Facility agreement was entered into in June 2012 between Soros Economic Development Fund (SEDF), Millennium Promise Alliance (MPA) and The Co-operative Bank of Kenya Limited. MPA agreed to assist in financing the Millennium village's project which supports integrated social and business development services for more than 500,000 people in rural communities across 10 countries in sub-Saharan Africa. MPA agreed to issue the bank a deposit guarantee of USD 50,000 in its favour. SEDF agreed to assist in financing the same program by issuing a guarantee of USD 700,000 in favour of the bank in three tranches of USD 233,333. .As at 31 December 2015, only one tranche had been released. This loan facility was reclassified into a deposit guarantee as per the contract.

French Development Agency (AFD)

The bank entered into agreement with AFD in 2011 for a credit facility at fixed rate of 3.25% to finance investments in the fields of sustainable energy (energy efficiency & renewable energy) projects. As at the end of year 2015, the amount disbursed to the bank was USD 35,710,169. In November 2015, one Tranche of the credit facility was converted from a fixed rate to a floating rate.

International Finance Corporation

The loan agreement was entered into on 5 December 2012 between International Finance Corporation and the Co-operative bank of Kenya Limited for a total of USD 60 Million. The purpose of the loan is to support the bank's asset growth and in particular, financing the small and medium enterprises as well as the agribusiness sector.

The loan has an element of fixed and variable interest rate which is pegged to the LIBOR rate. Repayment shall be in eleven (11) equal semi-annual instalments starting December 2013. The loan has an element of fixed and variable interest rate which is pegged to the LIBOR rate. Repayment shall be in eleven (11) equal semi-annual instalments starting December 2013. The 1st disbursement of USD 30M was in March 2013, and the 2nd in March 2014. By 31 December 2015, the bank had drawn USD 60 Million from this facility.

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.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

24. TAXATION

	Group		Bank	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
(a) Income Statement:-				
Current tax at 30% on the taxable profit for the year	3,950,622	3,453,268	3,872,980	3,373,929
(Over) / under-provision in previous year	(5,663)	21	(5,663)	8
Deferred tax (credit) / charge	(267,426)	(552,075)	(267,457)	(553,043)
	3,677,533	**2,901,214**	**3,599,860**	**2,820,894**
(b) Statement of financial position:-				
Balance brought forward	149,821	(97,029)	129,171	(99,631)
(Over) / under-provision in previous year	(5,663)	-	(5,663)	8
Charge for the year	3,950,622	3,453,268	3,872,980	3,373,929
Paid during the year	(3,923,452)	(3,206,418)	(3,838,892)	(3,145,135)
Tax (recoverable) / payable	**171,328**	**149,821**	**157,596**	**129,171**
(c) Reconciliation of tax expense to tax based on accounting profit:-				
Accounting profit	**15,383,092**	**10,916,211**	**14,071,458**	**11,172,222**
Tax applicable rate at 30%	4,614,928	3,274,863	4,221,437	3,351,666
(Over) / under-provision in previous year	(5,663)	29	(5,663)	8
Tax effect of items not eligible for tax	(931,732)	(373,678)	(615,914)	(530,780)
Tax in the statement of comprehensive income	**3,677,533**	**2,901,214**	**3,599,860**	**2,820,894**

The corporation tax rate applicable to the Bank and subsidiaries and associates is 30% except for Co-operative Bank of South Sudan charged at a rate of 15%. Items not eligible for tax relates mainly to general provisions on loans and advances and unutilised tax losses in Co-operative Bank of South Sudan.

25. PROVISIONS

	Group		Bank	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
Leave liability	110,191	93,570	110,190	92,840
Balance at 1 January	**93,570**	**74,866**	**92,840**	**72,841**
Provisions arising during the year	17,349	20,000	17,350	19,999
Provisions utilised during the year	(728)	(1,296)	-	-
Balance at 31 December	**110,191**	**93,570**	**110,190**	**92,840**

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	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Bills payable	990,285	476,844	792,702	476,844
Sundry creditors and accruals	3,316,418	2,135,667	3,292,513	1,953,596
	4,306,703	**2,612,511**	**4,085,215**	**2,430,440**

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

27. GOVERNMENT GRANTS

	Group and Bank	
Grant net of amortisation:	2015 KShs'000	2014 KShs'000
At 1 January	**535,792**	**554,270**
Amortisation for the year	(18,475)	(18,478)
At 31 December	**517,317**	**535,792**

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	
	2015 KShs'000	2014 KShs'000
Authorised :-		
5,000,000,000 (2014: 5,000,000,000) ordinary shares of KShs. 1 each.	**5,000,000**	**5,000,000**
Issued and fully paid:-		
4,889,316,295 (2014: 4,889,316,295) ordinary shares of KShs. 1 each.	**4,889,317**	**4,889,317**
Movement in the year:		
At start of the year	4,889,317	4,190,844
Issue of bonus shares	-	698,473
	4,889,317	**4,889,317**

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	
	2015 KShs'000	2014 KShs'000
At 1 January	**2,889,789**	**3,588,262**
Issue of bonus shares	-	(698,473)
At 31 December	**2,889,789**	**2,889,789**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

30. RESERVES

(a) Revaluation reserve

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

(b) Retained earnings

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

(c) Available for sale reserve

This comprises changes in fair value on available-for-sale investments, excluding impairment losses, until the net investment is derecognised. This reserve is not distributable as it relates to unrealised fair value changes.

(d) Statutory reserve

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

(e) Foreign currency translation reserve

The reserves represent exchange differences arising from translation of the net assets of the Group's foreign operations in the Co-operative Bank of South Sudan from their functional currency (South Sudan pounds), to the Group's presentation currency (Kenya shillings). These differences are recognised directly through other comprehensive income and accumulated in the foreign currency translation reserve in equity. The reserve is not available for distribution to the shareholders.

31. PROPOSED DIVIDENDS AND DIVIDENDS PER SHARE

	Group and Bank	
	2015	2014
	KShs'000	KShs'000
Proposed dividends	3,911,453	2,444,658

(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 2015 financial statements, a first and final dividend in respect of year 2015 of KShs. 0.80 (2014 - KShs. 0.50) for every ordinary share of KShs. 1 is to be proposed by the directors and is subject to approval by shareholders.

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

32. NON-CONTROLLING INTERESTS

(a) Kingdom Securities Limited

Kingdom Securities Limited (previously named Bob Mathews Stockbrokers Limited) was acquired in 2009 by The Co-operative Bank of Kenya Limited through the purchase of 60% shareholding. The company offers brokerage services and is a registered broker with the Nairobi Securities Exchange.

(b) Co-operative Bank of South Sudan

Co-operative Bank of South Sudan was registered in partnership with the Government of South Sudan which holds 49% of the ordinary shares. The Bank holds 51% of the ordinary shares. The Subsidiary is based in South Sudan and offers banking services.

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

Summarised statement of profit or loss for:-

	Kingdom Securities Limited		Co-operative Bank of South Sudan	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
Interest and other income	75,045	137,336	1,864,154	405,118
Interest and commission expenses	(4,313)	(8,896)	(22,132)	(674)
	70,732	**128,440**	**1,842,022**	**404,444**
Operating expenses	(69,158)	(74,459)	(1,089,086)	(946,347)
Profit / (loss) before tax	1,574	53,981	752,936	(541,903)
Share of profit from an associate	-	-	96,784	-
Income tax expense	(234)	(16,081)	-	-
Profit / (loss) for the year	**1,340**	**37,900**	**849,720**	**(541,903)**
Other comprehensive income	26,644	107,625	**29,295**	-
Total comprehensive income	**27,984**	**145,525**	**879,015**	**(541,903)**
Attributable to non-controlling interests	11,194	58,210	430,717	(265,532)
Dividends paid to non-controlling interests	-	-	-	-

Summarised statement of financial position as at 31 December

	Kingdom Securities Limited		Co-operative Bank of South Sudan	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
Current assets	309,376	342,248	2,943,914	2,065,414
Non-current Assets	34,235	34,367	411,213	1,088,930
Current liabilities	(63,123)	(124,110)	(2,750,762)	(2,005,413)
Total equity	**280,488**	**252,505**	**604,365**	**1,148,931**
Attributable to:-				
Equity holders of the parent	168,293	151,503	308,226	585,955
Non-controlling interest	112,195	101,002	296,139	562,976

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

33. INTEREST INCOME

	Group		Bank	
	2015	**2014**	**2015**	**2014**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Loans and advances to customers	29,997,981	24,670,659	29,803,934	24,626,910
Held-to-maturity investments	2,577,694	1,938,202	2,560,494	1,916,841
Deposits and balances due from other banks	664,820	307,394	604,321	287,899
Interest on previously impaired loans	129,544	294,413	129,544	294,413
	33,370,039	**27,210,668**	**33,098,293**	**27,126,063**

34. INTEREST EXPENSE

	Group		Bank	
	2015	**2014**	**2015**	**2014**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Call deposits	1,737,325	1,100,346	1,737,325	1,100,346
Fixed deposits	8,802,365	4,595,770	8,802,365	4,595,770
Savings accounts	1,522,538	572,957	958,028	572,957
Current accounts	263,868	665,049	806,246	664,375
Deposits and balances due to banks	232,602	215,306	232,602	206,410
Loans	1,028,213	926,725	1,028,213	926,725
	13,586,911	**8,076,153**	**13,564,779**	**8,066,583**

35. FEES AND COMMISSIONS

	Group		Bank	
	2015	**2014**	**2015**	**2014**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Fees and commissions income:				
Fees and commissions on loans and advances	2,495,441	2,148,888	2,339,680	2,148,888
Ledger fees & service charges	1,253,129	1,060,459	1,045,411	1,060,459
Other fees and commissions	5,753,264	5,505,520	5,262,644	4,873,472
	9,501,834	**8,714,867**	**8,647,735**	**8,082,819**
Fees and commissions expense:				
Inter-bank transaction charges	53,627	129,736	53,627	129,736
Brokerage fees	4,317	7,046	4,317	7,046
	57,944	**136,782**	**57,944**	**136,782**
Net fees and commissions income	**9,443,890**	**8,578,085**	**8,589,791**	**7,946,037**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

36. NET TRADING INCOME

	Group		Bank	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
Foreign exchange gain	3,192,469	1,417,692	1,880,616	1,201,739
Interest income on investment securities:				
- Available for sale	2,244,924	2,192,284	2,244,924	2,192,284
- Held-for-trading	59	59	59	59
Changes in fair value of financial assets held-for-trading	-	2	-	-
Amortisation of financial instruments	(24,950)	(24,663)	(24,950)	(24,661)
	5,412,502	**3,585,374**	**4,100,649**	**3,369,421**

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

37. OTHER OPERATING INCOME

	Group		Bank	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
(Loss)/gain on disposal of property and equipment	(25,101)	5,689	(25,101)	5,689
Dividend income	-	-	69,407	258,101
Rental income	84,670	85,479	84,670	85,479
Loan recoveries	30,821	38,141	30,821	38,141
Gain on sale of financial assets available-for-sale	5,785	84,545	5,785	84,545
Miscellaneous	1,635,609	555,458	1,620,107	517,528
	1,731,784	**769,312**	**1,785,689**	**989,483**

38. EMPLOYEE COSTS

	Group		Bank	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
Basic salaries	7,513,319	7,031,987	7,098,853	6,668,162
Allowances	468,645	432,421	448,992	429,924
Pension scheme contribution				
- Statutory Scheme	3,605	39,713	3,532	39,383
- Employee Scheme	454,887	445,311	446,827	445,641
Medical expenses	135,649	161,855	130,769	159,016
Education and training	113,950	69,974	111,780	68,915
Early retirement cost	1,908	1,342,509	1,908	1,342,509
Others	235,165	256,897	167,470	249,055
	8,927,128	**9,780,667**	**8,410,131**	**9,402,605**

	Group		Bank	
The number of employees at the year-end was:	2015	2014	2015	2014
Management	403	361	382	340
Supervisory and unionisable	3,190	3,571	3,140	3,522
Others	355	518	273	462
	3,948	**4,450**	**3,795**	**4,324**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

39. OTHER OPERATING EXPENSES

	Group		Bank	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
Rent and maintenance costs for branch premises	1,568,536	1,305,662	1,409,932	1,100,685
Motor vehicle running & other equipment maintenance	1,197,302	1,055,193	1,157,173	1,045,228
Stationery and printing	660,240	1,290,638	506,853	1,290,638
Travelling and insurance	643,876	536,118	530,642	536,118
Telephone, postage, electricity and water	687,643	691,000	675,073	691,000
Contribution to Deposit Protection Fund	303,163	259,637	303,163	259,637
Directors' emoluments	193,413	161,129	152,273	116,235
Auditors' remuneration	15,668	13,575	10,752	9,600
Other operating and administrative expenses	2,949,414	2,875,221	2,619,684	2,480,637
	8,219,255	**8,188,173**	**7,365,545**	**7,529,778**

40. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share for the Group and the Bank is based on the year's profit attributable to equity holders of the parent and the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	Group		Bank	
	2015	2014	2015	2014
Profit for the year attributable to equity holder of the parent (KShs'000)	11,288,769	8,265,370	10,471,598	8,351,328
Weighted average number of ordinary shares for basic earnings per share (Thousands)	4,889,318	4,889,318	4,889,318	4,889,318
Weighted average number of ordinary shares for diluted earnings per share (Thousands)	4,889,318	4,889,318	4,889,318	4,889,318
Basic earnings per share (KShs)	2.31	1.69	2.14	1.71
Diluted earnings per share (KShs)	2.31	1.69	2.14	1.71

41. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Available for sale investments	Group		Bank	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
Gains/ (losses) arising during the year	1,092,447	84,545	1,092,447	84,545
Amortization of discount to profit or loss	397,139	159,731	397,139	159,731
Reclassification during the year to profit or loss	(463,092)	205,589	(440,779)	217,369
	1,026,494	**449,865**	**1,048,807**	**461,645**

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

42. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of profit before taxation to cash generated from operations

		Group		Bank	
		2015	2014	2015	2014
OPERATING ACTIVITIES:-	**Note**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Profit before tax		**15,383,092**	**10,916,211**	**14,071,458**	**11,172,222**
Adjustments for:-					
Depreciation	19	1,825,444	1,953,664	1,795,458	1,840,607
Amortization of prepaid lease rentals and write offs	18	606	610	606	610
Write off property and equipment	19	63,280	-	63,280	-
Movement in provisions		2,716,302	(64,246)	2,753,728	(106,325)
Unrealised exchange differences		(260,244)	204,260	(260,244)	204,260
Amortization of intangible assets	17	399,950	341,817	377,563	303,538
Amortization of capital grants	27	(18,475)	(18,478)	(18,475)	(18,478)
Loss / (gain) on disposal of property and equipment		757	(5,689)	968	(5,689)
Changes in fair value of financial instruments held-for-trading	9	2	(2)	2	-
Share of profit in associates	14	(384,991)	(270,976)	-	-
Exchange difference on borrowings	23	1,552,035	-	1,552,035	-
Interest on loans and borrowings	23	207,650	154,130	207,650	154,130
Amortisation of financial instruments		-	(159,731)	-	(159,731)
Cash flows from operating activities before working capital changes		**21,485,408**	**13,051,570**	**20,544,029**	**13,385,144**
Advances to customers		(31,801,867)	(42,334,882)	(31,849,655)	(41,820,724)
Other assets		(3,642,010)	465,100	(3,501,309)	260,907
Deposits from customers		47,700,264	42,273,202	47,535,102	41,398,088
Deposits from banks		261,775	(2,302,893)	(336,321)	(2,220,611)
Other liabilities		1,686,940	(231,166)	1,648,253	(208,203)
Central Bank of Kenya cash reserve ratio		(3,023,191)	(2,240,391)	(2,411,894)	(2,240,391)
Held-for-trading investments		351	-	350	-
Available-for-sale investments		(8,678,876)	4,776,040	(8,627,885)	102,717
Derivative financial instruments		(430,188)	102,717	(430,188)	4,895,845
Cash flows generated from operating activities		**23,558,606**	**13,559,297**	**22,570,482**	**13,552,772**

Cash and cash equivalents comprises of:-

Cash on hand	9,057,746	9,455,087	8,880,989	8,970,239
Cash with Central Bank of Kenya	20,397,945	14,880,245	18,292,656	13,954,692
Deposits and balances due from banking institutions	13,977,237	12,810,858	13,869,273	12,814,862
Items in the course of collection from other Banks	384,161	557,806	384,161	557,806
	43,817,089	**37,703,996**	**41,427,079**	**36,297,599**
Less: CBK Cash reserve ratio	(14,448,656)	(11,425,465)	(13,837,359)	(11,425,465)
Cash and cash equivalents	**29,368,433**	**26,278,531**	**27,589,720**	**24,872,134**

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

43. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

(a) Loans due from directors, employees and other related parties:-

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

	2015 KShs'000	2014 KShs'000
Directors	302,146	232,807
Employees	6,596,839	6,602,831
	6,898,985	**6,835,638**
Interest income earned	**442,327**	**456,005**
Weighted average interest rate	**6.58%**	**5.59%**

The loans are secured by property mortgage and are repayable in a period less than 30 years. No impairment losses have been recorded against balances outstanding during the period and no specific allowance has been made for impairment losses on balances at period end (2014-Nil) as staff and directors are all active and currently in-service for the bank and recoveries are made directly through payroll.

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

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

	2015 KShs'000	2014 KShs'000
Directors and Employees	693,821	964,557
Subsidiaries and Associate companies	3,347,532	408,194
Interest expensed	40,587	17,236
Weighted average interest rate	4.85%	1.79%

(c) Inter-company balances and transactions:-

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

	Relationship	Bank 2015 KShs'000	Bank 2014 KShs'000
Due from:-			
Co-optrust Investment Services Limited	Subsidiary	354	1,198
Co-op Consultancy & Insurance Agency Ltd	Subsidiary	8,677	3,379
Co-opholdings Co-operative Society Limited	Parent	44,369	40,850
Co-operative Bank of South Sudan	Subsidiary	330,662	101,379
		384,062	**146,806**
Due to:-			
Co-op Consultancy & Insurance Agency Ltd	Subsidiary	-	449
		-	**449**
Insurance premium:-			
Co-operative Insurance Company Limited	Associate	**36,821**	**425,536**

All transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and no guarantees have been provided or received from any related party. The Bank has not made any provision for impairment losses on balances at period end (2014-nil).

(d) Compensation of key management personnel

	Group 2015 KShs'000	Group 2014 KShs'000	Bank 2015 KShs'000	Bank 2014 KShs'000
Directors' emoluments:				
- Fees	118,000	118,776	78,420	93,893
- Others	30,257	42,353	28,761	22,342
	148,257	**161,129**	**107,181**	**116,235**
Senior Managers:				
- Short-term employee benefits	660,659	1,071,969	619,391	1,004,949
- Post-employment pension	51,856	45,007	48,853	44,966
- Termination benefits	-	516,713	-	516,713
	712,515	**1,633,689**	**668,244**	**1,566,628**

(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 2015, KShs. 152,763,103 (2014 - KShs. 123,542,029) was disbursed to the Foundation. At 31 December 2015, the Foundation held deposits of KShs. 1,148,853 (2014 - KShs. Nil) with the Bank.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

(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. 463,337,860 (2014 - KShs. 467,797,943) as at 31 December 2015. 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:

	2015 KShs'000	2014 KShs'000
Rent paid to the scheme on leased property	6,450	4,516
Dividends paid on the Bank's ordinary shares	14,232	12,368

44. OPERATING LEASE COMMITMENTS

As lessor:

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

	Group and Bank	
	2015 KShs'000	**2014 KShs'000**
Within One year	66,823	69,389
Between 2 and 5 years	119,984	45,668
Over 5 years	14,935	-
	201,742	**115,057**

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

As lessee:

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

	Group and Bank	
	2015 KShs'000	**2014 KShs'000**
Within one year	969,479	911,132
Between 2 and 5 years	1,270,770	1,844,796
Over 5 years	340,856	446,952
	2,581,105	**3,202,880**

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

45. COMMITMENTS

		Group and Bank	
		2015	2014
		KShs'000	KShs'000
(i)	Capital: Authorised and contracted for	4,400	172,130
(ii)	Capital: Authorised and not contracted for	3,708,909	2,487,593
(iii)	Loans committed but not disbursed at year end	2,213,833	8,404,055

46. CONTINGENT LIABILITIES

		Group and Bank	
		2015	2014
(a)	**Not recognised in statement of financial position**	KShs'000	KShs'000
	Letters of credit	6,992,080	8,850,663
	Guarantees	5,517,672	5,259,890
		12,509,752	**14,110,553**

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

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

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

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

(b) Pending legal suits

(i) Kenya Continental Holdings

This is an injunction application seeking to stop the Bank from selling the company's security alleging fraud and misrepresentation on the part of the Bank with a claim for special damages for alleged loss of opportunities amounting to KShs. 404,785,225. The Bank has a counterclaim amounting to KShs. 521,318,439 against the debtor. The matter was slated for a mention on 29 January 2016 but the court was not sitting. The Bank is waiting for a new hearing date to be allocated. No liability is expected to arise.

(ii) Boaz Mathews Ouma Awiti & three others

This is a claim for KShs. 31,864,120 against the Bank relating to the sale and purchase of shares in Bob Mathews Stock Brokers Ltd (now Kingdom Securities Limited). The Bank has successfully applied for and obtained a stay of proceedings and referral of the matter to arbitration as per the terms of the Share purchase agreement. The plaintiffs have not been able to agree on an arbitrator. No liability is expected to arise.

(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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 December 2015

approximately KShs. 2 billion. The ex-staff being dissatisfied with the ruling appealed against the same citing various grounds of appeal. The matter is pending for determination before the Tribunal. Based on advice received from the Scheme Administrators and the Actuaries, no liability is expected to arise in future in respect of this claim.

(iv) *Obadiah Mucheu Vs The Co-operative Bank of Kenya Limited*

This is a claim where the plaintiff was advanced credit facilities totalling KShs. 1,105,000 and defaulted in the repayment of the outstanding liabilities. The plaintiff requested the Bank to allow the sale of one of the properties charged in favour of the Bank in order to settle the outstanding liabilities. The sale proceeds were insufficient to settle the outstanding liabilities and hence the Bank could not release the land title unless the outstanding liabilities were settled. The Bank subsequently listed the plaintiff with the Credit Reference Bureau. The customer aggrieved by the decision of the Bank is now claiming KShs. 215,880,000 being special damages for loss of expected income. No liability is expected to arise.

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

47. FIDUCIARY ACTIVITIES

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

The Group at Custodial Services department holds asset on behalf of customers with a value of KShs. 38,583 Million (2014 – KShs. 33,720 Million). The income for the period for custodial services was KShs. 44.46 Million (2014- KShs. 36.149 Million) while the expenses amounted to KShs. 38.51 Million (2014- KShs. 31.614 Million).

The Group, through Co-op Trust Investment Services Limited manages securities with a value of KShs. 39.89 billion (2014- KShs. 52.53 billion) on behalf of customers. The total income for the period from fund management was KShs. 137.80 Million (2014- KShs. 140.63 Million), with total expenses amounting to KShs. 74.13 Million (2014 - KShs. 77.19 Million).

48. ASSETS PLEDGED AS SECURITY

As at 31 December 2015, there were no assets pledged by the Group to secure liabilities.

49. HOLDING ENTITY

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

50. INCORPORATION

The Bank is incorporated in Kenya under the Companies Act.

51. CURRENCY

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

52. EVENTS AFTER REPORTING DATE

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

Funding Infrastructure

Co-op Bank Director Corporate & Institutional Banking, Mrs. Lydia Rono (Centre) is joined by other bankers in a signing ceremony to officially launch a USD 350 Million syndicated loan to Kenya Pipeline to finance the replacement of the Mombasa – Nairobi pipeline.

New Technologies

Anne Wanjiku (left) an entrepreneur who makes potato chips using new technologies in Mukuru slums, receives KShs. 100,000 cheque, being an innovation Grant from FSEYK (Financial Services and Entrepreneurship for Youth in Kenya) project run by WE Effect organization, represented by the Programme Coordinator Dorothy Kipsang (centre) and the programme bankers, Co-operative Bank's Head of Agri-Co-operatives Mr. Peter Muchiri.

A County visit

H.E the Governor Kinuthia Mbugua and Deputy Joseph Rutto of Nakuru County learn about the Jumbo Junior Account from Regional Manager, Rift Valley, Ronald Yegon at the 2015 Nakuru National Agricultural Society of Kenya Trade Fair. Co-op Bank took the 1st Prize for Best Commercial Bank stand.

Team Effort

Co-op Bank Staff prepare to run at the 2015 First Lady's Half Marathon. Co-op Bank has been a key partner of the Beyond Zero marathon since its launch. Spearheaded by the First Lady, the Beyond Zero Campaign is aimed at improving maternal health care and anti-child mortality effort.

Financing Construction

Co-op Bank Relationship Managers, Anderson Muriithi (Left) of Mortgage Finance and Gasper Jumwa (2nd Right) of Corporate Banking inspect Lake Basin Mall in Kisumu City together with other Bank Staff. The project was financed by Co-op Bank and is expected to offer residents a modern and unique shopping experience.

Running for Peace

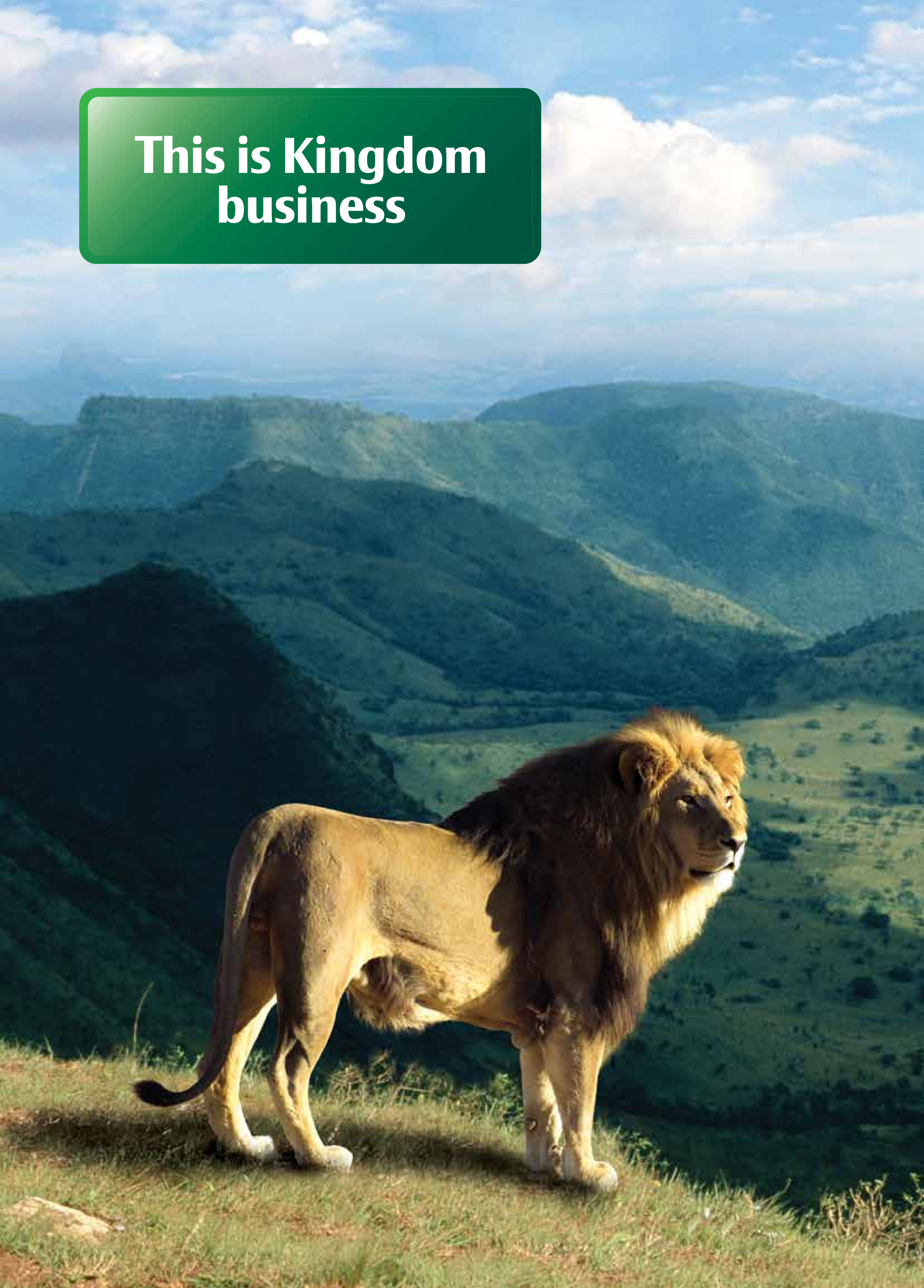
Co-operative Bank head of consumer banking Jackson Muendo looks on as Head of Retail Banking Nancy Gathuku signs a dummy cheque for KShs. 200,000 presented to Deputy Inspector General of Police in charge of APs Samuel Arachi at Jogoo House, Nairobi. The donation was in support of the AP Peace Half Marathon.

Agri Business

Facilitating capacity building for farmers in Dairy, Coffee and Tea sectors by providing working capital to finance purchase of modern machinery, farm equipment as well as provision of insurance services.

AgriBusiness
helping you grow

This is Kingdom business



Notes